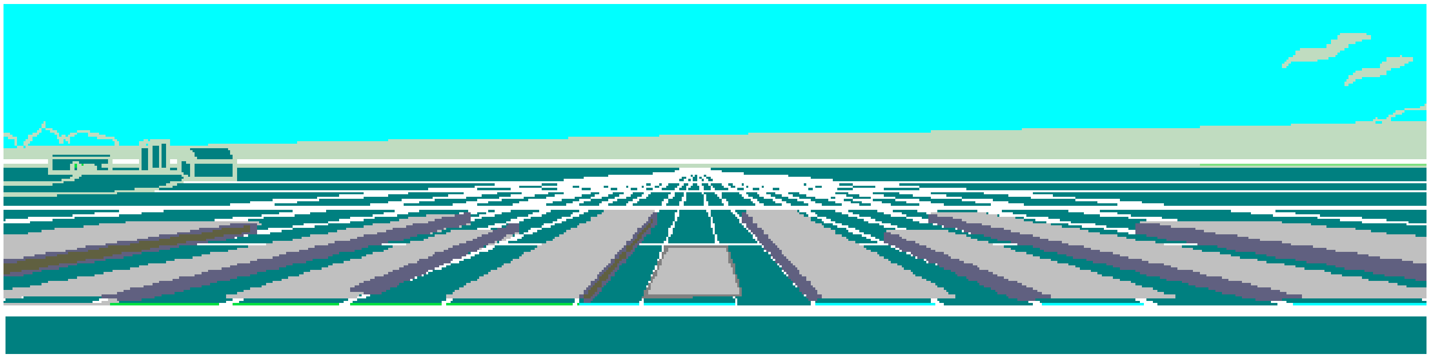
Iowa Farm Outlook



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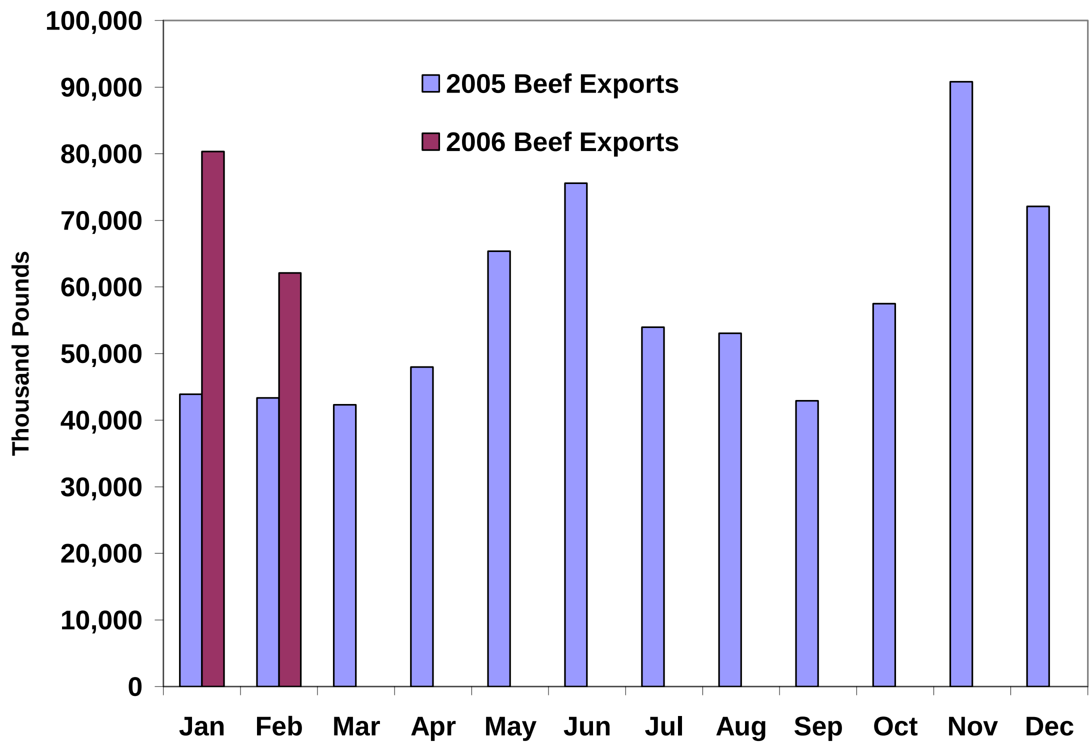
Meat Trade Outlook

Foreign trade information of US meats is now available for the first two months of 2006. Although much can change between now and the end of the year, we can get a flavor of how the trade situation will be shaping up for the next eight months. US beef trade, the lack there of and the political negotiations controlling it, are regularly mentioned in the news, legislative debates and administrative announcements. Needless to say the normalization of beef trade with Asian markets has been a central point of interest. Consider Figure 1, a graph of the reported monthly beef export volumes through 2005 to date. Beef exports at the beginning of the year are considerably greater then a year ago but not unexpected from the trend of previous months. Beef exports year to date are up 63 percent. Beef exports this year can be expected to continue to be well above those of a year ago, assuming the absence of catastrophic animal health events.

