IOWA STATE UNIVERSITY
Extension and Outreach

Iowa Farm Outlook

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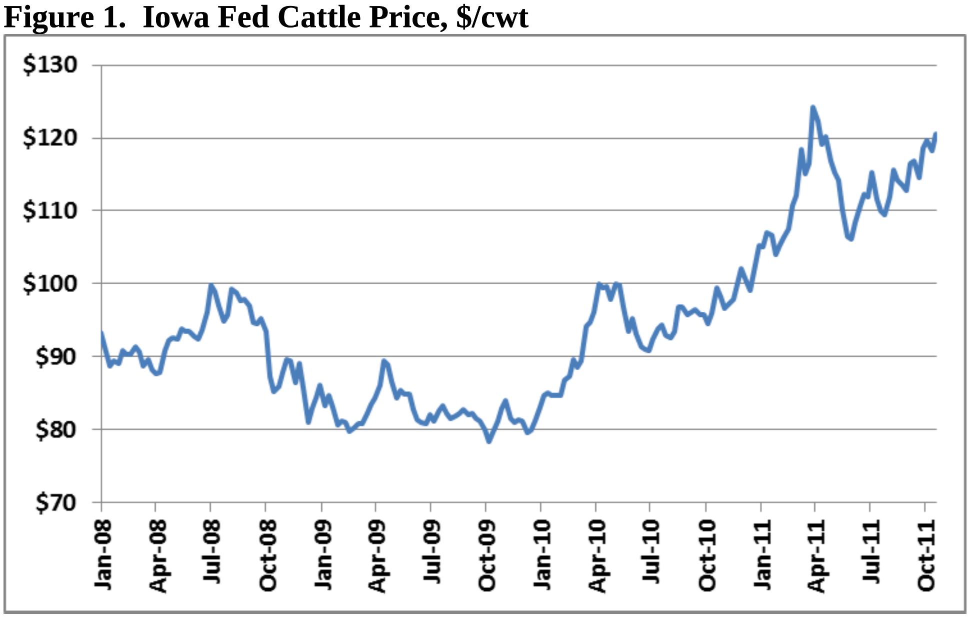
Riding a Bullish Cattle Market, But Are You Ready for a Rodeo?

There is always something moving in the cattle markets, ups, downs and sometimes sideways. So where are prices headed, and what can be expected in the future? The average Iowa fed cattle price in the second half of October was over $120/cwt, which is more than 20% higher than a year ago. From a historic perspective, that is a fantastic price nearly equal to the record high prices set at the market peak in early April of this year. Looking at the futures market prices for fed cattle, a steady bullish increase in cattle prices is expected by the market place over the next year which would be a deviation away from the normal seasonal declines. There are several factors that individually would influence the market, but when combined, build upon each other to create this market strength. First, beef production during the coming year is expected to decline 4-5%. This decline is primarily a cattle numbers issue amplified by the reduction in productive capacity in the drought stricken Southern Plains. Second, fantastic foreign demand has taken export volumes to record highs. In the first three quarters of this year, beef exports were 27% higher than in 2010 and nearly 50% larger than the same period in 2009. This growth in exports was not anticipated at the beginning of the year and has added to overall demand and made the US a net exporter of beef. Finally, domestic demand has been steady despite the higher price of beef at the retail counter and recent stagnation in the restaurant sector.

Those participating in the futures market are anticipating tighter supplies in the face of tremendous demand for the next year. This is a very reasonable fear for not just this year but also the two to three years after that. All those expectations of future supply and demand are already being taken into account and steam has built up in the market. Now all producers in the cash market have to do is sit and wait for those fantastic prices to come sailing into the cash price port, right? Nothing could happen between now and then, those futures prices will turn into cash prices, right? What could happen? Perhaps asking those questions is like preaching to choir. While supply can be anticipated with some certainty, demand is much more liquid and we don't have to look too far into history to see what can happen. The inserted graph of Iowa fed cattle prices over the past four years

