Pork and Beef Demand

We are almost through the first quarter of this year and most people in the beef and pork business are wondering if their markets are going to keep up with last year. First of all, demand has been the principle reason for strong prices in both the pork and beef market. Hog prices were strengthened by domestic consumption and exports. Cattle prices were up because of increased domestic consumption. Thus far last year’s trend has continued into the present. Domestic demand for pork and beef is expected to be unchanged to slightly greater than last year. Table 1 contains the retail prices and consumption for 2004 and consumption forecasts in 2005.

Table 1  Domestic Beef and Pork Retail Price and Consumption.

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Beef</th>
<th>Pork</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Retail price per cwt</td>
<td>Per Capita Consumption</td>
</tr>
<tr>
<td>First</td>
<td>358.9</td>
<td>16.0 15.8</td>
</tr>
<tr>
<td>Second</td>
<td>361.8</td>
<td>16.9 17.1</td>
</tr>
<tr>
<td>Third</td>
<td>364.7</td>
<td>16.9 17.2</td>
</tr>
<tr>
<td>Forth</td>
<td>359.4</td>
<td>16.3 16.3</td>
</tr>
<tr>
<td>Annual</td>
<td>361.2</td>
<td>66.1 66.3</td>
</tr>
</tbody>
</table>

Beef prices followed per capita consumption last year. Lower consumption in the first and forth quarters were paralleled by lower prices, but this year may not follow the same trend. Forecasts are suggesting that prices will come down as supplies start to open up. As retail prices taper off consumers will be inclined to buy more beef, and consumption is expected to increase during the summer months. The pork market however, is harder to predict right now because of its substitution for beef during high beef prices. Pork consumption is expected to be lowest in the summer when beef consumption is highest and vice versa.

Although domestic demand and tight supplies pushed up beef prices last year, it was a combination of foreign and domestic demand that boosted pork prices. Pork exports are expected to stay strong through the rest of the year. Until Japan and other Asian markets reopen to US beef, pork will continue to be the principle supply of American red meat to the Pacific Rim countries. Russian importation of pork has tapered off just slightly since the start of the new year. Beef exports are down almost 75%, a situation that is not expected to change until trade issues are cleared up.

Putting the lack of beef exportation aside, there are several other reasons for increased pork exportation. The weakening US dollar over the past few years has something to do with it. While domestic prices are on their way up, other countries are paying relatively the same price. Another possible explanation is a change in
preference or ability to pay among foreign consumers. As the disposable income of other countries goes up, they are more willing to buy more expensive food items, such as meat.

In summary, demand should stay strong this year, as long as American consumers continue eating a diet that includes protein and foreign nations keep an appetite for American meat. Supply will be the primary culprit for most changes in the market.

**Canadian Border: Recent Developments**

The original date for the border to open to Canadian cattle under 30 months of age has come and gone, judicial and legislative actions continue to set up road blocks. A temporary injunction issued on March 2 by U.S. Federal Judge Richard Cebull in Billings, Montana, blocked the impending live cattle trade and began the process of sending the decision to trial. Some analysts are concerned that the arguments, used by the plaintiff in this case, could send the wrong message to foreign beef markets. The same arguments that can keep Canadian beef out of the U.S., could keep U.S. beef out of foreign markets, particularly Asian countries.

The day after Judge Cebull issued the injunction, the U.S. Senate passed a legislative bill, 46 to 52, that would void the December 2004 USDA border rule entirely. This bill will have to pass the House of Representatives and be signed by the President to be effective, but the President has been advocating normalized trade, so it is unlikely that the Senate bill will become law.

The next impediment, though not nearly as applicable since the USDA rule was amended, was on March 7, when U.S. Federal Judge John Garrett Penn ruled against a petition submitted by the American Meat Institute (AMI) to allow importation of all live cattle regardless of age. The AMI’s petition was submitted shortly after the original USDA rule was announced and before it was amended to limit beef importation to only meat from animals less than thirty months of age. Before the rule amendment, AMI was concerned that the USDA rule would give Canadian slaughter plants an unfair advantage over American packers. Canadian packers would have had sole access to the back log of cheap cull cows while having free access to the high prices paid for trimmed beef in the United States.

So how long will it be until cattle trade with Canada is normalized? The best answer is, ‘not immediately’. Assuming that the border will again be open to live cattle, it could take as long as four months for the existing judicial tumult to clear the water. Until that time, the market will likely fluctuate with the speculations.

