IOWA STATE UNIVERSITY
Extension and Outreach

Iowa Farm Outlook

Department of Economics
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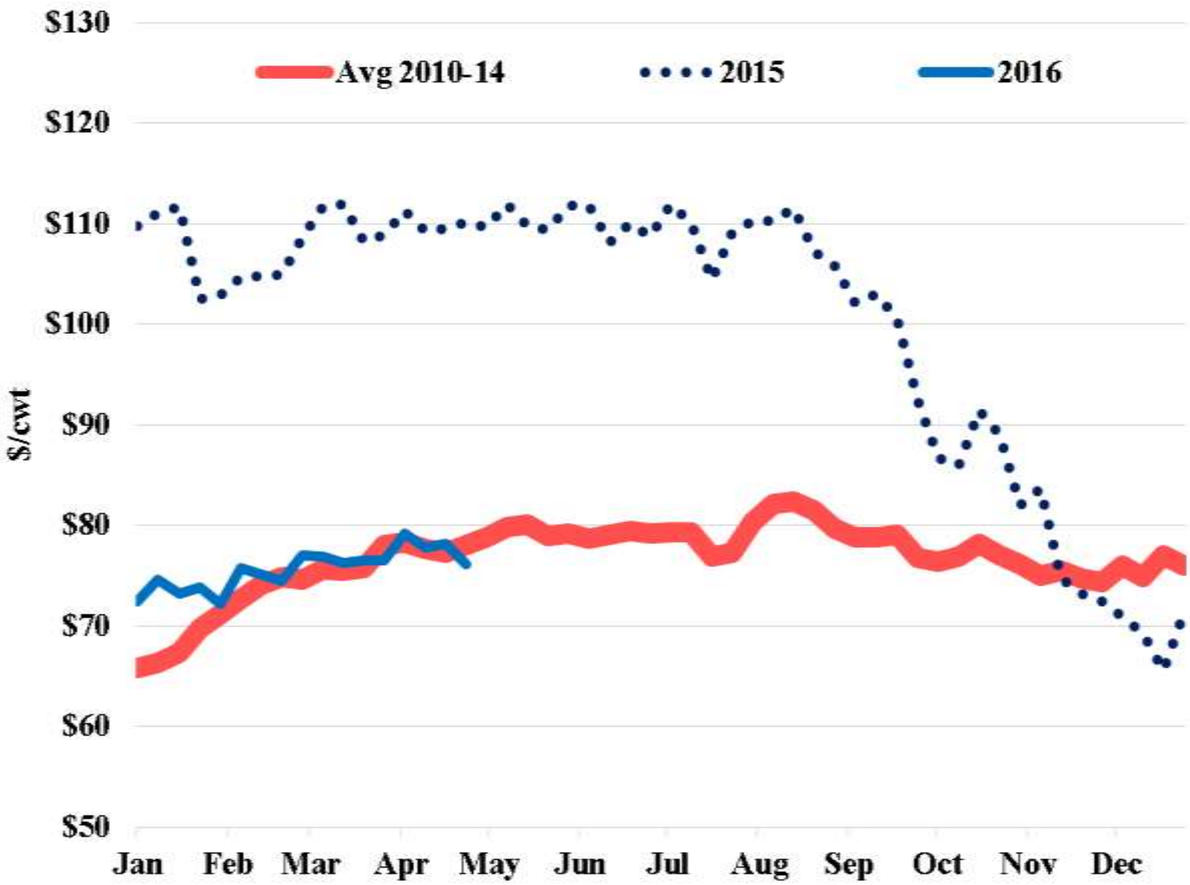
Cull Cow Price Rally Not Likely

An old market maxim says, "Sell your cows the first day of baseball season." The reason is slaughter cow prices typically advance about 15% from November lows to a May peak.

That seasonal rally is falling short this year.