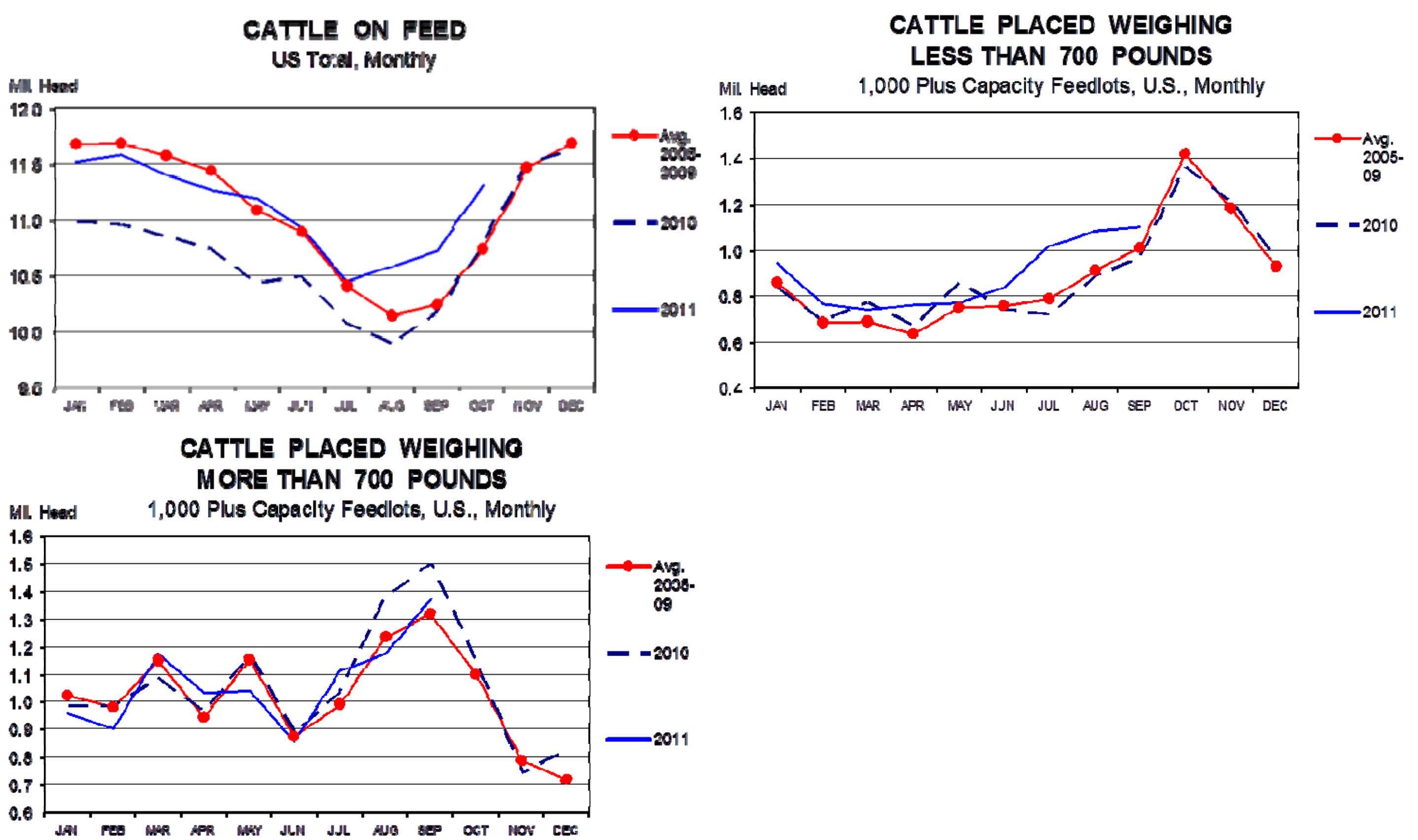
Figure 1. Iowa Fed Cattle Price, $/cwt



indicates the sensitivity of the cattle market to economic conditions. In 2008, cattle prices took a dramatic decline that took a couple years to shake off. Prices took an initial $10/cwt or 12% slide during the financial crisis that marked the start of the recession that would suppress cattle prices for the next year and a half. Futures prices for the April 09 Live Cattle contract peaked on Aug 1, 2008 at $125.25/cwt, then fell to a low of $83.38/cwt by that December. The markets did recover a little and cash market price reached an April 2009 high of just less than $90/cwt. There was out little history lesson. If the goal is to price protect the best price possible for cattle that will be sold in the future, place your price protection when cash prices are peaking or at least on an increase.

Why should cattle producers be concerned? The cattle and beef markets are linked to the economy by the sensitivity of consumers and their perceived economic condition. Even those who did not face extreme challenges from the recession in 2008-09 changed their spending habits because of the general economic uncertainty. Now once again there is a storm of economic crisis brewing for many nations around the globe. That storm has already started to rain on several European nations, and while their neighbors try to hand them an umbrella, that will not stop the hail when it comes. In turn, the US economy, which is still laboring under its own burdens, will be negatively impacted. More and more analysts are predicting a financial crisis and second dip to the recession are coming. The unknown is when it will happen. Maybe as early as next summer, maybe a year from now, or could there still be the slim chance that the storm will blow itself out. In the face of so much uncertainty, risk management is now paramount. For cattle producers, protecting the value of your cattle may be as important in 2012 as price protecting your feed was in 2011. If cattle prices predicted on the futures market were apples, the crop hanging on the tree would be the biggest, reddest and sweetest ever seen. There is the chance they could get even bigger by usual time of harvest. Should they be picked now, or wait until the "usual" harvest time and risk having a storm blow them off the tree?

Figure 2. Cattle on Feed and Cattle Placements



Cattle on Feed Update

