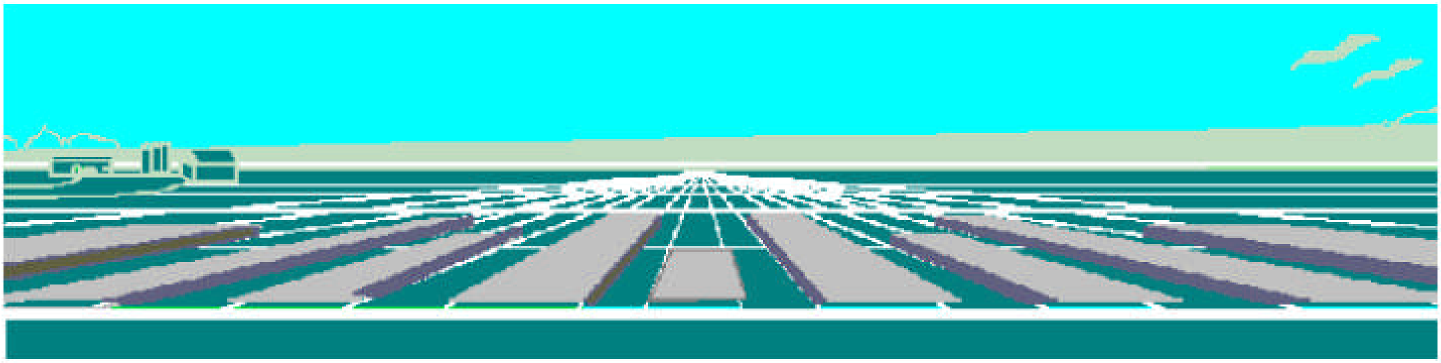
Iowa Farm Outlook



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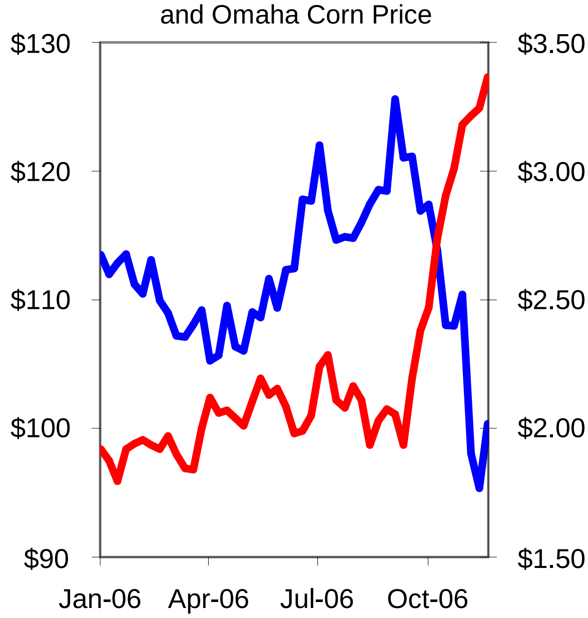
Cattle Collapse Coming???

At this writing in mid-December fed cattle prices are holding at $85 and feeder cattle prices are moving in that direction. Record feedlot inventories and carcass weights pressure fed cattle prices, and rising corn costs are resulting in higher cost of gain on the heavier cattle. Feeder cattle prices have weakened dramatically as corn prices rose through harvest, and for the first time in more than two years feedlots are looking at replacements cheaper than their current inventory.

Figure 1 shows the price relationship between yearling steers and corn prices through Thanksgiving. It appears that feeder cattle prices may have found at least a temporary bottom, but they will move lower if corn moves higher. Given the need for the corn market to buy more acres in 2007, higher grain prices are possible and present a significant risk to feeder cattle prices early in the year.