November 2015 South Dakota slaughter cow (boning) prices averaged $76.03 per cwt (figure 1). The average slipped to $75.60 per cwt in February, reversing the typical seasonal rise of nearly 7% over November. March prices averaged $76.53 per cwt, again well below the average seasonal rise of nearly 9% over November. April's average was about $77.82 per cwt.

Figure 1. Slaughter Cow Prices, South Dakota, Boning, Weekly



South Dakota's cow herd is almost twice the size of Iowa's so USDA's Agricultural Marketing Service finds more data on cow prices there than in Iowa. Similar patterns likely hold in Iowa.

Second-half 2015 cow prices slipped dramatically. The 2015 annual average slaughter cow price in South Dakota was $100.09 per cwt. But prices since September onward have all been below seasonal levels. November's $76.03 per cwt was not the seasonal low for the year. It came in December at $69.88 per cwt. Prices those two months ran some $25 to $30 per cwt below the annual average price.

No seasonal slaughter cow price surge is likely in May. Cow prices may stay in the upper $70s per cwt through the normal May peak before dropping moderately this summer.

Cull cow supply is not pressuring prices. Total cow slaughter is unchanged from a year ago, with dairy cow slaughter down about 1% and beef cow slaughter up about 2%. Still, several other fundamental factors are combining to pressure slaughter cow prices. First quarter 2016 total beef production was up 5%, with commercial slaughter up 3% and weights up 2%. Herd expansion is likely to slow, dimming producer interest in buying the "best" cows others are culling. Plus plenty pork is available for consumers.

Slaughter cow prices, like many agricultural commodities, will depend on spring and summer weather and moisture conditions. Favorable range and pasture conditions could reduce beef cow slaughter and lift prices. But persistent price weakness thus far, makes a counter-seasonal rally into summer unlikely.

Boneless beef imports and by-product values seemingly impacting slaughter cow values.

Trends in cold storage stocks may provide clues to changing short-term supply and demand conditions. Generally, rising cold storage stocks are not constructive for prices. Stocks can build due to rising supply, soft demand or surging imports. At the end of January, cold storage stocks of beef cuts were up 5.3% from a year earlier. Boneless product was up 7.0%. Total beef tonnage in cold storage reached the highest monthly total since November 2006. The market is still working through this supply.

Data through March show 0.8% more beef in cold storage compared to the first three months of 2015. Beef cuts are down 7.0%. But boneless beef, up 1.5% year on year, accounts for all of the 0.8% increase and constitutes 92% of the total beef in cold storage through the end of March.

Most of this boneless beef in cold storage is thought to be imported product (manufacturing beef) from Australia. Several factors attract imports. U.S. beef prices, though slumping, remain relatively high. Our dollar remains strong. Beef imports from all U.S. suppliers were up 14.4% in 2015 over 2014. Australia is our number one supplier. Importantly drought in Australia, which forced cow liquidation, contributed to a sharp 16.2% rise in beef imports from Australia. Total imports and cold storage stocks should start to moderate as January-February 2016 imports from Australia dipped 16.3% from 2015.

Current cow byproduct values are $2.30 per cwt lower than last year's average and almost $6 per cwt lower than the record values in 2014. Export demand, especially to Southeast Asia, is crucial to byproduct values. So the strong U.S. dollar has contributed to the lower byproduct values. The April 22, 2016, report estimated the cow byproduct value at $10.15 per cwt or $111.65 per cow. For the same week last year the value was $13.83 per cwt or $152.13 per cow.

Lee Schulz

The April Crop Rally

The crop markets have provided some welcome news over the past month, especially for soybeans. Crop demands have held fairly firm, while weather problems have arisen in other parts of the world. New crop corn futures have added 20 cents over April, while new crop soybean futures have jumped 90 cents. This rally has provided a decent marketing opportunity, when comparing prices to earlier this spring and probably later this summer. While recent market news has been more positive, the potential for another year of large crops looms over the markets.