Cattle on feed numbers continue to run above the recent average and last year's inventories. However, placements appear to be getting back on track. Early placements of calves out of the southern plains started the seasonal inventory increase about two months early. As seen in the graphs below the placements of light weight feeders (<700 lbs.) has been above the five year average since June. Placements of feeder cattle over 700 lbs. has been near a normal trend but in August and September were well below the placements of last year. Cattle that would have gone to stocker pastures during the summer to gain a couple hundred pounds were sent to feedlots early. By year's end feedlot inventory will be back to levels similar to those of last year.

Shane Ellis

Dairy Outlook Overview

The future of the dairy industry is a time filled with excitement and animosity due to commodity prices and new technology in the next 12 months. Milk production has increased in the United States and was at just less than 193 billion pounds last year. Production has increased in 2011; for January through September production it was 2.3 billion pounds ahead of production compared to last year.

Milk production is down for Iowa in 2011 by 14 million pounds for the first three quarters comparatively from 2011 to 2010. Although the summer months brought deeper cuts to milk production in Iowa for 2011, September milk production increased by a half of a percent after three months of 0 to 6.52 percent decrease. The total number of milk cows in the U.S. is at 9.2 million head at the end of July, a decrease of 0.55 percent in 2011. Cow inventory increased in 2010 in the upper Midwest, Southwest, and Northwest states and decreased in California, Missouri, and Iowa by 10, 7, and 5 thousand head, respectively. Replacement heifer inventory in the U.S. is at 4.2 billion head as of July 2011, up 150,000 from a year ago. Rolling herd average per cow in Iowa equates to 20,172 per cow and 23,732 when adjusting by 85 percent for dry cow inventory.

Milk Supply Recap

Increased heifer inventory will continue to allow for increased culling and management in herds across the U.S., which results in a stable to increasing dairy cow herd inventory at 9 to 9.25 million head. Dairy producers continue to be more efficient in producing milk as pounds per cow has increased from year to year and this trend is expected to continue but at a lower rate of increase partially due to tightening feed margins.

