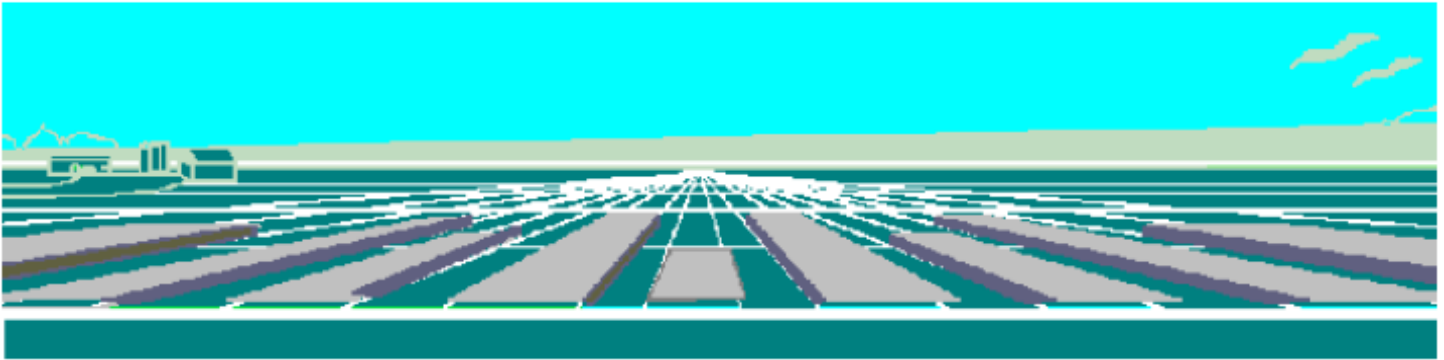


Iowa Farm Outlook



June 1, 2007

Ames, Iowa

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Cattle Market Situation and Outlook

Cattle prices have been stronger than expected given that we ended 2006 with record cattle on feed at record steer carcass weights. Year-to-date to Memorial Day fed cattle prices averaged 9% higher than the year earlier in spite of 1% higher beef production. Higher cattle prices on larger supplies is a indication of stronger demand for cattle. Based on national press coverage of retail beef prices, consumers are beginning to see the higher beef prices as well.

Beef production was up 1%, on 2.4% higher cattle slaughter and 1.4% lower carcass weights. Carcass weights have been lower than 2006 levels since the third week of the year and are expected to remain below year earlier for the remainder of the year. Three factors contributed to this carcass weight decline. First, weights in 2006 were at times record high. Second, the rough winter weather stressed cattle leading to poorer performance and lower weights. Third, higher corn prices will discourage overfeeding of cattle. One factor that has contributed to lower average weights early in 2007, but could change later in the year is the mix of steers, heifers, and cows going to slaughter. Cow slaughter has been higher than 2006 levels, but may decline. With fewer cows in the mix the average will increase.

Cow slaughter through mid-May was up 15% with a similar increase in both dairy and beef cows. While steer slaughter to date is identical to the year before, heifer slaughter increased a modest 0.7%. In 2006, cow slaughter did not begin to increase until April and by mid-year it had increased significantly as ranges and pastures deteriorated. In general, range and pasture conditions are starting this season much better than last year. At the third week of May, 76% of US beef cows were in states with pastures rated as good to excellent compared to 56% in 2006. Likewise, last year 23% of cows were on poor or very poor pastures compared to less than 10% this year. Given the improved range conditions and rebound in feeder cattle prices from last fall ranchers are expected to resume their expansion plans leading to reduced cow and heifer slaughter later in the year.

Five Market 65-80% Choice steer prices averaged \$93.51 through the first 21 weeks of 2007, \$7.60/cwt liveweight higher than the same period in 2006 and on pace for another record high average price for the year. Dressed prices averaged \$150.21. Five consecutive months of lower feedlot placements has reduced the supply of market ready cattle. Blizzards in the Plains this winter has helped to reduce carcass weights and put feedlots into a much stronger bargaining position moving into the summer months. The lower marketings and lighter weights will support fed cattle prices. Choice steer prices are forecast to average in the low \$90s in the third quarter and mid \$90s in October to March with stronger prices forecast for second quarter 2008.

In spite of near record selling prices, feedlots lost money on cattle sold in January and February. Profits returned with March sales and should continue profitable at least into the fall as the purchase price paid for feeder cattle declined for cattle sold during this period.