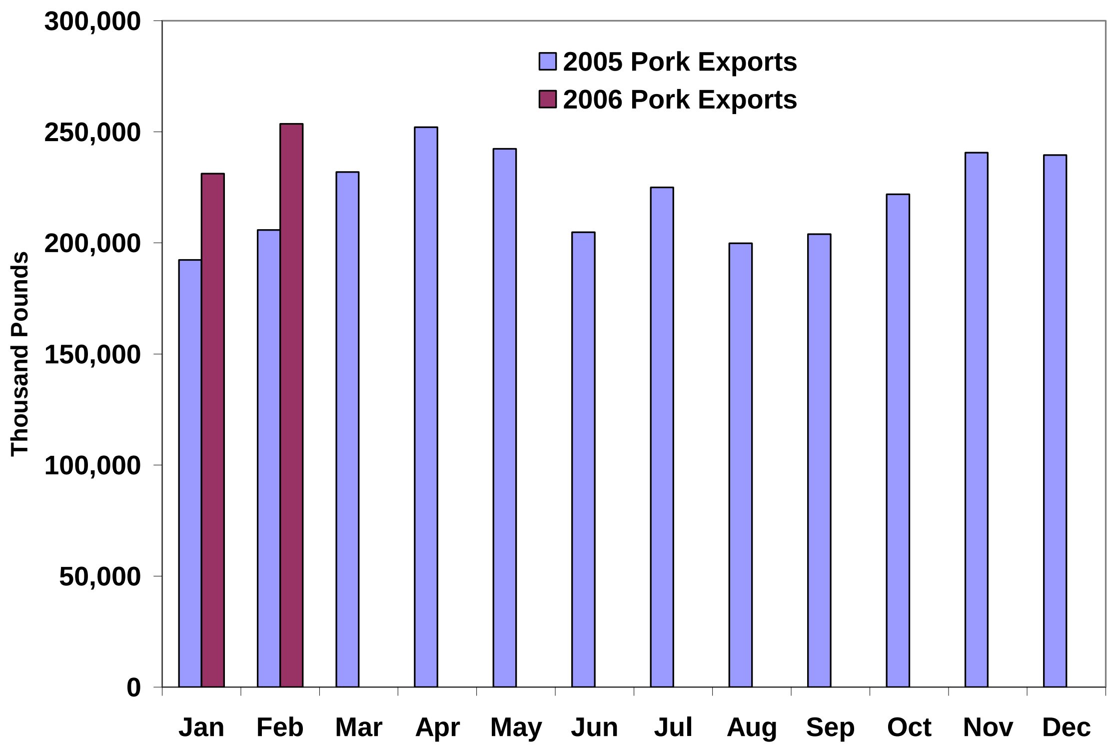
Figure 1. US Beef Exports, 2005-present, USDA



Mexico remains the largest market for US beef being the destination of two thirds of exports. Second is Canada which takes about eighteen percent of US export, while exporting nearly five and half times more into the US. This information is not given to show trade inequalities, but to more a picture of the trade structure and beef market demand of the United States. Canadian beef exports to the US this year are actually down thirteen percent from this time in 2005.