Given the relatively mild winter and ample moisture, we started the planting season with some concerns about being able to work the fields and plant in a timely manner. However, as the spring has progressed, planting conditions have been very good and the growing season is off to a good start. Figures 1 and 2 show the planting progress as of May 1st. For both crops, planting is running ahead of usual. Nearly half of the nation's intended corn acres have been planted. For Iowa, over half of the crop has been seeded. And given the jump start on planting, corn emergence is ahead of schedule as well. Looking back over the 30 years, the years most similar to this year for corn are 2005 and 2006. In both of those years, corn planting leaped ahead of schedule and both years ended with above-trendline yields.

Figure 1. Corn planting progress (Source: USDA-NASS).

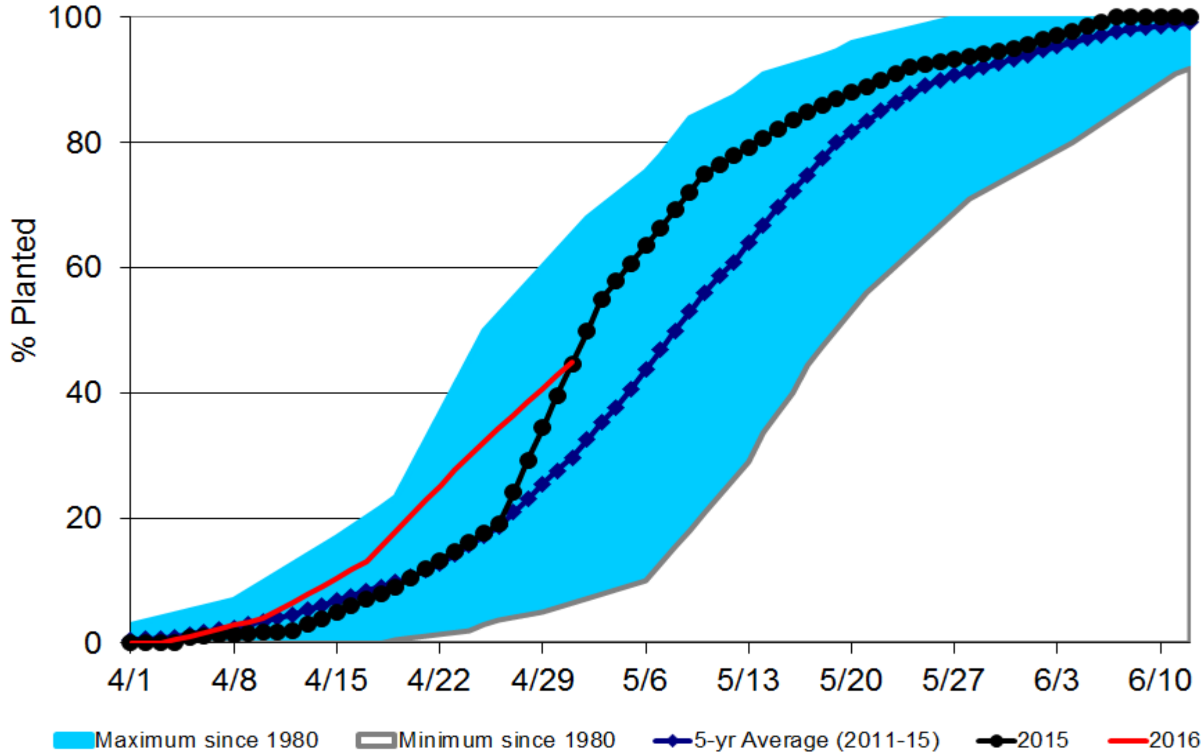
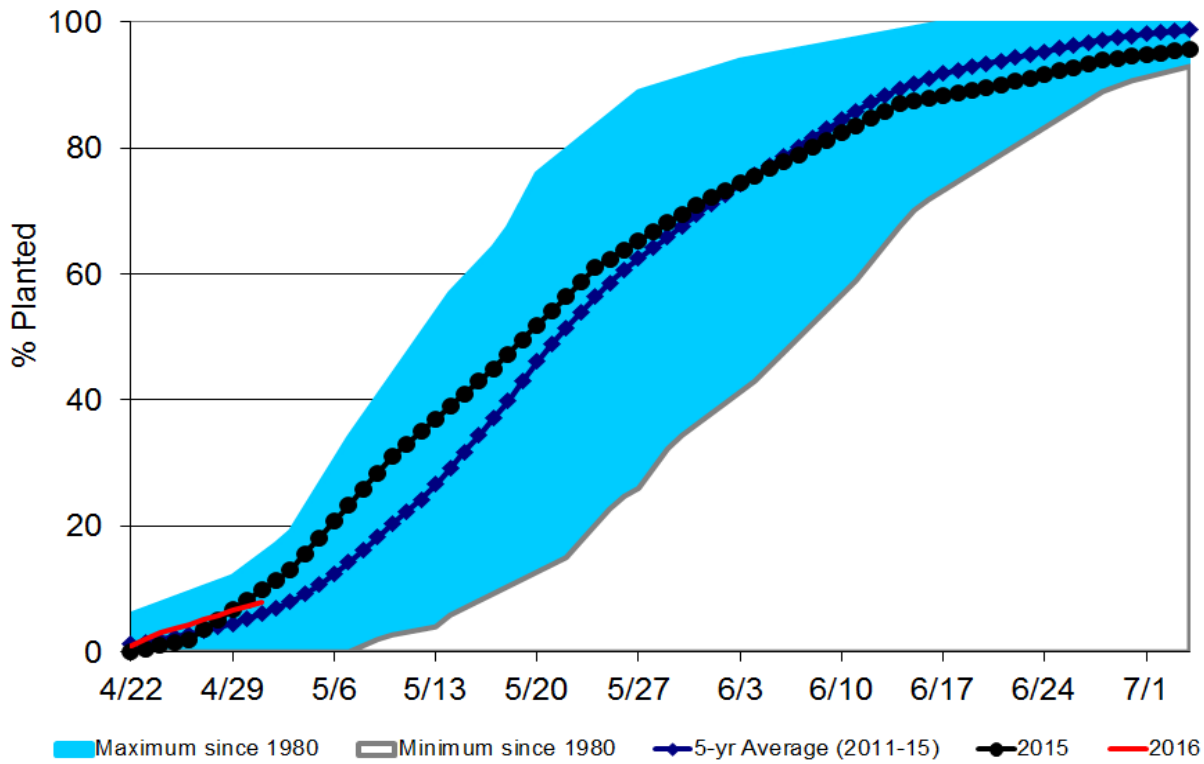