Demand has been stronger for U.S. exports over the past year due to a growing middle class and reduced production from leading dairy countries. Except for 2009, global exports have increased since 2002 with the primary products being milk powder, whey, and cheese. Primary export customers include Mexico, Southeast Asia, Canada, Middle East/Northern Africa, and China for 2011, with South Korea picking up steam in the market in the past month. The growing middle class in Asian countries offer increased demand for dairy products; however New Zealand and Australia are increasing milk production after a period of dry weather which resulted in decreased production.

United States dairy consumption has decreased in the first quarter of 2011 for fluid milk and cheese; however, yogurt consumption, especially Greek yogurt has increased. Recently, butter and milk powder production has increased due to holiday and export demand.

Milk Demand Recap

The expected increase in global milk supply combined with economic uncertainty can result in a decrease U.S. export demand; however, the growing middle class, resolved trade issues, and a favorable exchange rate for exports may reduce the impact. In the U.S., with the economy remaining in a sluggish state, dietary and nutrition promotion along with innovation of new products is important to recover loss in consumption of some products.

The U.S. average All Milk Price is at $20.90 and $21.80 per hundredweight for producers in Iowa. Milk price in Iowa has increased since January, $16.50 cwt. All Milk Price, with slight decreases during April and May. Recent increase in milk price has primarily been led by the heightened activity on the cheddar cheese market which drives the protein price component in milk pricing. This activity has been stimulated by global market demand over the summer months of 2011.

Commodity price markets have been extremely volatile over the past year, and feed input prices have followed suit. Corn prices have softened in October to mid six dollar range. However, due to extreme weather variability over the summer months between regions of the U.S., hay quality and availability is a factor that may cause increased feed prices.

Milk Profitability Recap

Milk price has increased due to tightening supply margins and increased demand. Milk price is expected to remain in the 16 to 17 dollar range going into 2012. Increased production with stable to variable demand also points to a decrease in milk price in the next year. With 2011 resulting in high commodity prices, there is a high probability that the market will cycle and lower prices with tightened margins will be in the future for 2012 or 2013. Margin management, through financial and production management, is pivotal moving forward to protect dairy producers and their operations.

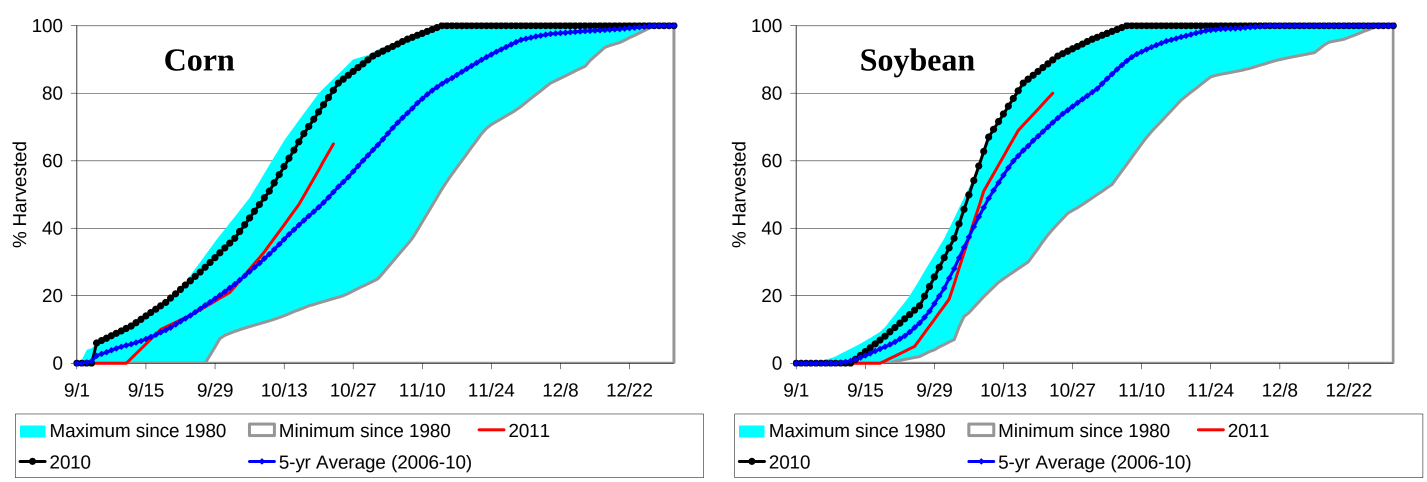
Milk production, herd inventory, global and national demand, and milk and feed commodity prices are all variables that play into the status of the industry and are highly variable causing heightened opportunity and uncertainty.