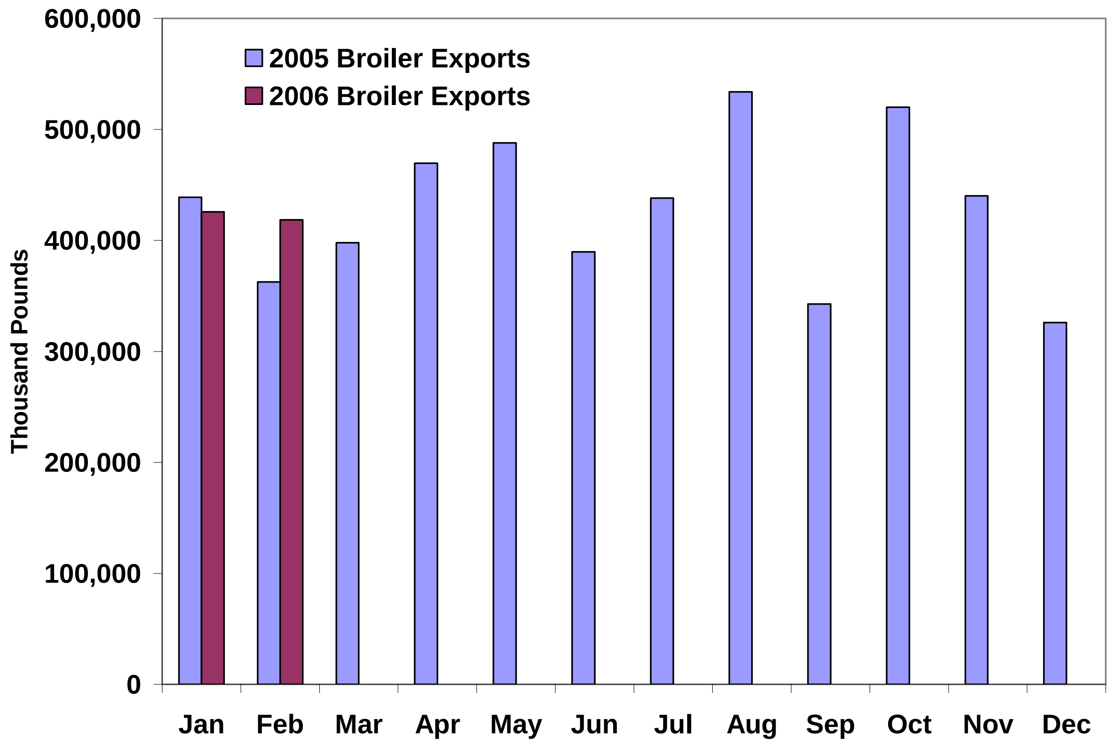
Shifting to the topic of pork exports, the foreign markets continue to be very strong. Pork exports are up an additional 22 percent in the first two months reported. Surprisingly, Japan, the largest US pork market at 31 percent of all exports, did not contribute to this rise, but actually imported less (down 7 percent). Countries that are utilizing more US pork and pork products than last year are Mexico, Russia, South Korea and China. Increasing exports should help support the market somewhat through the year.

Figure 2. US Pork Exports, 2005-present, USDA



The poultry industry is watching recent events as exports to Russia this past week were abruptly stopped by Russian agricultural officials on what was reported to be non-compliance with veterinary regulations by import licensees. Following reports, indicated that this is not a permanent event, but those imported meat to Russia must get new licenses. Ignoring the speculation that is may be more of a political or economic maneuver than an animal health issue, this injunction is not expected to be long term lasting possibly only a few weeks. Russia is the largest poultry importer in the world and the largest foreign market to US poultry, making up 34 percent of total exports. This event will cause some market weakness as the over all supply of US poultry is already increasing. Figure 3 is a graph of the broiler chicken exports since the beginning of 2005.

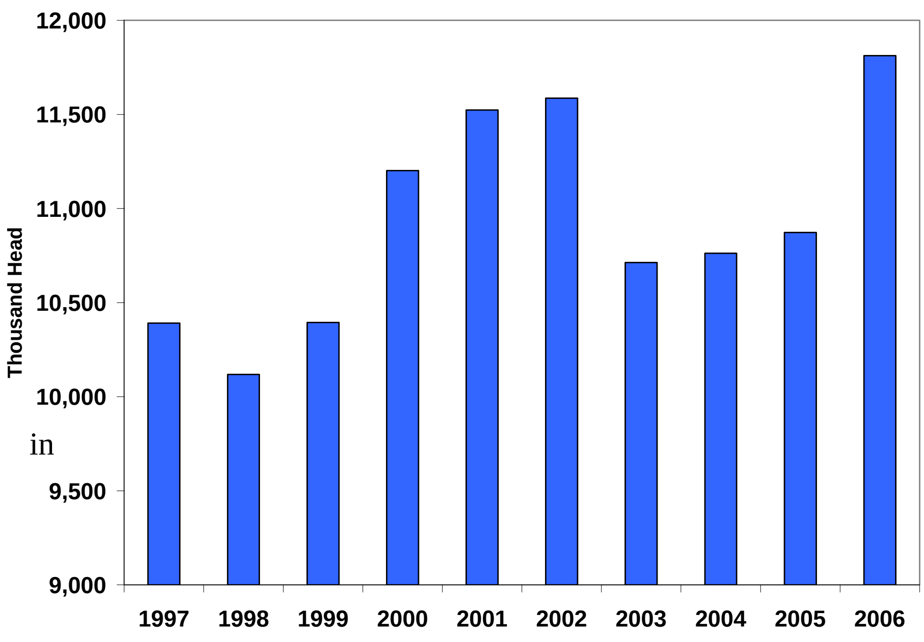
Figure 3. Broiler Exports, 2005-present, USDA