Figure 2. Soybean planting progress (Source: USDA-NASS).

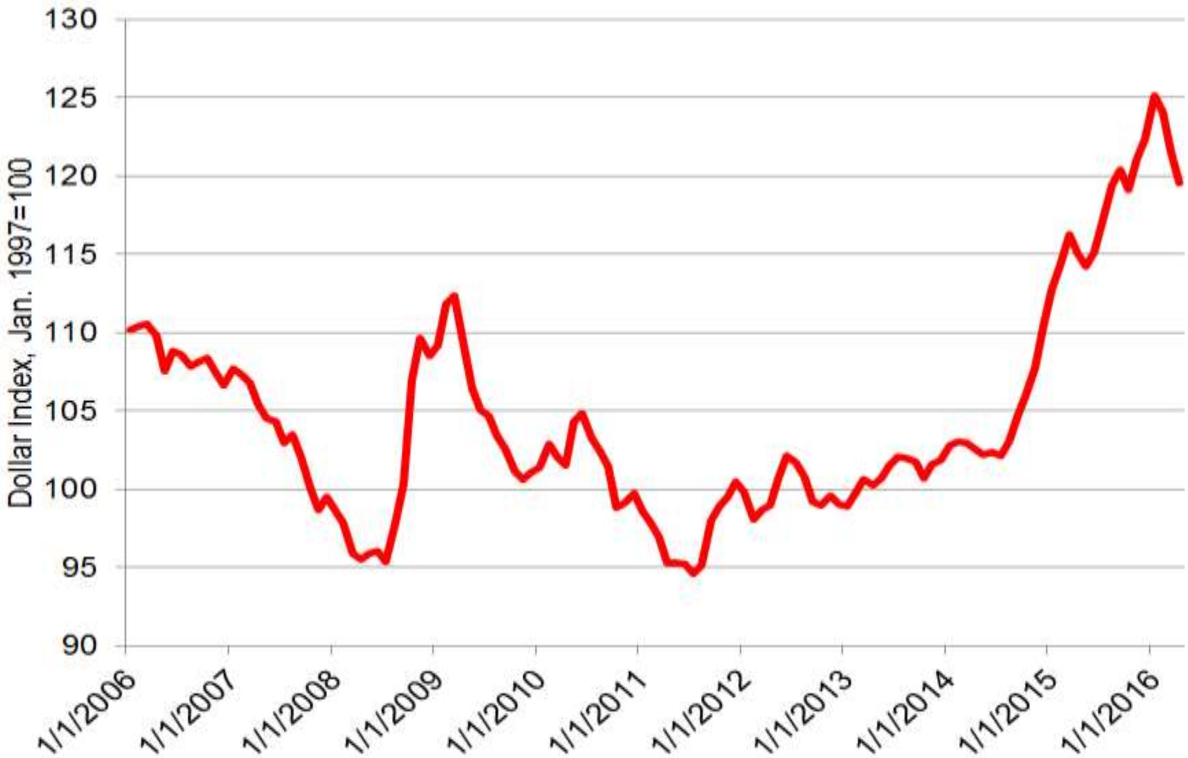


For soybeans, the early start hasn't been quite as dramatic, but the pace should pick up over the next couple of weeks. Eight percent of the nation's soybean acres have been planted. Iowa's percentage stands at 7 percent. Thus far, the closest analog years are 2003 and 2015. The 2003 soybean crop stalled in May and ended with a below-trendline yield, whereas last year's soybean crop resulted in record yields.

So the potential for large supplies this fall is on the upswing. And the pace of planting could bring an end to the price rally. But the markets seemingly have been searching for bullish news. Such news has popped up in a variety of places. The weather conditions in South America have reduced production and slowed the transport and marketing of crops there. Flooding in Argentina has hammered crops there, while sections of Brazil have been drier than usual. The relative lack of crops ready to move out of South America has opened up some markets for additional exports from the U.S. While export sales are still running behind last year's pace, the gap has narrowed. Currently, corn exports are roughly 8 percent behind. Earlier, the gap was in the double digits. Soybean exports have also tightened up, now down only 6.5 percent.

Besides the South American weather problems, another factor that has supported additional U.S. crop exports recently is a drop in the dollar. Following a strong 18-month run, the strength of U.S. dollar has eased over the past month. And the combination of the lower dollar, low U.S. commodity prices, and relatively limited exportable supplies elsewhere provided some timely support for crop demand.

Figure 3. Strength of the U.S. Dollar (Source: Federal Reserve).