Kristen Schulte

Harvest is in Full Swing

While the harvest season got off to a later start compared to average, the harvest pace through October has been fast and furious. As of Oct. 24, 65% of the nation's corn and 80% of the nation's soybeans had been harvested. The harvest pace in Iowa has been even faster, with 71% of the corn and 95% of the soybeans already out of the fields. As I have traveled around the state over the past couple of weeks, I've seen a lot of fall tillage and some additional tiling going in. Anecdotally, I've been hearing reports of better than expected yields. USDA's October national yield estimates were 148.1 bushels per acre for corn and 41.5 bushels per acre for soybeans.

Figure 1. Harvest Pace (Source: USDA-NASS)

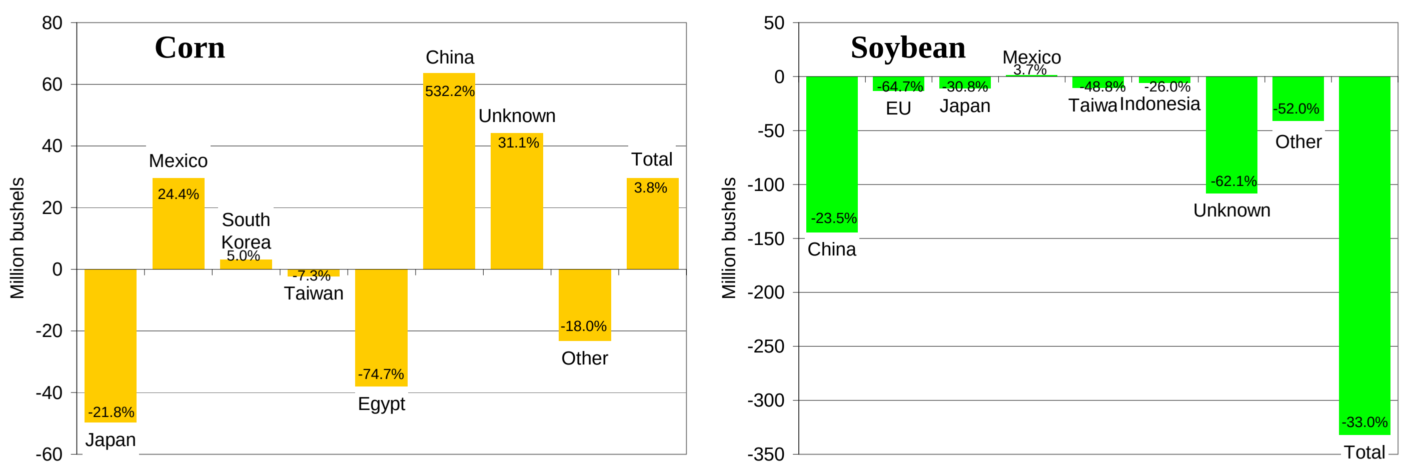


The numbers for Iowa are 169 bushels for corn and 50.5 bushels for soybeans. Compared to last year, USDA is finding a few more ears per acre, but lighter grain weights for corn. For soybeans, there was a significant drop off in pods compared to last year.