Feeder cattle prices have rebounded since last fall as fed cattle prices increased and corn prices decreased. Prices for feeder cattle will be sensitive to corn prices, but yearlings are forecast to remain above

\$1/pound for the remainder of the year. Calf prices are expected to be near the first quarter average for most of the year. However, the fourth quarter calf run is expected to trade in the \$110-115 range, near the fourth quarter prices on 2006.

There are a few wild cards that could alter the price forecast. First, consumer demand has been good thus far in 2007, but the higher retail beef prices at a time of higher gas prices could cause consumers to look for a cheaper substitute. Second, is trade issues, both export opportunities expanding in Japan and South Korea and potentially increased imports from Canada depending on when and how an agreement is reached on over 30 month old cattle. Japan is slowly expanding purchases of US beef that is age verified and there are indications that some packers are paying a \$25/head premium on cattle that are eligible for the Japanese market. South Korea continues to be a challenge for beef exports, but packers are beginning to get product into this market. Third, is corn prices tied to weather. Clearly, feeder cattle prices will be sensitive to corn prices, but fed cattle prices could be impacted if feedlots either market at heavier weights on cheaper corn or accelerate marketings on higher priced corn. Barring negative news from these variables, 2007 is looking to be a profitable year for feedlots and cowherds.

Seasonal Price Patterns...

While price levels for cattle have increased from recent years, seasonal price patterns appear to still hold true in most years. The same can be said for hog prices. Early summer is a time of the year when cattle and hogs prices move in opposite directions in most years.

Hog prices move higher on smaller seasonal supplies due to reduced slaughter relating to conception the previous summer and lower carcass weights due to rising temperatures this summer. Cattle prices move lower in early summer on larger supplies due to increased slaughter from the previous year's calf crop and steadily rising carcass weights from May to November.

While biology and weather are significant drivers of seasonal patterns, we watch each year for things that could disrupt these two forces of nature. This year it appears that both hog and cattle prices are following a somewhat normal seasonal pattern.

Hog prices moved higher in May and are expected to level off for the summer with a peak in prices occurring some time between late May and mid August. Over the last 10 years hog prices increased an average of 12% from March to May. In 2007, prices increased 20% during this period and the summer peak may not be in yet.

Fed cattle prices typically have a peak in March or April and this year prices were over \$1/pound live weight in April. In most years, prices decline into June and put in a summer low in July or August. Over the last 10 years this spring high to summer low decline has averaged approximately 6-7% for monthly prices. The high to low weekly price range will be wider. Iowa April prices averaged \$98.50. A 7% decline would put the July or August average price between \$91-92. The basis adjusted August futures is predicting early August prices between \$88-89.

John Lawrence

Crop Progress Report Eases Corn, Soybean Crop Concerns

USDA's May 29 Crop Progress and Condition Report indicates farmers in most areas have almost finished corn planting and are well along on soybeans. Despite the later than normal planting progress earlier this spring, corn plantings have been finished in most of the Midwest slightly ahead of the five-year average pace. Missouri and South Dakota are the main exceptions, although their planting progress now is only very slightly behind the 5-year average, as shown in the tables below. Recent warmer weather has pushed emergence percentages for both corn and soybeans slightly ahead of the 5-year average. These developments and the corn crop condition rating showing 78% of the Major States corn and 80% in Iowa in good to excellent condition are favorable indicators for corn yields this year, provided summer temperatures and rainfall are near the long-term averages. Corn crop condition ratings are shown in a table below.

Factors Contributing to Late-May Price Strength

Despite improving crop prospects, corn and soybean prices at this writing have moved up sharply. The strength appears to be due to (1) some private weather forecasters indicating a blocking pattern might lead to a resumption of dry weather in the eastern Corn Belt, (2) reports that a Chinese soybean buying team in the past two weeks has purchased 70% of what was expected to be its soybean needs for the coming year, (3) the difficult-to-control Chinese stock market that some analysts think may cause the Chinese government to allow its currency to float in world markets or at least be revalued against the dollar, and (4) reports indicating that drought in Ukraine has led to a halt of new-crop grain exports until reserves of 2 million tons (about 80 million bushels) are built up. These developments appear to have encouraged new corn and soybean purchases by commodity fund traders.

The aggressive Chinese purchases indicate its soybean needs may be greater than previously believed. That, would tend to support or increase soybean prices, and could strengthen corn prices as the corn market attempts to draw more acreage from soybeans next spring. Chinese currency adjustments, if they occur, would likely revalue China's currency upward relative to the U.S. dollar. That would encourage Chinese imports and discourage its exports, thus tending to slow economic growth to more manageable levels over time.