*Shane Ellis*

**USDA Lowers Brazilian Crop Forecast Four Million Metric Tons, Raises Mexican, Chinese, and Argentine Corn Production Estimates**

**Brazil Crop Update**

In its March 10 World Supply-Demand Report, USDA lowered its Brazilian soybean crop forecast by 4 million metric tons from the February projection. With the latest report, the USDA projections now show a 5.5 million ton decrease in production from the earlier potential. Most of the decrease is credited to dry weather in the southern three states of Brazil: Rio Grande Do Sul, Santa Catarina, and Parana. Normal production in these states would be about 8, 0.8, and 11 million metric tons (295, 29, and 405 million bushels), respectively. Thus, current projections appear to reflect average yield losses of about 28% in this region. Most reports in Brazilian areas further north indicate soybeans are in generally good condition.

At this writing, the grain trade’s attention is focused on one (not well known) private firm in Brazil that has lowered its crop estimate to 52 million tons. That is 0.6 million tons below last year’s estimated production and 7 million tons below USDA’s current projection. The historical accuracy and track record of this forecaster are
not available. All reports from Brazilians on our trip indicated the soybean crop in both southern and northern Brazil was much better than last year and that planted acreage is up about 7.5%. A 52 million ton crop would imply that Brazil’s national average yield will be down about 8.5% from last season. Last season’s yields were sharply below normal because the south was hit by extreme drought, and excessive rain prevented effective control of Asian rust in the north. With most of this year’s yield loss reported to be in the southern three provinces, the implied yield in that area (with a 52 million ton Brazilian crop) would be about 60% below normal. In the last several days, the region has received good rains that will help stabilize yields and support pod filling.

What’s Ahead for Soybean Prices?

Even with the latest drop in USDA’s Brazil’s crop estimate, world soybean production is projected to be 18.7% above the 2003-04 marketing year. If the Brazilian crop is reduced another 4 million more metric tons to 55 million tons (near the low end of most private estimates), estimated world soybean production would still be 16.6% above last year. That would be the third largest percentage increase since 1980, just below the No. 2 increase of 16.9% in 1994-95. With the 52 million ton estimate noted above, world production would be 15% above last year. The increase in production would still be the third largest on record since 1980, and would be well above all other years except 1994-95 and 1997-98.

The current world estimate includes the Northern Hemisphere crop harvested last fall and the Southern Hemisphere crop being harvested from now through April. USDA projects Brazil’s crop to be 12% above last spring, along with an 18% increase for Argentina. Fundamental supply-demand conditions thus still indicate soybean prices have substantial downside risk into late summer unless a severe U.S. Asian soybean rust infestation develops.

Despite cautions from market fundamentals, soybean prices will be quite volatile for the next several months. Prices will be especially sensitive to any reports of Asian rust findings in the southern U.S. this spring, and in the Midwest this summer. Commodity fund traders will continue to play a major role in the soybean as well as in wheat and corn markets. Maximum speculative position limits for commodity traders have been increased over the last several years, allowing these mutual fund type accounts to take large speculative positions for their investors. Technical analysis is an important guide to trading strategies of these market participants, and most fund traders respond to a common set of technical signals. When fund traders are aggressively establishing long positions, their actions alone can contribute to rising prices and technical signals calling for purchases of the commodity. When fund traders decide to close out long positions, prices can drop sharply.

Index funds—Recently, there has been talk that “Index” funds are becoming more important in the grain markets. The Commodity Research Bureau in New York creates a continuous index of the price of all major agricultural and industrial commodities, in what is called the CRB index. The CRB index has been in a strong uptrend since early February, reflecting strength in energy, tropical agricultural commodities, livestock, industrial metals markets, and grains. Some fund traders may buy an array of commodities to synthesize the CRB index in the same way that a stock market mutual fund might by stocks to match the Dow Jones Industrial Average or the S&P 500 index. So far, there are no statistics to indicate how important index funds may be in current grain price action. Many technical traders see some connection between weakness of the U.S. dollar and strength of the CRB index, although the relationship is not as precise as some might expect. Strength in industrial commodities and energy reflects continued strong (but slightly slowing) growth of China’s economy, a strong U.S. economic expansion, and supply uncertainty in energy markets.

Trends in the CRB index and the trade-weighted U.S. dollar, as well as industrial metals, energy markets, and selected foreign currencies can be found on our web site, http://www.econ.iastate.edu/faculty/wisner/. Click on the section titled “Futures, Price Charts, Cash Prices @ Various Iowa & Midwest Locations” in the upper right-hand column. When the extended menu comes up, click on the link titled “Futures, 10-minute delayed and commodity charts”. Another menu will come up which offers a selection of these commodities and exchange rates.
Technical Environment and Marketing Considerations

Soybean markets appear to have factored in significantly more damage to Brazil’s crop than currently indicated, as well as significant losses of U.S. production due to Asian rust. In this environment, technical traders are likely to remain the dominant market influence until a good assessment of 2005 U.S. soybean crop potential can be made. For the next several months, prices will be sensitive to delays or further reductions in South American harvests, and/or any reports of Asian soybean rust in the southern U.S. Prices would be even more sensitive to any confirmation of the disease in Kentucky, Missouri, and/or southern Illinois.

