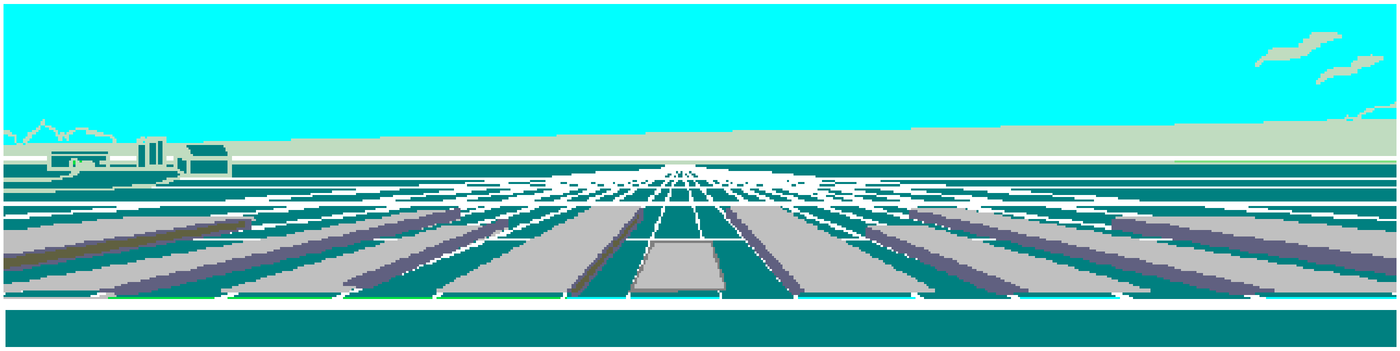


March 15, 2002 Ames, Iowa Econ. Info. 1834

GRAIN MARKETS AWAIT NEWS FROM CHINA ON GMOS; USDA PLANTING INTENTIONS REPORT

USDA's March 29 crop planting intentions and grain stocks reports will be major influences on the direction of corn and soybean prices in the next few months. Actual plantings may deviate from the intentions because of possible government program changes, weather, market price trends, and input costs. ***Another major price influence will be the results from a soon-to-be-implemented zero tolerance GMO labeling program for food in China. Imports of grain into China have come to a halt ahead of the March 20 date at which the new regulations go into effect.*** China reportedly has agreed to shift the certification process for this program to a 30-day procedure, vs. the 270 days initially indicated. Current thinking in the grain trade is that China will resume soybean (and possibly corn) purchases again in late April. Its processors appear to be adequately supplied for the next month. Meanwhile, China reportedly is continuing to sell corn for export. Many in the trade and USDA have expected its exports to cease with the WTO-mandated elimination of export subsidies. However, a number of policy alternative ways to meet WTO requirements are open to China that would shift the subsidies from foreign buyers to producers, or possibly to domestic transportation firms. The U.S. followed this pattern when it eliminated its Export Enhancement Program and shifted subsidies directly to farmers through the LDP system and other direct payments.

In the last two weeks, July and November soybean futures prices have shown more strength than corn despite USDA's 36.8 million bushel upward revision in Brazil's spring 2002 soybean harvest and a slowing of soybean export sales. Closing July soybean futures from February 26 to March 12 gained 23 cents per bushel, with November 2002 up 21.5 cents. Changes for the July and December corn contracts were 5.25 and 3.75 cents, respectively. These changing soybean/corn price relationships could have marginal impacts on farmers' corn/soybean acreage plans this spring, although spring weather will likely be the major factor determining the relative plantings of the two crops. Along with strength in soybean prices, prices for natural gas, gasoline, and diesel fuel also rose sharply. ***Natural gas prices have risen by 50% on nearby futures in the last few weeks.*** The strength in energy prices also may affect planting decisions of farmers in the southern Great Plains, where irrigation costs are a major consideration in cropping plans. Natural gas is a common fuel for irrigation in that area. USDA's early March planting intentions survey may not fully reflect the impact of these developments on planted acreage.

Earlier indications were that farmers in the mid-South would shift some land from cotton to corn and soybeans due to a severely depressed cotton market. A significant part of last year's 0.5 million-acre decline in Texas corn plantings was expected to revert back to corn this year. Actual plantings in this region also may be influenced somewhat by the new farm bill if it is finalized in time for 2002 crop plantings—due to impacts of payment limitations. However, it appears very unlikely now that the new legislation will go into effect for the 2002 crops. In the Corn Belt, it appeared that much of last year's prevented plantings acreage would be used for corn.

