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STRONG DEMAND FOR SOYBEANS LIKELY THROUGH LATE WINTER

For several weeks, U.S. soybean crushings, as well as exports and sales of soybeans and bean products have been well above those of a year ago. To put these developments in perspective, last year saw strong crusher demand, tying with 1994-95 for the highest crushings ever; and exports were the fourth largest on record. Strong demand is being fueled by three international developments: (1) last spring's reduced Brazilian harvest, (2) reduced world plantings and production of competing oilseeds, and (3) unusually large recent purchases of soybeans and soybean meal by China. Percent changes from last year in exports-to-date, plus outstanding unshipped sales were as follows in USDA's November 29 Export Sales Report:

Soybeans	+25%	Soybean oil	+104%
Soybean meal	+90%	Corn	-29%

The strong bean product sales, plus expanded U.S. broiler production, should maintain strong domestic crushings at least through early spring. Brazil's spring 1996 soybean harvest was an estimated 99 million bushels below that of the previous year. Its soybean industry had exported aggressively until recent weeks, and is running low on supplies. As a result, Brazil has purchased 4.6 million bushels of U.S. soybeans to help keep its processing plants operating this winter, and will be only a limited competitor until its new crop is harvested next spring. Additional Brazilian purchases are possible in the next several weeks.

With continued strong demand likely this winter, there is a high probability that western Corn Belt cash soybean prices will rise 25 to 35¢ per bushel from late November levels into late January or early February. Part of the price strength may come from basis improvement. With widespread South American weather concerns, prices could go much higher because of modest U.S. carryover stocks and limited availability of competing crops including rapeseed, sunflower seed, and cottonseed. In a normal year, combined South American exports of soybeans, meal and oil are larger than those of the U.S. While South American total soybean production is smaller, lower domestic use allows exportation of a higher percent of the crop. That means South America exerts as much influence on the world soybean market as does the United States. Any major weather problems there, such as widespread drought, could dramatically tighten global supplies. So far, plantings are ahead of normal in Brazil and Argentina, with over two-thirds of the crop planted. Soil moisture appears to be about normal.

Foreign Oilseed Supplies Tighten...

It is important to remember that U.S. soybeans compete in a global market for oils and protein meal, not just in a soybean market. These products are produced from approximately a dozen competing oilseeds, along with fish meal and oil, and animal fats and oils. *It is estimated the U.S. will account for 29% of world production of major oilseeds this year. Supplies of competing oilseeds are down from last year, and are contributing to strong U.S. exports and domestic crushings.*

Global and foreign supplies of oilseeds for the 1996-97 marketing year are estimated to be down 105 million bushels (soybean equivalent) or 2%, and 202 million bushels, respectively, from last year. The declines reflect major shifts from oilseeds to grain production in Canada and Europe, and disappointing weather in several other areas, including China. These projections are based on normal weather this winter and early spring in South America. Adverse weather there could further tighten supplies. Seasonally, foreign supplies will be tightest from now through late April because Brazil's spring 1996 soybean harvest

(based on USDA estimates) was 99 million bushels below that of 1995. Supply tightness should ease somewhat in late spring as new-crop South American supplies of soybeans and sunflowerseed move aggressively into world markets.

	1995-96	1996-97	% Change
European Union	31.1	5.6	-82
Other W. Europe	2.0	3.0	+50
East Europe	0	13.1	N.A.
Former Soviet Union	0.4	3.4	+724
Japan	368.0	296.9	-19
China	88.2	0	-100
Korea	193.8	126.4	-35
Taiwan	106.6	90.5	-15
Other Asia & Oceania	102.9	62.5	-39
Africa	81.5	61.7	-24
Mexico	60.1	53.6	-11
Other W. Hemisphere	87.4	119.4	+37
Unknown Destinations	134.7	55.2	-59
Total	1,256.7	891.3	-291

Tight supplies led Brazil to purchase about five million bushels of U.S. soybeans through November 21 compared to no purchases last season. In addition, ***China has bought 44 million bushels of U.S. soybeans vs. only five million last year at this time. Tight Chinese oilseed supplies and growing livestock and poultry production are also factors behind China's purchases of 421,200 metric tons of U.S. soybean meal so far this marketing year.*** Last year China exported a small amount of soybean meal. Its smaller oilseed crop is a factor behind its purchases of 142 percent more U.S. soybean oil than last year at this time.

USDA's Foreign Agricultural Service projects that Brazil's 1997 soybean harvest will be 12 percent or 103 million bushels above 1996, along with a 13 million bushel increase in Argentina. However, Brazil's carryover stocks are expected to be down, resulting in a net increase in its local 1997-98 marketing year supplies of a more modest 51 million bushels. That's enough to noticeably slow U.S. exports of soybeans and bean products from mid-June onward. USDA projections assume normal weather during South America's growing and harvesting season.

Table 1 shows a broad-based decline in U.S. corn exports and outstanding sales, with nearly one-fourth on the marketing year behind us. Exports to the big three corn markets (Japan, Korea, and Taiwan), all located in the Pacific Rim, are sharply below those of last year. Because of increased feed grain production, China has not purchased U.S. corn this marketing year. Positive areas in the corn export picture include the Latin

American countries of Salvador, Venezuela, Panama, Nicaragua, Guatemala, Dominican Republic, and Columbia.