April Cattle on Feed well above a year ago

Cattle on feed inventories over the past six months have been consistently above inventories a year previous. The April 1 inventory was the largest since 1996 when the USDA started the monthly national cattle on feed inventory. Currently, there are over 11.8 million head of cattle on feed, nine percent more than last year and ten percent more than 2004.

Figure 2. April 1 Cattle on Feed, 1997-2006, USDA



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Feedlots have in recent months been feeding cattle longer on cheap corn in an attempt to cover the high price they paid for feeders last year. However, now it would appear that feedlots may be holding out for reasons of market timing. Historically, prices rally leading up to around the time of Memorial Day, but a pronounced upturn in prices is late coming this year. Feeders will be watching fed cattle prices in the next couple of weeks in the hopes of hitting a market peak before the expected June price slide appears.

Shane Ellis

Grain Markets Focus on Acreage Shifts, Rain for Drier Areas, Expanding Ethanol Demand

In the last four weeks, new-crop grain prices have sent important crop-rotation signals to farmers. Early this month, those signals indicated that some soybean acreage should be shifted back to corn***.*** ***With rapid planting progress in the western Corn Belt in late April, the price incentive for increased corn plantings diminished some, but still provides stronger incentive for planting corn than before the March 30 Planting Intentions report.***

Corn prices in the weeks and months ahead will be strongly influenced both by yields and the final planted acreage. ***With the 3.8 million acre decline in plantings that was indicated in the March intentions, a trend U.S. corn yield would produce a crop about 900 million bushels below potential 2006-07 utilization.*** If supplies are adequate, corn use next year will increase with a sharp rise in processing capacity as new ethanol plants come on line. Current estimates place corn processing for ethanol next season at a 28 to 34 percent increase over the 2005-06 marketing year ending August 31. The sharp decrease in corn production in Argentina and South Africa this spring may also cause some increase in U.S. corn exports. Early indications point to continued large U.S. corn feed demand, although use of corn in cattle feeding will depend some on southern plains weather. This year's severe drought in the area has almost eliminated wheat pasturing and resulted in earlier than normal placement of cattle into feedlots.

Recent Price Changes and Returns for Corn and Soybeans

December corn futures rose about 18 cents per bushel in response to the March 30 planting intentions report that showed a substantial intended shift of crop acreage from corn to soybeans. However, in the next three weeks – with rapid planting progress west of the Mississippi River – the corn market gave back about half of its gain. Favorable planting conditions and forecasts of moderate rain in drier areas of the western Corn Belt led traders to anticipate larger plantings than the March intentions and a possible repeat of favorable yields of the last two years. Early plantings are an important positive influence on potential yields.

While corn prices strengthened, November soybean futures prices initially dropped about 23 cents per bushel in reaction to the planting intentions report. After the initial reaction, November soybean futures moved back up to the pre-report level. At this writing they exceed it by 16 cents per bushel. Impacts of price changes from March 29 to April 30 on corn and soybean returns for central Iowa farmers are as follows. Our calculations are based on normal yields of 188 and 54 bushels per acre respectively for corn and soybeans. ***The corn price increase raised potential corn returns about $22.50 per acre vs. March 29. At the same time, the soybean price changes increased potential soybean returns by $8.64 per acre.*** Average corn yields in Story county, Iowa in 2004 and 2005 were 188.1 and 187.6 bushels per acre, respectively. Soybean yields were 50.0 and 59.0 bushels per acre. Story county is in the center of the state. These calculations indicate the market has provided significant incentive for farmers to shift soybean acres back to corn in the last month.

