Japanese Border Situation

The Japanese market reopened to US and beef on December 11, after nearly two years of closure. Beef could start entering Japan by the end of this year, but only after Japanese inspectors have inspected selected packing plants and feedlots to ensure requirements for trade are satisfied. As part of the trade realignment the US will reopen to Japanese Kobe beef. According to trade arrangements agreed upon over a year ago, only beef from animals 20 months of age or younger can enter Japan, and only animals with the necessary documentation of age will qualify for export.

The announcement of the Japanese market reopening had been anticipated for the past month, since the Japanese food safety committee accepted the scientific reasoning that animals under 21 months of age carry no risk of BSE. Japan has conducted the required public hearings over the past four weeks for citizens to voice their concerns, but the Japanese consumer will be heard loudest at meat counter. Reestablishing consumer confidence is now the goal of the USDA and the US beef industry.

To qualify for export to Japan, beef must come from animals recorded in a Quality System Assessment program approved by the USDA. Several private companies offer approved programs for cattle producers and particularly cow/calf operators to use, but producers will have check into what is available in their state or area. For those interested in knowing where Japan qualified beef can be acquired, USDA has posted a list of approved firms.

In the past month and a half the fed cattle market has seen substantial increases. This market increase was the result of several possible events. First, weather in the Midwest has turned colder and wet with a somewhat early winter. Feedlots, particularly in Kansas and Nebraska now had wet pens filled with snow drifts. Justifiably, there was concern that cattle would not gain as well and that the supply of finished cattle would be hindered. A second reason for the market increase was reaction to rumors that a Japanese market reopening was getting closer. Finally, there is usually some market recovery in the finished cattle market the final months of the year. Despite higher consumer costs in general, beef consumption has been surprisingly strong.
So if cattle prices are up, and domestic demand is fairly strong, why would producers be interested in qualifying their cattle for a foreign market? The answer is added premium. Cattle with the necessary documentation to qualify for Asian markets are in short supply. If beef exporters are competing for a limit quantity of meat then they will probably pay a price well enough above the regular market price to justify the extra effort. So far there have not been any official premium reports. But to gage the market situation that US beef will be entering Figure 2 contains a graph of the retail price of sirloin in Japan since the months prior to the discovery of BSE in the US.
Australian beef has increased in value since the US lost this market. And how quickly the US regains market will depend on demand. If demand turns out to be light, premiums for US beef could thin once trade is fully established. But some producers are at the ready, if Japan returns to its hungry appetite for US beef.

**Risk Management Series for Cow-calf producers**
The Iowa Beef Center in cooperation with the USDA Risk Management Agency (RMA) is offering a new risk management series for cow-calf producers, starting in January 2006. Information and strategies focused on managing risk in production, finance, and marketing will be offered through 2-workshops offered throughout the state, with a third specialized session, a home study course, and a webcast.

The workshops consist of a two day series, taught one day a week for two weeks. Production risk topics will include grazing, forage, animal performance, mineral requirements, and forage related disorders. The financial portion will discuss production and marketing impacts on financial statements, evaluating financial ratios, and business planning. Marketing will cover developing a marketing plan, price patterns, futures and options, and livestock insurance.

The webcast, to be held at 7:00 pm on January 9, 2006, will focus on:

- qualifying for Japanese beef exports;
- the cattle market outlook;
- risk management and new cattle insurance products.

Samantha Simon from USDA, Dermot Hayes from Iowa State University, and Tyler Strathe from AgInfoLink will be the guest speakers discussing specific risk management topics. This will include representatives to discuss the Livestock Gross Margin (LGM) insurance that will be available for cattle in 2006. The webcast will be broadcast to participating county extension offices for $5 per person. At this time of this publication, 42 counties have signed up to host the webcast. Please contact your local extension office or [http://www.iowabeefcenter.org/content/CowCalfRiskStrategiesRMA.htm](http://www.iowabeefcenter.org/content/CowCalfRiskStrategiesRMA.htm) and click on calendar to see if your local office is hosting. Pre-registration is required at some locations.

A list of workshop locations is also available. If interested in attending, please check the list of workshop locations or contact the IBC by calling (515) 294-BEEF. Workshop dates will vary between locations, so check the location list soon to find the best time and place to fit your schedule. The cost is $50 for the two-day workshop. More details will follow about the home study course that will be offered in early spring, other special presentations, and the specialized third session.

*Shane Ellis*
USDA Corn & Soybean Export Projections Lowered, Carryover Stocks Increased

In the December 9 USDA World Supply-Demand report, U.S. corn export projections were lowered by 100 million bushels, and projected August 31, 2006 carryover stocks were increased by an equal amount. Projected U.S. corn carryover stocks are equivalent to about an 11 ½ month supply at the end of the marketing year. That provides approximately a 1.4 billion-bushel privately-owned reserve corn supply that could be drawn down in case of serious weather problems and reduced yields next year. The lower U.S. export projections reflect lagging export sales for the first ¼ of the marketing year and a three million metric ton (118 million bushel) increase from last month in projected Chinese corn exports. Estimated 2005 Chinese corn production was raised 4.0 million tons (158 million bushels) from last month.