With supplies rolling in a very good clip, the market focus shifts back to demand. Exports are one area where USDA expects a sizable cutback. Corn export demand is estimated at 1.6 billion bushels, down significantly from last year. Weakness in the dollar supports the export outlook. But the feed competition and increases in worldwide corn production offset that effect. Figure 2 displays changes in export sales so far this marketing year. Current corn export sales pace is just ahead of last year, as importing countries have taken advantage of the September price dip. Mexico, South Korea, and China have all made some significant early purchases. Japan and Egypt are well behind last year's pace. In Egypt's case, the feed competition comes into play. Last year, Russia's drought limited its wheat exports to Egypt and left Egypt short of feed grains. U.S. corn filled in the gap. This year, Russia's wheat production is back and Egypt has returned to that market.

Exports remain the big story for soybeans, especially exports to China. With China shifting some purchases to South America, USDA lowered its export estimate to 1.375 billion bushels. This is well below the record from the last couple of years, but is still a strong export amount. The early sales data definitely shows the slowdown in exports. As Figure 2 shows, current soybean exports are significantly lower. The only market showing some growth in soybean purchases is Mexico, but even in that case, the growth is very small. Overall, soybean sales are off by 33%.

Figure 2. Change in Export Sales from Last Year (Source: USDA-FAS)



Biofuel development continues to support the corn and soybean markets. For corn, the headline over the past year was the passing of the torch as ethanol passed domestic livestock feed as the #1 use of U.S. corn. Corn demand via ethanol topped the 5 billion mark for the 2010 crop. The outlook for the 2011 and 2012 corn crops suggests ethanol will continue to use roughly 5 billion bushels per year. Biodiesel demand for soybean oil will be a key variable to watch in 2012. Biodiesel production has surged in 2011. In fact, the latest monthly figures (for July) from the U.S. Department of Energy show record biodiesel production in the U.S. USDA expects another surge in biodiesel production in 2012 as the industry ramps up to meet the biodiesel portion of the Renewable Fuels Standard. While oil prices have had their ups and downs this year, overall the energy price pattern continues to support biofuel production and crop prices.

The biofuel and export demand development has altered the relationship between stocks and prices. The smaller points in Figure 3 show the historical stocks-price relationship from 1990 to 2006. The larger points show the most recent 5 years, including the projection for the 2011/12 crops. With higher demands and tighter than normal stocks, prices have been pulled to projected record levels. Based on the midpoints of USDA's season-average price range, the 2011/12 crop year looks to be the most profitable year in quite some time, if not ever.