Corn Planting Progress by State

On April 24, USDA's National Agricultural Statistical Service (NASS) reported 25% of the corn crop planted in 18 major producing states. That was slightly less than last year's 28% and slightly above the 5-year average of 22%. However, progress varied substantially from east to west across the Corn Belt. Western Corn Belt states, except for the Dakotas, were well ahead of normal. Plantings almost certainly accelerated sharply in these states in the week ending April 29. In the eastern Corn Belt, progress generally lagged a little behind normal and was sharply behind last year in Illinois, Indiana, and Ohio. These three states accounted for 37% or 1.4 million acres of the intended decline in U.S. corn plantings and 25% or 1.2 million acres of the intended increase in soybean plantings. Another 36% of the intended decline in corn plantings was in Kansas, Nebraska, Texas, Missouri, and South Dakota. Farmers in the first four of these states have been struggling with dry weather, with prospects for high irrigation costs in the plains states. Where irrigation is with natural gas power, those costs have remained about at the early March level. These states accounted for another 1.0 million acres or 20% of the intended increase in soybean plantings.

North Dakota alone accounted for 25% of the intended increase in U.S. soybean plantings this year. Wet weather there has held wheat plantings back modestly from normal progress. Continued delay in wheat plantings could possibly push a few more acres into soybeans in that state. ***Iowa and Minnesota together accounted for 7.9% or 0.3 million acres of the intended decrease in the nation's corn plantings and 12.5% or 0.6 million acres of the intended increase in soybean plantings.*** Rapid planting progress and price changes in these two states may have led to more corn acres and fewer soybeans being planted than intended in early March. These regional changes in intended acreage are summarized in the table below.

	Mil. Intended corn acres change	**Mil. Intended soybean acres change**
Ill, Ind., Ohio	-1.4	+1.2
Mich., Wisc.	-0.2	+0.19
Iowa, Minn.	**-0.3**	**+0.6***
Neb., Ks., Mo., Tx., SD.	-1.4	+1.0
North Dakota	+0.24	+1.2
Others	-0.74	+0.6

*** 98% of Minnesota's 0.3 million acre increase in intended soybean plantings appears to be coming out of small grains.**

Table 1 shows reported corn planting progress by state on April 23. The lag in eastern Corn Belt and a shift in returns in favor of corn offer conditions that may cause farmers to deviate some from earlier intentions. Planting progress and the regional planting intentions suggest the upper limit on corn and bean acreage changes from the intentions may be around a 1.5 to 1.7 million acre increase in corn plantings and a 1.1 to 1.3 million acre drop in bean acreage. ***With the acreage shift coming in areas of traditionally higher yields, the potential change in corn production from our earlier projections could be up to 260 280 million extra bushels of corn (with normal yields). These same conditions suggest potential soybean production could be as much as 50 to 60 million bushels below indications earlier this month.***

These acreage shits, if they materialize, would still be expected to bring a sharp drop in corn carryover stocks in the late summer of 2007. Supplies would be expected to remain adequate for late summer 2007 market needs (barring serious weather problems). However, moderately increased 2007 plantings and/or exceptionally high 2007 corn yields would likely be needed to supply growing demand for corn processing in 2007-08.

Table 1. Corn: Percent Planted

	Week Ending Apr 23, 2006	Week Ending Apr 16, 2006	Week Ending Apr 23, 2005	2001-2005 Avg.
	Percent of intended acres			
CO	14	3	14	8
IL	**33**	**8**	**60**	**39**
IN	**9**	**3**	**33**	**20**
IA	**26**	**3**	**15**	**16**
KS	**50**	**23**	**38**	**35**
KY	**70**	**29**	**54**	**52**
MI	8	0	23	8
MN	**12**	**0**	**3**	**9**
MO	**75**	**50**	**60**	**54**
NE	**16**	**3**	**8**	**11**
NC	83	61	62	61
ND	2	0	9	7
OH	**9**	**2**	**48**	**17**
PA	15	4	14	7
SD	3	0	6	4
TN	79	57	58	70
TX	72	68	71	66
WI	5	0	7	3
18 Sts:	**25**	**9**	**28**	**22**

1/ These 18 States planted 93% of last year's corn acreage.

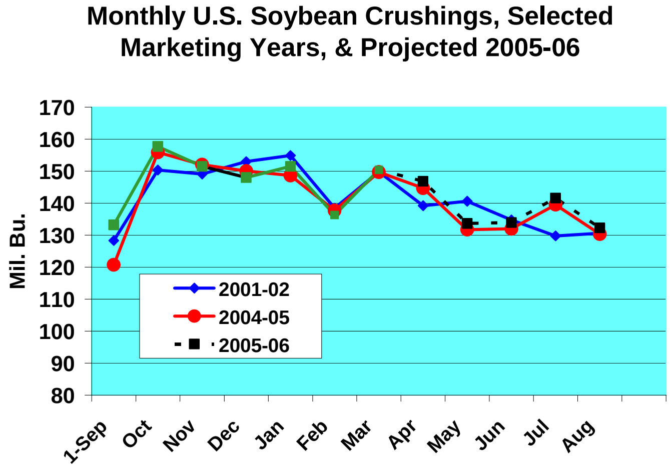
Soybean Export Update

Soybean export sales and shipments continue to lag severely behind last season. Total export inspections since last September 1 are down 21% from a year earlier. The April 27 sales report showed the latest weekly sales at the lowest level this marketing year and down 55% from a year earlier. Cumulative sales so far this marketing year are down 21%, with sharp decreases to most destinations except for some Western Hemisphere countries. USDA projects exports for the September 2005-August 2006 marketing year to be down 18.4% from last season.