Most technical price objectives we noted in the last issue of Iowa Farm Outlook have been reached. Possible remaining objectives on May futures include $7.03, a gap at $7.10 from early June last year, $7.50, $7.52, $7.75, and $7.76. The last four of these are price peaks the market traced out last spring as it was reaching a top. Possible objectives on November futures of $6.40, a gap at $6.45, and $6.49 have just been reached. Remaining objectives are the quadruple top of $6.50 in April and May last year. Current fundamentals do not appear to justify prices reaching these levels, but there is probably at least a 30 to 40 percent chance prices might briefly move up to some of the upper objectives on old-crop beans in response to aggressive long speculative purchases.

In this type of market, a strong case can be made for scale-up marketing. With that approach, it would be important to first be sure cash flow needs are adequately covered, and then to make additional sales as the market moves up rather than holding off all sales waiting for the market top. Typically, when a top is reached in volatile markets, prices decline sharply soon afterward. Offer contracts at the elevator can be an important tool in implementing a scale-up strategy.

Crush Update

The NOPA reported crush for February 2005 was up 5.6% from a year earlier, a slightly stronger increase than generally anticipated. Soybean oil stocks at crushing plants were reported to be up 3% from a month earlier but down 17% from a year earlier. Crushings from September 1 through February 28 were about 3% above a year earlier. For the marketing year, USDA projects the crush to be up 7.8%. From March through August, the average crush will need to be 13.8% above a year earlier to reach official projections. Reported gross crushing margins on March 10 for central Illinois were reported at $0.53 per bushel, down sharply from the $0.82 margin a year earlier. Weaker crushing margins also are a caution that technicals rather than fundamentals are driving the market.

March 31 Planting Intentions and Stocks Reports

In about two weeks, USDA will provide an updated indication of potential 2005 plantings of major crops. The report will be based on survey of producers across the major producing regions, and will reflect their plans as of late February. The planting intentions report generally has been a good indicator of potential planted acreage. However, small changes from the intentions can occur in response to changes in market prices, weather, and government programs. So far, new-crop soybean prices have strengthened only a few cents since the survey was taken. USDA on March 31 also will release its March 1 grain stocks report. For soybeans, the report will provide a check on the 2005 U.S. soybean crop estimate.

Corn Projections Slightly Negative to Prices

USDA’s March 10 World Supply-Demand Report contained several slightly negative developments for corn prices. Brazil’s projected 2005 corn harvest was lowered 0.5 million metric tons. However, this was more than offset by increases in coarse grain (feed grain) production of 0.7 million tons in Argentina, 0.55 million tons in the former Soviet republics 2004 corn crop, a 2.0 million ton increase in China’s 2004 corn crop, a 1.0 million ton increase in Mexico’s 2004 corn crop, a 0.2 million ton increase in other southeast Asian coarse grain production, and a 3.6 million ton increase in feed grain production of other minor producing countries. With larger foreign crops and lagging export sales, USDA lowered its projected U.S. corn exports by 50 million bushels from last month. Lower exports pushed its projected August 31, 2005 corn carryover stocks up to 2.054 billion bushels, 114% larger than stocks a year earlier.
Unlike past periods when U.S. corn carryover stocks were well above normal end-of-year trade needs, the excess stocks will not be government owned or financed. Financing storage of the carryover into the coming year will be the responsibility of farmers and their lenders, and lenders may be reluctant to finance storage of grain that has no floor price protection. Outstanding CCC loans will have matured by fall. Also potentially influencing August and September prices is the large amount of corn that has had the LDP taken and is no longer eligible for the Marketing Loan program. Through March 14, USDA’s FSA estimates that the LDP has been paid out on 78% of last year’s U.S. corn crop.

**Updated Balance Sheets**
Our latest supply-demand projections, including those for 2005-06 can be found on our web site, [http://www.econ.iastate.edu/faculty/wisner/](http://www.econ.iastate.edu/faculty/wisner/), in the upper part of the right-hand column. Our 2004-05 projections reflect slightly lower projected corn exports and feed use than USDA’s. Our soybean export projection also is slightly higher than USDA’s. The March 31 grain stocks report will provide an up-dated reading on the largest source of demand for U.S. corn: domestic livestock and poultry feeding. Indicated feed use during the fall quarter was up only very slightly from a year earlier. To confirm USDA and trade projections for the marketing year, the report will need to indicate that December-February corn feeding was up considerably from a year earlier.

**USDA World Crop Conditions Update**
USDA’s most recent world crop conditions report indicates conditions for fall planted grains in the western former Soviet Union are generally favorable. Recent snowfall added to already good snow cover. Soil moisture is generally good in central and eastern Europe. Southern France and parts of Spain report some concern about dry conditions, although part of the area has had recent rains.

*Robert N. Wisner*