Recent wire reports indicate that a leading Chinese stock market indicator has shown triple digit growth in the last year and has gained about 60% this year. The extreme surge in stock prices reportedly is drawing in small investors, some of whom are financing stock purchases with debt, and is causing concern about serious economic problems if the stock bubble should burst. The surge in stocks to some extent reflects the very strong Chinese economy. Continued strength at the current pace would have inflationary implications for China, and very possibly for the rest of the world..

	5/27/07	5/20/07	5/27/06	5-yr. Avg.
CO	96	83	90	93
IL	100	98	99	93
IN	99	94	87	81
IA	98	93	99	98
KS	96	92	98	98
KY	99	96	97	89
MI	93	80	91	82
MN	99	98	97	97
MO	93	87	100	95
NE	98	92	99	98
NC	100	100	100	99
ND	95	86	91	90
OH	100	96	99	85
PA	89	74	88	79
SD	92	76	94	94
TN	100	99	100	98
TX	98	97	99	99
WI	95	89	91	84
18 States	97	92	96	93

	5/27/07	5/20/07	5/27/06	5-yr. Avg.
CO	56	36	66	60
IL	96	88	91	83
IN	87	66	69	65
IA	86	65	89	85
KS	83	63	85	84
KY	94	86	90	82
MI	69	40	64	48
MN	95	82	77	71
MO	79	66	97	88
NE	82	59	89	80
NC	100	96	100	96
ND	72	50	66	61
OH	91	70	86	69
PA	65	34	67	56
SD	67	38	64	56
TN	100	98	95	95
TX	90	79	92	92
WI	80	55	60	47
18 States	85	67	82	75

1/ These states planted 93% of last year's U.S. corn acreage.

Corn Exports: Is Rationing Occurring?

Cumulative U.S. corn export inspections from last September 1 through May 24 were 7% above a year earlier. USDA, in its latest balance sheet, projects total corn exports for this marketing year to be 2.5% above last season. If the current percentage increase over a year earlier is maintained, season total corn exports would be 97 million bushels higher than currently projected and carryover stocks likely would be lower by the same amount. Figure 1 below shows weekly corn export shipments so far this season and a year earlier. For 5 of the last 7 weeks, export shipments have been below a year earlier. The green portion of the 2006-07 line shows needed exports the rest of this marketing year to meet official projections. Weekly corn exports from now through August need to average about 9% less than a year earlier to reach those projections. Sharply increased South American corn exports are anticipated this summer and early fall, due to a recovery of the Argentine crop from last year's drought problems. However, the exact size of this spring's harvest is still uncertain because of extreme rains during the harvest season. New-crop feed wheat and barley from Europe and former Soviet republics also has been expected to compete with corn during the late summer. However, world wheat supplies are expected to remain relatively tight until the Australian crop harvest begins late in the year, especially with the temporary Ukraine halt of exports.

These developments make it uncertain whether U.S. corn exports will decline as much as projected for the summer months. If exports are above the level needed to meet the projections, corn price sensitivity to any widespread weather concerns would be increased.

June 29 USDA Reports will be Key Market Indicators

Domestic corn feeding is still the largest source of demand for the U.S. corn crop. Four times a year, the USDA grain stocks reports provide an assessment of feed demand. The March 1 stocks report indicated that winter quarter corn feed and residual use was about 6.5% less than a year earlier, after a 2.4% decline in the fall quarter. The USDA currently projects feed and residual use from March through August to be down 0.3% from a year earlier. A deviation in indicated feed and residual use 1.5% in either direction from current projections likely would cause some market reaction. "Residual" use reflects handling losses and statistical errors. While feed use indicators are important, the planted acreage report also to be released on June 29 may be even more important.