Farmers in Brazil reportedly have been selling just enough soybeans to meet immediate cash-flow needs, but have not been aggressive sellers because of depressed prices at interior elevators. There is talk of a sharp drop in soybean plantings in Mato Grosso this fall. Mato Grosso is Brazil’s No. 1 soybean producing state and has seen a very rapid expansion in plantings in recent years, until last fall. A build-up of debts, high costs of spraying for Asian rust and a strong Brazilian currency that reduces prices in local currency are behind the depressed returns. However, soybean futures for next spring are about 50 cents per bushel above recent near-by futures. Foreign exchange markets also offer Brazilian farmers a chance to lock in a much better exchange rate for delivery next spring than the current rate. These developments may temper the decline in Brazil’s soybean plantings in the fall. Argentine soybean farmers reportedly have been enjoying good returns from soybeans because of a favorable exchange rate and fewer problems with Asian rust. Expanded Argentine soybean plantings appear to be a strong possibility this fall.

Soybean Crush Up Slightly

The Census Bureau on April 27 reported the March U.S. soybean crush at 150.4 million bushels, up 0.5% from last year's 149.7 million bushels. Ending soybean oil stocks were up 0.4% from the previous month while meal stocks were down 3.1%. September through March crushings were up 1.4% from a year earlier. Crushings from April through August will need to be up 1.5% from a year earlier to meet current USDA marketing year projections. Current crushing margins reported by USDA are modestly above a year earlier but not exceptionally favorable.



Corn Export Sales

Export demand for U.S. corn has been strengthened by a sharp decline in corn production in Argentina and South Africa this spring – due to weather problems during pollination. Season to date U.S. corn export sales through April 20 were up 11% from a year earlier. China, normally our second or third largest competitor in world corn markets, halted corn exports for several weeks this winter and early spring, but reportedly has offered some corn for export recently.

Robert Wisner

Diary Situation and Outlook

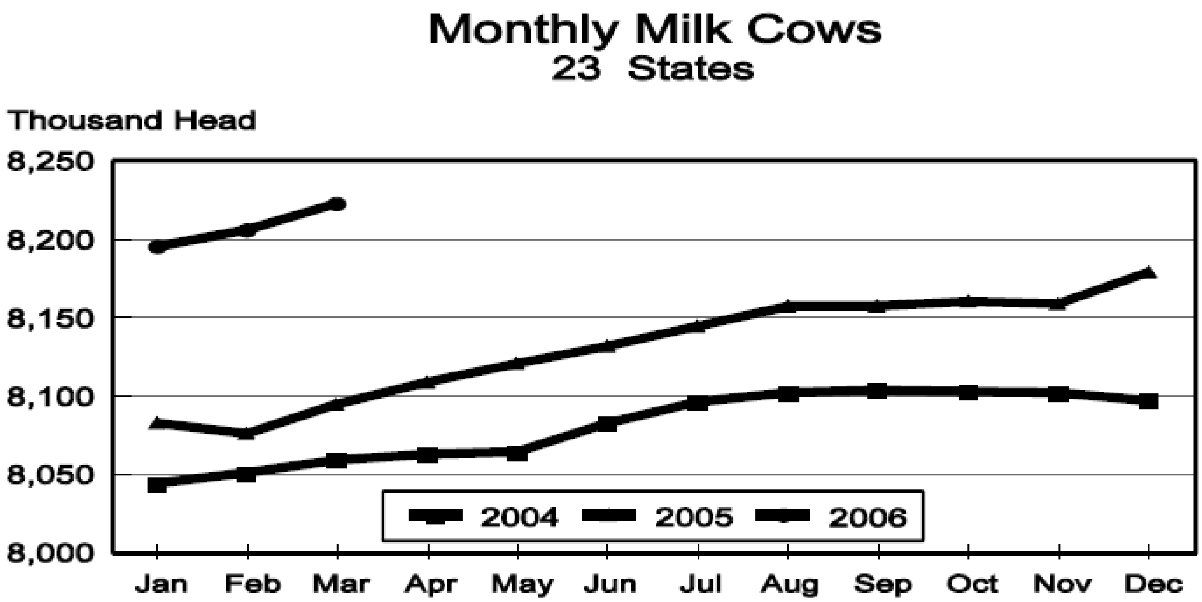
Milk production during March 2006 increased by 5.5% in the 23 major dairy states. Milk cow numbers were 124,000 higher than one year ago and 17,000 more than the prior month. Milk per cow was 66 pounds higher than one year ago. The largest factor for higher total milk was the 3.9% increase in milk per cow.