Loan Rates and Payments in New Farm Legislation

One set of differences to be reconciled by the House-Senate Conference Committee is commodity loan rates, as shown in the table below, as well as the various fixed and counter-cyclical payments from the two bills. Terminology on the counter-cyclical payments varies somewhat, but the concepts are similar. If the higher of prices or the loan rate plus elected other payments fall below an established level, a counter-cyclical payment is made on program bushels. The Senate version would allow farmers to update both the payment base acres and yield, while the House version would allow the base acres to be updated but not yield.

	Loan Rates/Bu, New Farm Bills			Direct Payment/Bu & Counter Cyclical* Price, New Farm Bills			
				House		Senate	
	House	Senate	1996 Act	Fixed	CC*	Fixed	CC
Corn	$1.89	$2.08	$1.89	$0.30	$2.78	$.27 - .068	$2.35
Soybeans	4.92	5.20	5.26	.42	5.86	.55 - 1.38	5.75
Wheat	2.58	3.00	2.58	.53	4.04	.45 - 0.113	3.45
Sorghum	1.89	2.08	1.71				
Up. Cotton (/lb)	.519	.55	.5192				

*Countercyclical payment determines deficiency payment on program production. Senate fixed payment front loaded; declines to 2006

The ratio of soybean loan rates to those of other crops and comparisons with the current loan rates is shown below. Adding uncertainty to prospective plantings is the fact that the Secretary of Agriculture, under existing legislation, could lower the U.S. average soybean loan rate from its present $5.26 per bushel to $4.92. Even without passage of the new farm legislation, that could reinforce earlier indications that farmers may plant more corn and about the same amount of soybeans this year as last.

Soybean/Corn Loan Rate Ratio

- **1996 Farm Legislation: 2.78**
- **House bill 2.60**
- **Senate bill 2.50**
- **(Impact on SB plantings?)**

Soybean direct payments

- **Current: $0.14/bu**
- **House: 0.42**
- **Senate: 0.55 to 0.136 (Avg. $0.33)**

In the Dakotas, soybeans yield about the same as wheat, with similar costs of production. Even with a $4.92 U.S. loan rate and a $2.58 to $3.00 wheat loan rate, soybean acreage appears likely to trend upward in that region. With some expansion in southern bean acreage, and steady to slightly lower plantings in the Midwest, U.S. acreage may be up a little from last year.

Updated Balance Sheets

In response to USDA's increases in foreign feed grain production estimates and projections, we have slightly reduced our corn export projections from last month but continue to show an expected increase in exports for the coming year. For soybeans, our export projections are up slightly from last month, based on continued strong export performance. To meet these projections, additional soybean sales to China this spring and summer will be needed. There are reasons for cautious optimism that its new GMO labeling requirements will allow soybean shipments to China to resume in a few weeks. Last season, China represented nearly one-fourth of the U.S. soybean export market. Our updated balance sheets are shown at http://www.econ.iastate.edu/faculty/wisner/.

Changes in USDA March 8 World Crop Estimates, Positive & Negative

While USDA's changes were not great, they were significant and a slight tempering influence on potential price strength in the next few weeks. USDA raised its forecast of Brazil's spring 2002 soybean harvest to a record 43.5 million tons (1,600 million bushels), up 11.5 % from last year and up 64% from 5 years ago. Argentina's soybean forecast was unchanged from last month, but up 4.5 % from last year. The Argentine forecast, if it materializes, will be up 157% from 5 years earlier.

USDA also increased foreign feed grain estimates and forecasts about 214 million bushels. ***Its estimate of China's 2001 feed grain harvest was raised 2.25 million tons (89 million bushels) from last month, and is 3.9 % or 176 million bushels above that of last year. USDA now estimates that China will be a modest net exporter of feed grains.*** Earlier projections indicated it would be a net importer. USDA's forecast of Argentina's spring 2002 corn crop was increased 0.5 million metric tons (20 million bushels from last month), ***but is still 160 million bushels below last year's crop. Its***

projection of Argentine corn exports for the up-coming marketing year is 150 million bushels below last season. If the crop is near current indications, Argentina will be a much weaker corn competitor in corn markets in the year ahead.