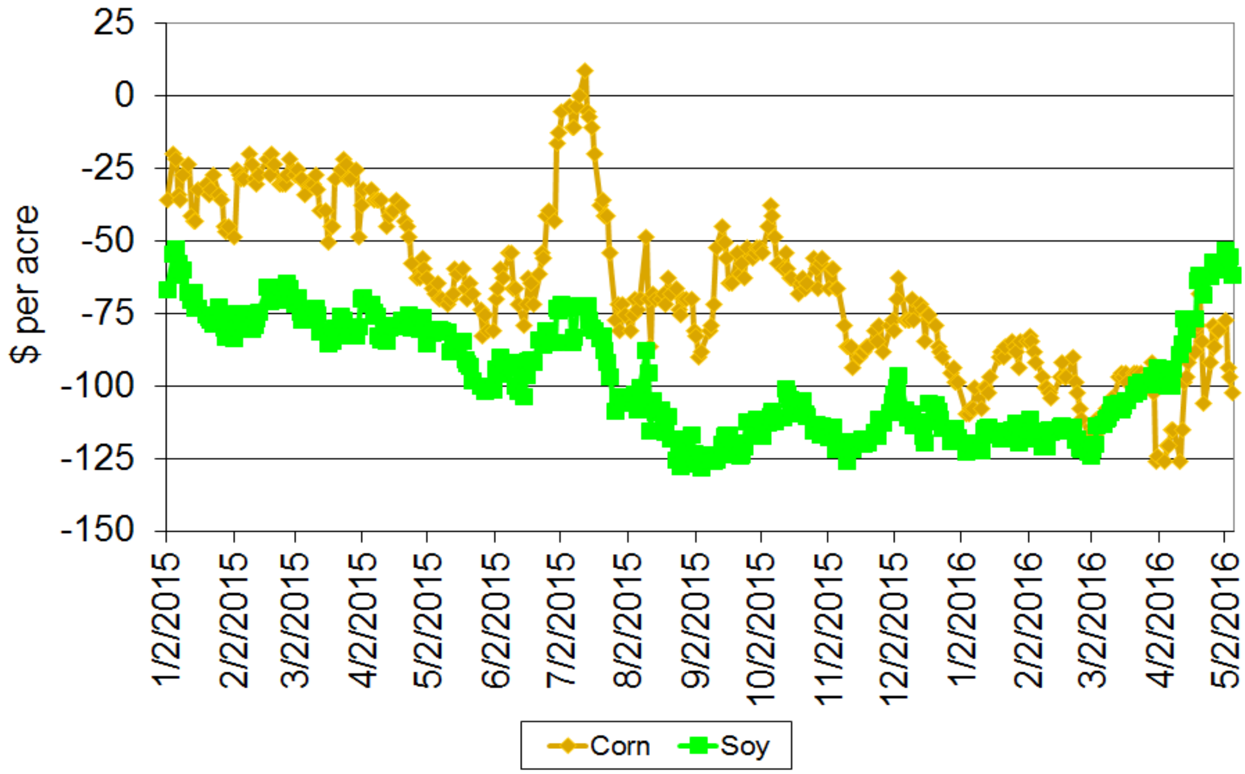


The strength of the export sector has offset the recent slowdown in the ethanol industry. Through the 1st 4 months of the year, corn usage for ethanol was at a record pace. But during the last 4 weeks, there has been roughly a five percent decline in corn usage for fuel. There was a similar pattern for ethanol last year, as corn usage for ethanol dropped in March and April, only to rebound as the summer driving season started.

With livestock expansion still underway, feed demand remains solid. So the aggregate crop demand picture looks good. But demand really hasn't been the problem over the past couple of years. It has been the dominating supplies. And the rapid pace of planting could signal the dominating supply story is likely to continue.

Figure 4 displays the projected crop margins based on crop futures. Corn had the lead earlier this year. But once the Prospective Plantings report was released, the market shifted to favor soybeans. In fact, the projected soybean margins are at their highest level since the beginning of 2015. Both crops are still projected below breakeven. Soybean futures are indicating a final 2016/17 season-average price in the $9.50 per bushel range. Corn futures point to $3.60 per bushel. Compared to USDA's initial projections from the 2016 long-term outlook, both markets are capturing prices above those projections. So if you were waiting for a good marketing opportunity, especially for soybeans, you may not want to wait much longer.

Figure 4. 2016 projected crop margins.



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