Projected U.S. soybean carryover stocks were increased by 50 million bushels from last month, due to severely lagging U.S. export sales. Projected 8/31/06 U.S. soybean carryover stocks now represent almost a 7.5 week supply. That is about the same reserve supply as in 1998-99, when the U.S. marketing year average price was slightly below the CCC loan rate. The reduced U.S. soybean export projections reflect cumulative export sales that have been lagging well behind earlier projections. Our latest corn and soybean supply-demand projections (balance sheets) are shown on our web site in the upper right hand column at http://www.econ.iastate.edu/faculty/wisner/

Market Reactions to Higher Carryover Stocks

While the initial market reactions to the USDA reports were negative, prices for both crops strengthened later on December 9th with short-covering by speculators, limited farmer selling at current depressed prices, and anticipation that chart signals of a possible market bottom may increase user buying of both crops. However, prices were unable to break above strong chart resistance points and have since weakened. A gradual increase in cash corn prices into mid-February appears likely, although there is risk of temporary weakness in early January with increased farmer marketing.

Drought conditions and low subsoil moisture in the northern third of Illinois, the southern half of Iowa, southern Nebraska, and parts of neighboring states will be watched closely by grain traders. Recent National Weather Service reports indicated drought conditions may continue or intensify in the northern Illinois-southern Iowa areas in the next few months. If so, that also would help support a gradual uptrend in cash prices into the spring fieldwork season. Current prices in Central Iowa are about 22 to 25 cents below local CCC loan rates.

Soybean prices will be sensitive to crop conditions in South America between now and mid-to-late February. Current reports indicate planting progress has been normal and that initial crop conditions are generally good, although some northern areas of Brazil’s Soybean Belt have had several days of rains. That would encourage Asian rust and make spraying operations difficult. A Brazilian government projection placed the crop at a very minor 11 million bushels below the current USDA projection. The USDA puts Brazil’s potential spring 2006 soybean harvest at 58.5 million metric tons, up 276 million bushels from last season’s drought-reduced harvest. The projection is unchanged from last month.

The Argentine soybean crop is projected at 40.5 million tons, also unchanged from last month but up 59 million bushels from last year. If the projections materialize, combined production in the two countries will be 20 % larger than the U.S. 2005 soybean crop. Brazilian soybean acreage is projected to decline modestly from last year because of debt problems of some farmers, higher input costs, and a strong
Brazilian currency, the real, which reduces returns to farmers in local currency. Declining acreage would be a sharp departure from the strong upward trend of the last decade.

**Export Sales Update**
The December 15 Export Sales report shows cumulative U.S. corn export sales through December 8 are 6% below a year earlier. For the marketing year, USDA now projects U.S. corn exports to be up about 5% from last season. Season-to-date U.S. soybean export sales are down 26% from the same period a year earlier. For the marketing year, USDA projects a 7% decline.

Unless weekly soybean export sales move well above a year earlier, or unless South American crop prospects deteriorate substantially, fundamental market conditions imply that price strength in the soybean market is likely to be quite modest this winter. Some temporary strength may occur from time to time on short covering by speculators and nervousness about South American crops. Potentially increased U.S. soybean plantings this spring may also temper price strength.

**Canada Applies Provisional Import Duties to U.S. Corn**
A preliminary investigation by the Canada Border Services Agency determined that the U.S. unfairly subsidizes U.S. corn production. In response, it has ordered that provisional anti-dumping duties of US$0.58 per bushel and a provisional countervailing duty of US$1.07 per bushel be applied to U.S. corn exports to Canada. The Canadian International Trade Tribunal will now make its assessment of the situation and indicates it will issue a final report on or before April 14, 2006. In the 2004-05 marketing year, the U.S. exported 52 million bushels of corn to Canada. So far this marketing year, Canada has purchased 19 million bushels of U.S. corn. Only 4 million bushels of that total have not yet been shipped out. The duties will make U.S. corn very expensive in Canada, and will encourage its livestock producers to feed more domestic feed wheat and barley, at least until the Canadian Tribunal makes its final decision in April.

**Indicators to Watch**
Key market indicators to watch for in the next several weeks include (1) weekly Export Sales reports, normally released on Thursdays, (2) South American weather developments, and (3) USDA’s January 12 quarterly grain stocks and season final crop estimates. Private crop estimates and history of similar years hint that crop estimates may be raised slightly in the January report.

To support moderate strength in cash corn prices this winter, weekly U.S. corn export sales should be in the 1.0 to 1.3 million ton range for the next several weeks. Bean export sales consistently in the 0.8 to 1.0 million ton range would help support modest strength in soybean prices this winter.

Robert Wisner