Figure 1. Missouri 700-750# Steers and Omaha Corn Price



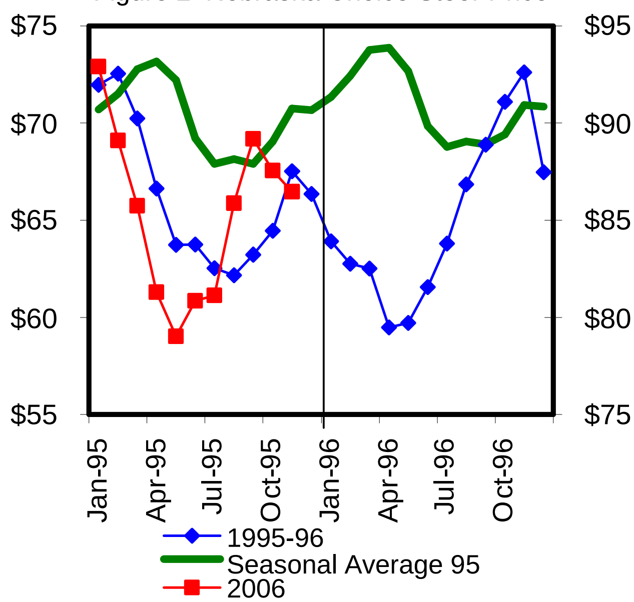
Feedlots are selling cattle at a loss and prices are expected to remain below breakeven for most cattle sold through the spring. The late summer $120 yearlings and $3 corn from Figure 1 are producing breakevens in the mid $90s for fed cattle this winter. February and April futures are currently near $90 before adjusting for basis.

If feedlots begin to market more aggressively to cut their losses on heavy cattle with high cost of gain and buy the lower priced feeders, it will pressure the winter market even further. Although there is expected to be less poultry on the market, pork supplies are increasing slightly and beef will have competition at the retail counter.

Figure 2 is a graph of fed cattle prices from 1995-96, the last time we had corn prices at these levels. Like this year, corn prices rallied during harvest, moving from $2.67 in early August to $3.19 in early December. Fed cattle prices in 1995, like 2006, did not follow a typical seasonal pattern. Instead of a peak in April or May, they decreased quickly to May. They also declined rapidly in the spring of 1996 making two years in a row with an atypical price pattern.

In 1995, the fall peak was in November and prices declined every month until April as corn prices climbed higher and feedlot losses grew. In 1995-96 daily average slaughter and carcass weights exceeded the year earlier levels through the fall and first part of 1996 as feedlots tried to get ahead on marketings. Those who remember that year also remember cattle prices below $60 for feds, yearlings, and calves when the market bottomed out in April and May of 1996.

Figure 2. Nebraska Choice Steer Price



I do not anticipate a market collapse like we saw in 1996, but it is possible that fed prices could be considerably weaker if marketings exceed demand going into the spring. The large feedlot inventories and heavy carcasses increase that probability. Feedlot losses will pressure feeder cattle as well. Short of this “dooms day” scenario, I look for fed cattle prices to average in the mid-to-upper $80s through early 2007, and that should support yearling steers in the upper $90s with corn in the low $3 range.

The futures market is anticipating a strong summer market for fed cattle, in part based on the early placement of feeders last summer. We may have to experience the spring sell-off to get numbers and weights low enough to support those prices. Rationing of fed cattle marketings through the winter to support that market may lead to a backlog of cattle in the summer.

Immigration Crackdown Implication

In mid-December US-ICE agents raided six Swift packing plants (four beef and two pork). Beyond the initial work stoppage, some workers were detained or deported. This work stoppage had a small immediate impact on slaughter levels, and will likely reduce the ability of the affected plants to run at capacity in the short term.

Market implications are yet to sort out, but do not appear to be significant. Swift will likely replace the workers that were deported in the near term and slaughter throughput should return to near normal soon. Hog slaughter should begin to decrease seasonally shortly after the first of the year. Cattle slaughter peaks in summer months and thus is below capacity in the winter. However, if ICE raids other plants, or if other plants scrutinize their workers more closely or illegal workers decide to switch jobs, slaughter capacity may slow down and pressure cattle and hog prices.