The USDA also raised Mexico's estimated 2001 corn production by 1 million tons (approximately 40 million bushels). Its crop is now estimated to be up 80 million bushels or 8% from the previous year. The higher production estimate helps explain why Mexico's imports of U.S. corn are sharply below those of last year.

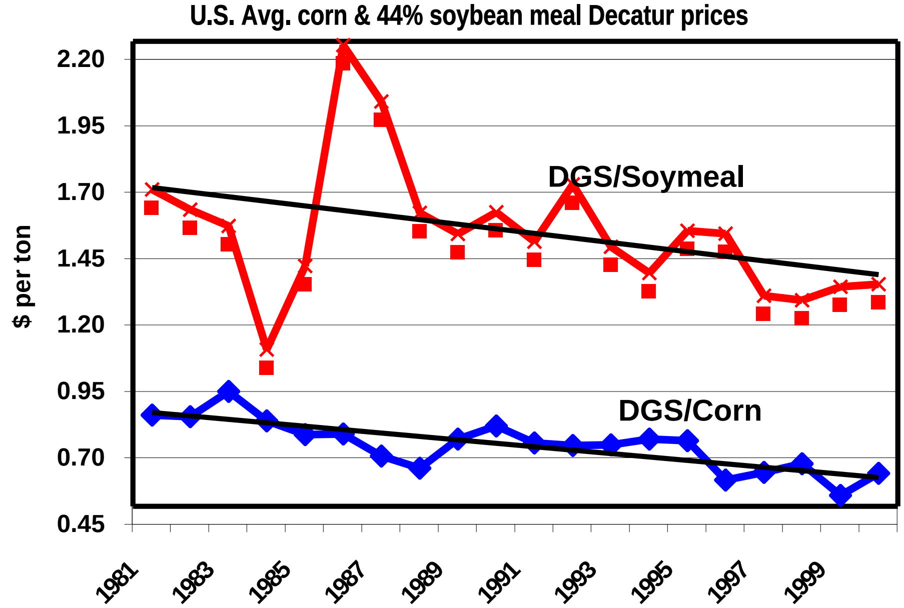
In its March 11 report, USDA Foreign Agriculture Service estimated the total Latin American corn crop for this marketing year ***would be 343 million bushels less than that of last year.*** That includes Mexico's corn crop harvested in 2001 and the crops to be harvested in Brazil, Argentina, and a few small producers in the region this spring. Brazil's corn crop is forecast to be 217 million bushels below that of last year when large acreage and high yields allowed it to export about 240 million bushels (according to trade sources). This year, USDA forecasts Brazil's corn production will allow only about 40 million bushels to be exported, ***a decline of about 200 million bushels from last year's exports. Thus, combined Brazilian and Argentine corn exports are projected to be about 350 million bushels below those of last year.*** Exports from these two countries usually run from June through the end of the year. ***A sharp drop in South American corn exports should be a significant positive influence on U.S. corn exports this summer and fall. Also, the former Soviet Republics had unusually favorable weather last year, which produced an exportable grain surplus of nearly 600 million bushels.*** Most of the exports from these countries is feed wheat and barley, both of which substitute for corn. For the coming year, the odds of two years back to back with such exceptionally favorable weather appear to be quite small. Thus, it would not be surprising to see less competition from the former Soviet Union in the coming year. Reduced production in these countries may be partially offset by improved weather and crop production in Canada and China. ***Currently, the grain trade appears to be heavily discounting these projections of reduced grain exports from important competitors in the corn export market.***

More on Ethanol and Distillers Grains

The new ethanol plants expected to come into production in the next year will have a capacity to process about 164 million bushels of corn, slightly more than we indicated last month. Starch from the corn, which accounts for about 70% of a kernel's weight, will be converted to ethanol, mostly in dry milling plants. The remaining by-product feed, distillers grain and solubles (DGS) contain oil, fiber, and protein. Its protein content is in the 22 to 26 percent range, so it can replace some soybean meal or other protein ingredients. The air-dry weight of this material is about 18.6 pounds per bushel of corn processed. Its nutritional composition is considerably different than corn.