Iowa milk production rose just over 5.5% for March 06, more than the 23-state average. Dairy cow numbers were up by 9,000 cows compared to one year ago to 200,000. Milk per cow rose by 15 pounds to 1810. For the Jan-Mar 06 quarter, Iowa milk production had a 5.9% increase. During February, Iowa cheese production rose by 6.8% from one year ago. It was 5.3% lower than the previous however.

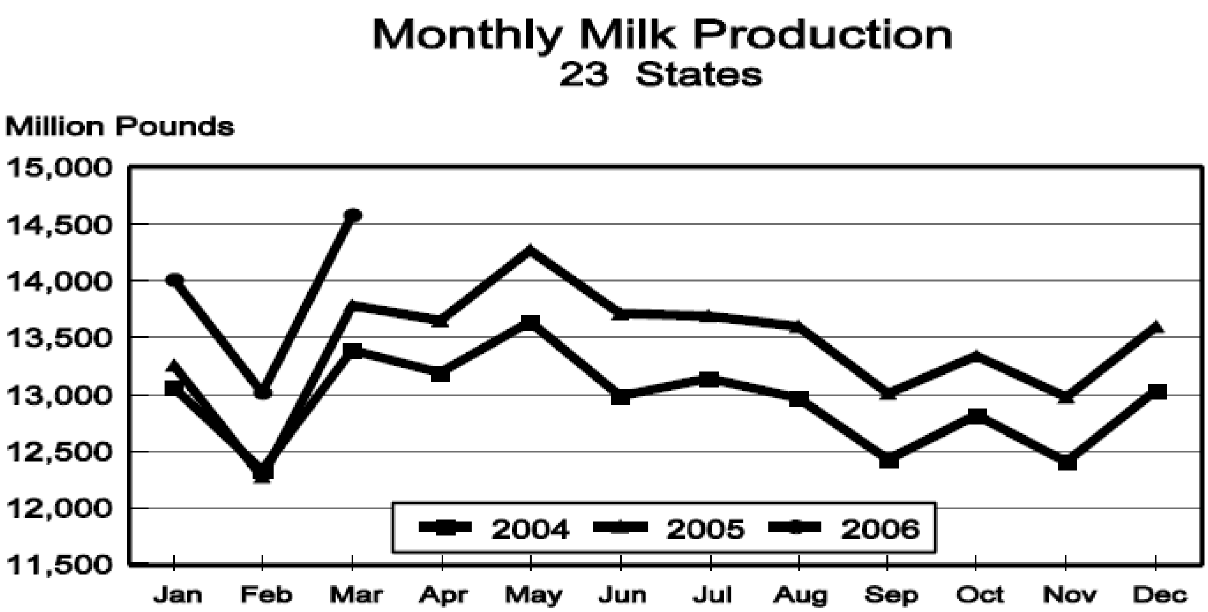
NM had the largest milk production increase, 15.1%, due to more cows and more milk per cow than one year ago. The second largest production increase occurred in TX, followed by IN. CO continued to show milk production gain, +8.2%, by adding 5000 cows and 55 pounds of milk per cow. ID had the next largest milk production for the month due to increased cow numbers

State	2005 numbers	2006 numbers	cow numbers	per cow	per cow	milk/cow	production	production	total milk
Iowa	191	200	4.71%	1795	1810	0.84%	343	362	5.54%
MN	455	450	-1.10%	1570	1630	3.82%	714	734	2.80%
WI	1233	1241	0.65%	1560	1620	3.85%	1923	2010	4.52%
IL	105	104	-0.95%	1670	1720	2.99%	175	179	2.29%
CA	1744	1785	2.35%	1850	1920	3.78%	3226	3427	6.23%
ID	441	475	7.71%	1880	1880	0.00%	829	893	7.72%
IN	156	163	4.49%	1700	1775	4.41%	265	289	9.06%
NM	322	347	7.76%	1790	1910	6.70%	576	663	15.10%
NY	648	649	0.15%	1570	1630	3.82%	1017	1058	4.03%
PA	560	555	-0.89%	1600	1700	6.25%	896	944	5.36%
TX	318	328	3.14%	1795	2000	11.42%	571	656	14.89%
23-State	8099	8223	1.53%	1707	1773	3.87%	13825	14579	5.45%

Only there states had milk production declines. The largest production decline took place in FL, -6.6%, followed by WA, -2.5%, then OR, -1.5%. Cow numbers remained constant in OR while they declined in FL and WA. These three states were the only ones that had milk production declines.