Figure 3. Stocks-to-use versus Prices

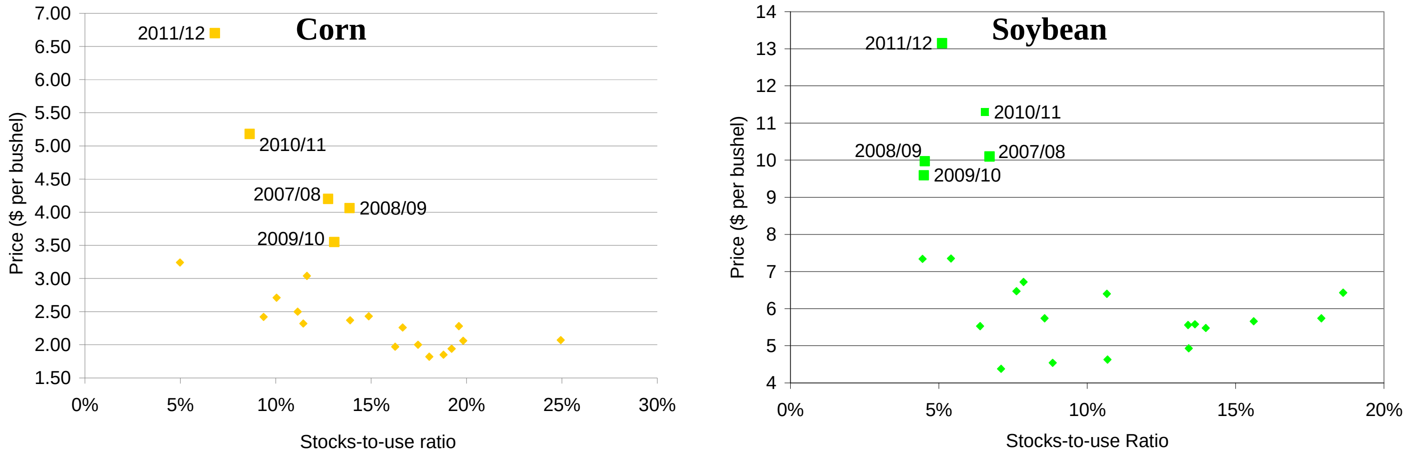
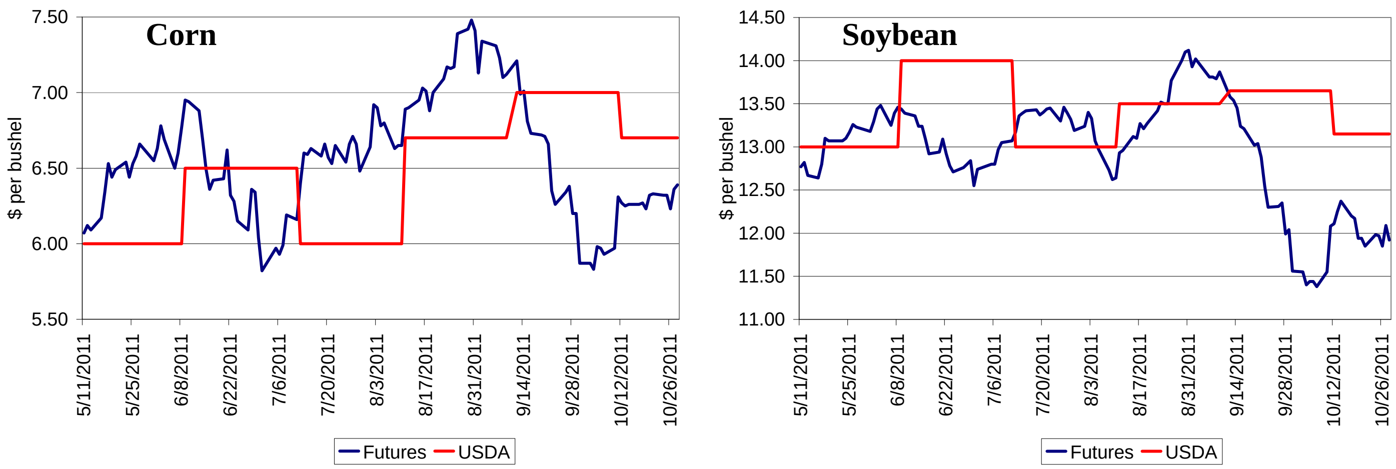


Figure 4 shows that while current prices on the futures markets aren't quite as bullish as USDA's price projection, the outlook is strong. Thinking about 2012, with the sustained high prices for both crops, the acreage competition should be interesting again. Corn looks to have the upper hand in the competition. Futures indicate 2012/13 season-average prices in the $6 range for corn and $12 range for soybeans. Crop input costs are headed up again, repeating the scenario we saw in 2008 and 2009. With the prevented planting we saw last spring in the Dakotas and the eastern Corn Belt, we could see another sizable shift of land into corn production. Both corn and soybeans continue to offer significant positive returns. And corn is holding a roughly $150 per acre advantage on soybeans, about the same advantage as it had this time last year.

Figure 4. Projected 2011/12 Season-average Prices



As they stand right now, the 2011 and 2012 crop years look to be profitable ones for Iowa corn and soybeans. That would make it three profitable years in a row. As I wrote last year "With cash prices above $5 per bushel for corn and $11 per bushel for soybeans, there are strong marketing opportunities currently. And futures are showing strong marketing opportunities for both crops in the future as well." That picture still holds. So as you prepare for 2012, analyze your production costs and take advantage of marketing opportunities that cover those costs and offer additional returns.

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