ISU's Dr. John Lawrence, (Director of the ISU Beef Center) indicates that when the byproduct feed from each bushel of corn processed is fed to beef cattle, an additional bushel of corn is needed to balance the ration. Impacts on total corn consumption are the net effect of a higher percentage of corn in the ration and changes in total feed required to bring the animal to marketable weight. The upward trend in feeding of corn milling products has been in place for many years, but will be accelerating somewhat in the year ahead. Early indications are that DGS feeding should not be expected to bring a sharp reduction in corn feeding from current levels, but, along with reduced numbers of cattle in feedlots, may slightly reduce total 2002-03 corn feeding from the level that would otherwise exist.

Marketing Year Avg. Price Ratio of Distillers Grain & Solubles vs. U.S. Avg. corn & 44% soybean meal Decatur prices



Exports and Outstanding Unshipped Sales

USDA's March 14 export sales report reflects recent cancellations of sales to China and unknown destinations. It shows a gradual decline in year-to-year percentage gains for soybeans and soybean meal, with corn exports and sales moving up closer to those of a year ago. In the months ahead, beans may move down toward last season's level, while corn may move up to or a little above that of last season this summer. A summary of total shipments to date and outstanding unshipped sales is shown below. Note that while U.S. corn exports and sales to Japan and Mexico are well below those of last year, the totals for grain sorghum are up sharply. Trade sources indicate this, at least in part, reflects GMO concerns. Sorghum is a non-GMO crop. Major competing feeds in Korea that are displacing U.S. corn include non-GMO corn from China, and feed wheat from the former Soviet Union and India, which of course are non-GMO.

Export Sales & Shipments, 9/01 to 3/07/02, percent change versus a year earlier

Corn (*-5 Japan, -28 Korea, -10 Taiwan, -19 Mexico*)	-2.6	Soybeans	+4
		Soybean Meal	+25
Sorghum (*+35 to Japan*)	+19	Soybean Oil	+92

Robert Wisner

CATTLE MARKET SITUATION AND OUTLOOK, MARCH 2002

The fed cattle market has showed some improvement from the dismal fall we had, but continues to struggle against many of the same forces that pressured it in late 2001. The bottom line is that supply and demand still work and that for the time being, they are stacked against the fed cattle market; however, there are signs that these conditions are shifting.

Supply

Cattle on feed inventories have declined from their record levels of November and are 2 percent lower than March 1 of a year ago. This is the fourth month of lower inventories and is the first time in six months that placements showed a year-over-year increase. While marketings are expected to decline in the March and April, expect a seasonal increase in May and beyond.

Figure 1 shows projected marketings based on placement month and weight, assuming cattle gain 100 pounds a month. Notice that actual marketings were less than projected in November, December, and February, consistent with marketing backlog we experienced through the fall. Also note that May and June marketing are projected to exceed last year's levels. These projections are driven by large placements of 700+ weight cattle in January and February. The industry must continue to market aggressively to get weights back in check and prepare for the summer marketings and, according to the chart, March may provide an opportunity to catch up.

Beef production since the first of the year is up 4.8 percent from the same period in 2001. Steer and heifer slaughter were 2.1 and 2.4 percent higher, respectively, than the year before, and milk cow and beef cow slaughter were 9.2 and 0.8 percent lower, respectively, than the same period in 2001. Seasonally, weekly slaughter is expected to decline into late April before increasing to higher levels in June – July.

The other part of supply is carcass weight, which remains large. Steer carcasses in late February averaged 34 pounds or 4.4 percent heavier than the same week the year before. Carcass weights decline seasonally until late May, then increase into late fall.

Based on declining slaughter and weight, one would expect prices to stabilize or improve into late April. We typically have our highest prices of the year before May 15 and often in mid-April. Longer term, the reduced placements should support summer prices resulting in a less than normal decline from the spring high to a summer or fall low.

Poultry supplies are 4 percent higher thus far in 2002. Pork supplies are projected to increase through the summer and fall. Based on current information, pork supplies could rival 1998 levels, and there is a 1-in-6 chance of live hog prices in the mid-upper $20s. Prices at these levels will impact the beef market.

Demand

One of the biggest stories in the cattle market since 1998 has been demand and its continued improvement. Even 4th quarter 2001 showed an overall improvement in spite of the weakened U.S. economy, according to the Demand Index compiled by the Research Institute for Livestock Pricing. The fourth quarter demand index may overstate conditions somewhat as it relies on retail grocery store beef prices, and does not reflect restaurant trade that was hurt by the weak economy and reduced travel. The economy is showing sign of improving and demand should strengthen with it.