A key question in the corn price outlook is how much recovery in exports will occur between now and summer. Weekly exports the past three weeks have moved above the strong year-ago pace. That reflects foreign inventories that were built up last summer to protect against shortages and/or a U.S. embargo, and then reduced to minimal levels this fall. Weekly shipments appear likely to remain strong for several weeks as pipeline supplies are replenished.

To continue the strong export pace into spring, large additional sales will be needed. USDA's weekly export sales report (released on Thursdays) will be an important market indicator to watch. The European Union is subsidizing barley exports at about 75¢ per bushel, and low-priced feed wheat and barley are available from Canada. New-crop Australian barley will soon be available, and its grain sorghum harvest will be underway by early spring. These supplies are modestly above those of a year ago.

The latest Cattle on Feed Report, with feedlot numbers one percent above those of a year ago, is mildly supportive to corn demand. However, increases were mostly in the central and southern Great Plains where sorghum is very competitive as an alternative feed. The U.S. grain sorghum crop is estimated to be 78 percent larger than last year's crop.

Winter price trends will be influenced by export sales, as well as farmer marketing patterns. Farmers appear likely to remain limited sellers of corn until late winter, although marketings may increase briefly right after the first of the year. ***Export sales should increase modestly, allowing western Corn Belt cash prices to rise 8 to 12¢ from the end of November into late January or mid-February.*** Part of the increase is likely to come from a stronger basis. Additional price strength would be possible with serious weather problems in South Africa or South America. ***Temporary weakness in prices in late February and early March is possible, with another period of modest price strength likely from late March into mid-May.***

...Robert Wisner

WEAKER CATTLE PRICES AHEAD

After peaking near \$73 in mid-November, fed cattle prices are trending downward. Beef supplies are expected to increase in the weeks ahead, pressuring prices. In addition to larger supplies of fed cattle, cow slaughter continues to run well above year-earlier levels as beef producers liquidate their beef breeding herd.

Feedlot returns have been positive since early fall and are expected to be good throughout most of 1997. Lower feeder cattle prices through the summer and fall, and moderate corn prices paint a favorable cattle feeding outlook. However, prices may fall below projected breakevens for cattle marketed from late December through February.

Cattle placements into feedlots have posted year-to-year increases since July. August placements in particular were up 19 percent from those of 1995. Figure 1 shows the number of placements by placement weight for each month since July. Cattle weighing over 700 pounds will gain over 100 pounds a month. The large number of September 800+ pound cattle and August 700-799 pound cattle will begin to come to slaughter in December. The large number of 700-799 pound cattle placed in September will combine with the 800+ pound cattle placed in October and affect supplies after the first of the year.

Feedlots are marketing cattle aggressively as is reflected in lighter slaughter weights than a year ago. They are also feeding the cattle fewer days in an effort to pull cattle ahead of the potential marketing problems after the first of the year. This short-feeding has resulted in a shortage of Choice grade cattle relative to Select grade. The Choice - Select spread widened to \$22/cwt in the meat as the market tries to encourage feedlots to feed cattle more days.

The aggressive marketings and lighter weights have reduced the overall supply of beef and are supportive of prices. Continued lighter marketing weights could keep prices this winter from falling below the mid-\$60s. However, current conditions suggest that fed cattle prices could average in the mid-\$60s and spend some time in the low-\$60s.

October feedlot placements were up 11 percent with a larger number of cattle weighing under 600 pounds placed. One caution is that the USDA report includes only feedlots with 1,000+ capacity. While farmer-feeders in Iowa placed fewer cattle than normal last year, falling corn prices and projected profits may have generated renewed interest in cattle feeding. Projected breakevens for calves placed this fall for May - June marketings have been in the mid-\$50s and have provided the potential to hedge returns over variable cost in excess of \$100 per head. Cattle fed in smaller feedlots will only show up in the USDA report in January and could surprise the market next spring.

Beef breeding herd liquidation continues. Beef cow slaughter in October was 24 percent higher than a year ago. January through October beef cow slaughter was 26 higher or 699,000 head more than last year. Year-to-date heifer slaughter is also higher by 264,000 head, as is calf slaughter (up nearly 300,000 head). See Figure 2.

The USDA estimated a one percent smaller calf crop in 1996, a figure which may be revised downward given the rate of cow herd liquidation. Drought conditions in Texas and Oklahoma in late 1995 and earlier this year sent many cows to slaughter including some bred cows. Some reports indicated that cows that were kept may have conception problems, also reducing the number of live calves born.

In addition to a smaller 1996 calf crop, feeder cattle imports from Mexico were one million head lower through the first eight months of this year compared to 1995. That suggests a million head of cattle that will not come to slaughter in the first part of 1997.

Profitable cattle feeding opportunities exist for this winter. Producers should still use caution when buying feeder cattle. Some type of price protection is also warranted, but market conditions favor using a put option rather than a straight hedge. There is upside potential in the market for 1997, but also a considerable amount of risk, given the large cow and heifer slaughter.

Opportunities also exist for beef cow herds to retain heifers and possibly bred heifers and cows this winter. Heifer calves retained this winter will make relatively inexpensive cows that will calve in 1998. Bred cows and heifers this winter may be profitable investments, but their 1997 calf may not sell at a profit. Homework is still needed before investing in the breeding herd, but investments at this point of the cattle cycle have a higher probability of making a profit than those made when cow prices are high.

...John Lawrence

... and justice for all

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