	5/27/07	5/20/07	5/27/06	5-yr. Avg.
AR	79	52	75	63
IL	91	75	73	66
IN	89	72	55	58
IA	87	61	91	84
KS	45	25	60	56
KY	62	38	48	39
LA	86	80	86	69
MI	67	36	67	56
MN	94	85	82	76
MS	98	94	98	92
MO	55	34	71	57
NE	78	48	90	76
NC	39	25	39	42
ND	79	54	77	70
OH	95	81	82	62
SD	57	26	72	64
TN	73	48	61	46
WI	84	61	68	60
18 States	80	59	75	67

^{1/} These 18 states planted 96% of '06 U.S. soybean acreage

	5/27/07	5/20/07	5/27/06	5-yr. Avg.
AR	56	36	56	48
IL	66	33	35	39
IN	56	24	28	37
IA	47	12	50	42
KS	19	4	24	29
KY	38	10	23	25
LA	78	68	75	57
MI	26	9	33	24
MN	62	26	27	24
MS	93	86	95	87
MO	32	11	40	35
NE	41	9	43	37
NC	22	11	20	24
ND	33	5	27	19
OH	53	31	55	40
SD	18	4	23	15
TN	43	22	34	26
WI	45	16	20	19
18 States	48	21	38	35

Recent reports from Southwestern cattle feeding areas and wheat prices indicate wheat feeding in that area has not yet occurred in significant volumes.

The planted acreage and the stocks reports are based on a large-scale farmer survey. The planted acreage report will indicate whether weather and market conditions caused farmers to deviate from earlier plans to sharply increase corn plantings and to sharply reduce soybean and cotton acreage. A weaker corn market than when the March 1 planting intentions survey was taken and delayed plantings open up the possibility that a few more acres of soybeans and a few less acres of corn were planted than farmers intended on March 1.

Figure 1. Weekly U.S. Corn Export Shipments

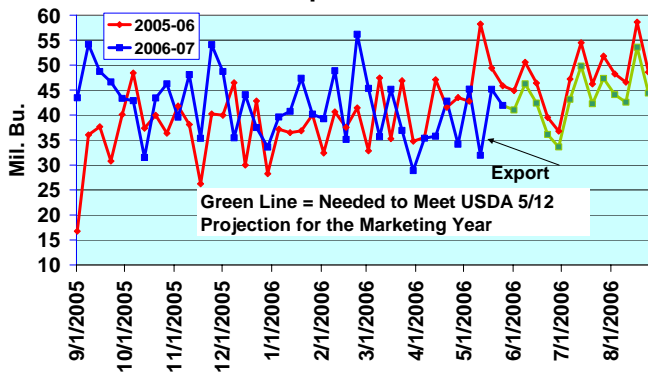
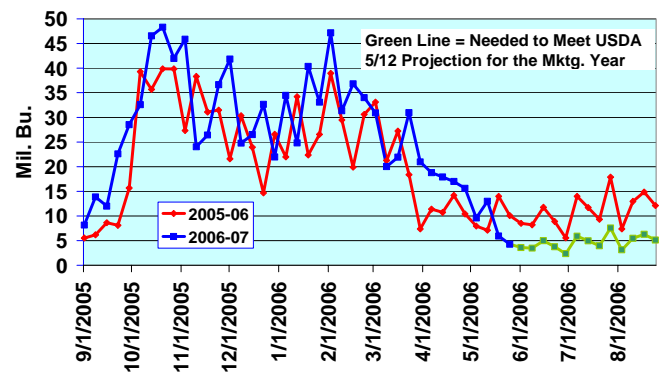


Figure 2. Weekly U.S. Soybean Export Shipments



Soybean Export Update

Figure 2 shows comparisons for soybean exports to date and needed exports through August to meet USDA projections. Cumulative soybean exports from September 1 through May 24 were up 22% from a year earlier, while the season total projected exports are up 14%. To reach the projected marketing year total, average weekly U.S. soybean exports from now through August 31 will need to be down about 57% from a year earlier. If weekly exports for the next several weeks are not down this much, export demand will likely provide additional support for soybean prices.

Robert Wisner

Table 5. Corn Percentage Crop Condition Ratings					
	Very Poor	Poor	Fair	Good	Excellent
CO	0	1	2	84	13
IL	0	2	17	60	21
IN	1	4	22	60	13
IA	0	3	17	59	21
KS	1	5	25	59	10
KY	1	3	23	54	19
MI	0	2	22	51	25
MN	1	2	15	56	26
MO	4	5	29	53	9
NE	0	1	12	68	19
NC	0	8	31	49	12
ND	0	1	15	74	10
OH	1	5	22	57	15
PA	0	1	18	69	12
SD	1	4	15	68	12
TN	1	9	30	48	12
TX	1	4	35	39	21
WI	0	3	14	60	23
18 States	1	3	18	60	18
Prev. wk.	0	2	20	63	15
Yr. Ago	1	4	25	58	12