Another demand area that suffered in the fourth quarter was export sales to Japan because of BSE in Japan. However, that may change. Beginning March 15, the U.S. Meat Export Federation (USMEF) will launch an ad campaign promoting U.S. beef in Japan. The campaign will include print ads that will appear in newspapers, popular women's magazines, and television commercials that will run on 2 national networks and 5 cable networks through September 2002. The ads are part of a $8.3 million consumer campaign intended to improve U.S. beef demand in Japan. While most agree that it may take years to rebuild Japanese beef demand to its earlier level, this ad campaign may provide a jump-start.

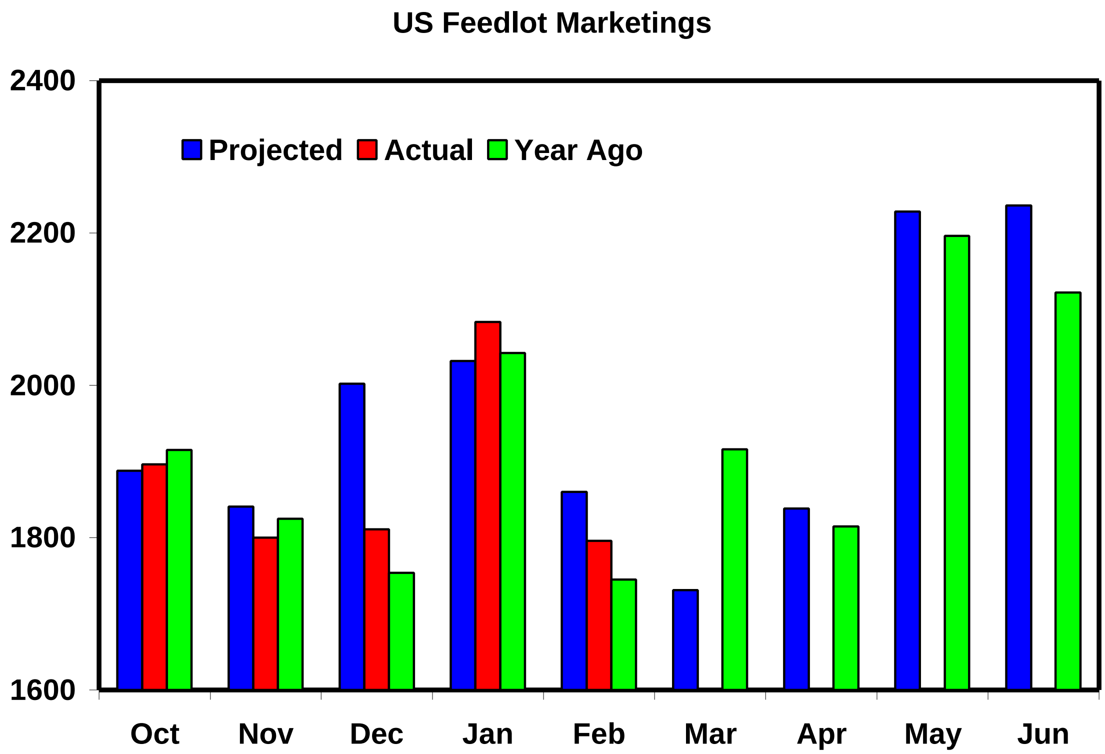


Figure 1

Summary

Combined supply and demand factors point to a stronger beef market in the coming months, but prices will likely remain below year earlier prices until late summer. Reduced placements last fall will help late spring, but will result in heavier spring placements, adding to supplies in early fall. A key factor in second half supplies will be heifer retention versus heifer placement. If heifer retention increases from earlier years reducing beef supplies in late 2002, fall prices will likely exceed the spring high. Watch for summer prices near $70, moving to the mid-upper $70 in the fall.

Feeder cattle remain good property. We are entering the time of year that “grass fever” will drive lightweight feeder prices. Given the mild winter in much of the U.S., the supply of lightweight calves will be limited, further boosting prices. Yearling cattle prices will be driven by feedlot profits and projected profits and corn prices that may be more volatile than normal this summer. Yearling steers are expected to trade in the upper $80s for most of the summer and fall.

John Lawrence