John Lawrence

USDA World Supply-Demand Projections Show Small Increase in World Stocks; Private Survey: '07 Corn Acreage Up 9%, Soybeans Down 7%

News from USDA's latest (December 11) U.S. and world grain and oilseed projections is slightly negative to grain price prospects for the next several weeks. However, more significant negative influences include (1) results of a 2007 acreage survey by a leading private market forecasting firm that show a 9.4% potential increase in 2007 U.S. corn planted acreage and a 6.8% decline in 2007 soybean plantings, (2) continued very favorable crop conditions in South America, and (3) a report from the U.K. that Britain's largest biodiesel producer is experiencing severe financial pressures because of the increased cost of vegetable oil, including soybean oil. These developments have been partially offset by reports of slowing corn export sales out of China and reports that Argentina has stopped further export sales of corn in an effort to reduce inflationary pressures. ***The private acreage survey implies that dramatic increases in corn prices this fall may have pushed the market high enough to generate the needed expansion in next year's U.S. corn plantings.*** If actual acreage is near the survey results, about 2.3 million of the 7.4 million extra acres of corn will come from sources other than soybeans.

U.S. and World Corn Supply-Demand Projections

USDA's December 11 U.S. supply-demand projections left domestic corn and soybean balance sheets unchanged, but raised the projected U.S. season average prices 10 cents per bushel on corn and 20 cents on soybeans. The mid-point of the projections now is $3.10 per bushel on corn and $6.10 on soybeans. To support the higher soybean projection, USDA Economists raised the projected soybean oil price by $1.50 per cwt. The domestic soybean oil use and soy oil exports also were raised slightly, reflecting a higher oil content of 2006 soybeans than previously expected. ***USDA projections show this marketing year's U.S. corn exports rising 2.5% above last season. With nearly 1/3 of the marketing year behind us, the projection may be a bit conservative. Cumulative export inspections from September 1 through December 7, 2006 were 22% above the same period a year earlier. Cumulative export sales, shipped and unshipped, were up 35% from a year earlier.*** USDA Economists project 2006-07 U.S. soybean exports to be up 21% from a year earlier. Cumulative bean export sales from September 1 through December 7 were up 39%, and cumulative export inspections, like corn, also were up 22% from the same period a year earlier. Export inspections reflect grain that has already been shipped out of the U.S., while sales reflect some grain not yet shipped out.

In the world picture, USDA raised projections of Argentine corn production to be harvested next spring by 1.5 million metric tons from last month, along with a one million ton increase for Brazil and a 0.5 million ton increase for South Africa. These increases are approximately a 120 million bushel increase from last month. They reflect potentially increased competition for U.S. corn exports from April through November of 2007. ***Combined production in the three countries, if current projections materialize, would be up 258 million bushels from last spring.*** Combined production in the three countries would be 2.8 billion bushels, well below the U.S. crop of 10.75 billion bushels. Other changes included a 0.5 million ton increase from last month in Canada's 2006 corn crop estimate and a 1 million ton increase for former Soviet republics. These increases are partially offset by a 0.4 million ton decrease for Eastern European countries outside the EU. The net changes add another 44 million bushels to the world corn supply vs. the level indicated a month ago. ***Thus, the total changes show a 164 million bushel increase from last month in foreign corn production for 2006-07. Ending world feed grain stocks for 2006-07 are projected to be 2.5 million tons higher than indicated last month, but 26% lower than a year earlier.***

World Soybean Update

In contrast to corn and feed grains, world soybean stocks at the end of the current marketing year are projected to be 7% higher than a year earlier. U.S. stocks are projected to be up 26%, along with small increases in Brazil and Argentina. Argentina's spring 2007 harvest projection was raised 0.7 million metric tons (26 million bushels) from a month earlier. ***Combined Brazilian and Argentine soybean production is projected to be 2.6% above a year earlier.***

China's soybean imports are projected to be down one percent from last season. U.S. export sales of soybeans to China from September 1 through December 7 are up 44.7% from a year earlier. Sales so far hint that China's actual imports might be a bit larger than currently projected.

Season's Greetings!

We wish you, your family, and your staff a very Merry Christmas and the very best for the New Year.

Robert Wisner