Source: USDA



Source: USDA

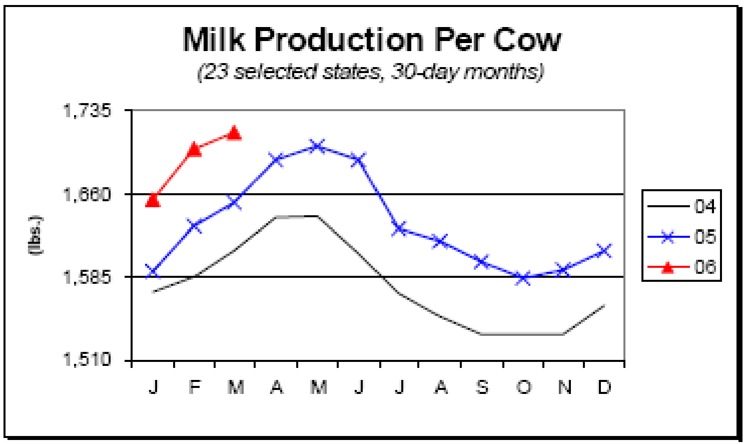
Demand

Feb 06 cheese output was 719 million pounds. That was a 1.6% increase from one year ago but 6.4% less than the previous month. February 06 butter production was 18.1% higher than one year ago, but dropped by 9% from the previous month.

Dairy products in cold storage increased during March. Cheese was 8% above one year ago and 5% more than Feb 06. Butter in storage increased by 27% compared to one year ago and gained 14% compared to Feb 06. Commercial stocks of NFDM were 51.5% more than one year ago. Butter stocks are now 4.5% more than the 5-year average and cheese is 4.6% higher.

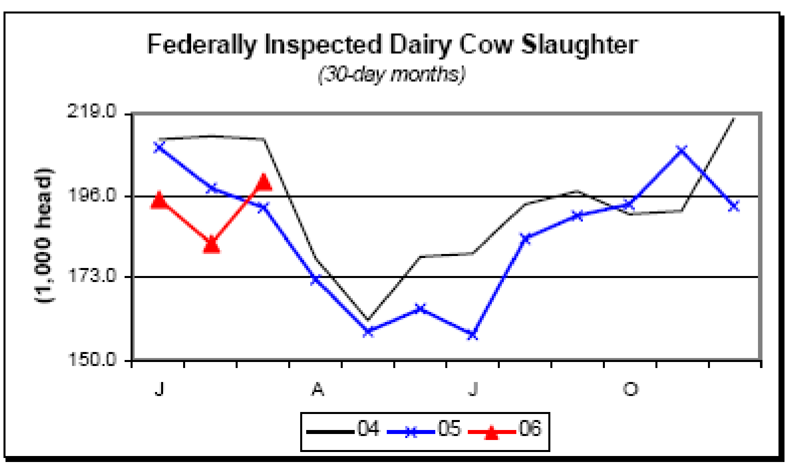
Analysis

In the March Agricultural Prices, USDA reported the Milk-Feed price ratio down from the previous month to 2.77. A year ago the ratio was at 3.35. This ratio will drop further since the milk price used to calculate will decline some more. A weaker ratio may lead to reduced milk per cow as feed becomes more expensive relative to milk. Feed costs however are relatively low, especially for dairy producers who follow risk management strategies and price most of their energy and protein needs last fall.



Source: Daily Dairy Report

Milk prices are likely to hold at current levels for the next month or two as the dairy cow slaughter and Spring Flush of milk plays out. Very little appears to be giving the market direction for milk prices. Although milk production is large, increased dairy cow slaughter by producers could reduce the increases. Dairy product consumption has remained relatively good giving some support to Class III prices now near the $11 per hundredweight level for the next 2-3 months. Prices further out, Jul 06-Mar 07 are below $12 waiting to see what happens with the size of the US dairy herd.



Source: Daily Dairy Report