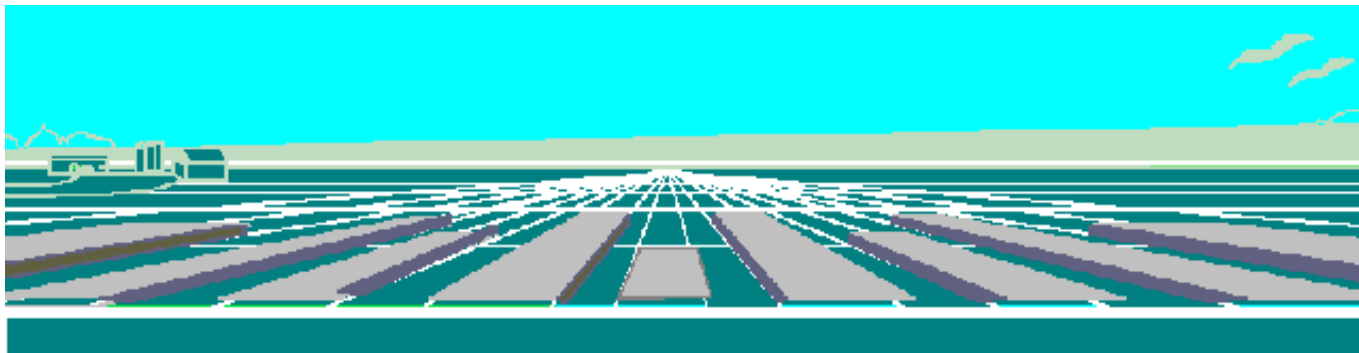


Iowa Farm Outlook



March 1, 2004

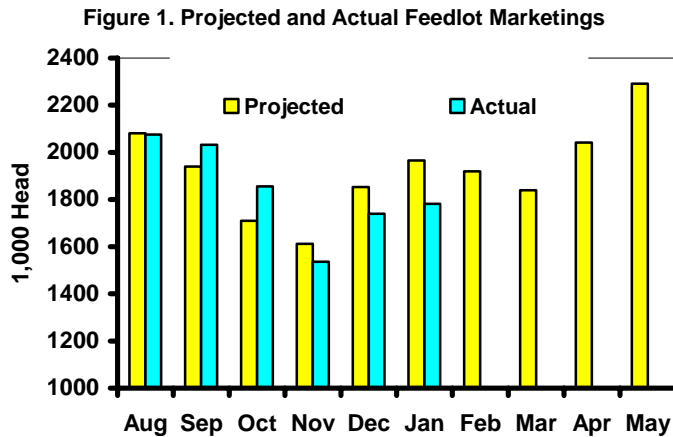
Ames, Iowa

Econ. Info. 1881

COF Inventory Buildup--Conflicting Evidence

Beginning in early January, we have been giving warnings that light weekly slaughter volumes were likely causing market ready feedlot inventories to build, leading to an inevitable meltdown in fed cattle price later this spring. By the end of February, however, there is no clear consensus from the data that this trend is, in fact, occurring. The February 1 U.S. cattle on feed inventory was 11.123 million head, up 4.0% from the year before, and slightly below the 5 year average February 1 inventory. There is no consistent historic seasonal trend between the January 1 and February 1 inventory levels. Consequently, the 0.4% increase between January 1 and February 1 is not clear evidence of a buildup. A contact in Western Nebraska suggests feedlots in that area are reporting that a disproportionate number of calves relative to yearlings placed last fall created a shortage of cattle ready for market this winter, even though the total inventory is growing.

A more accurate snapshot of the market ready cattle inventory trend would be a weight breakdown of the total cattle on feed inventory. Unfortunately, USDA surveys are unable to measure this statistic. The USDA does, however, provide a placement by weight breakdown in each monthly report. By taking placement by weight data and applying an expected average weight gain, we can project the number of marketings necessary each month to maintain a steady state inventory. Figure 1 provides a comparison of projected steady state marketings to actual marketings beginning in August last year. Projected values (yellow bars) greater than actual values (blue bars) suggests inventories are growing, while the opposite projected/actual relationship suggests inventories are declining. In September and October of last year, marketing levels were greater than expected, suggesting cattle were being slaughtered ahead of schedule. Beginning in November, however, the situation began to reverse as projected marketings began outpacing actual marketings. January marketings, down 16% from the year before, were the lowest since USDA began tracking nationwide cattle on feed data in 1996. Figure 1 clearly suggests that market ready inventories are indeed growing. It is unclear, however, when market ready inventories become large enough to bear a significant burden on the market.

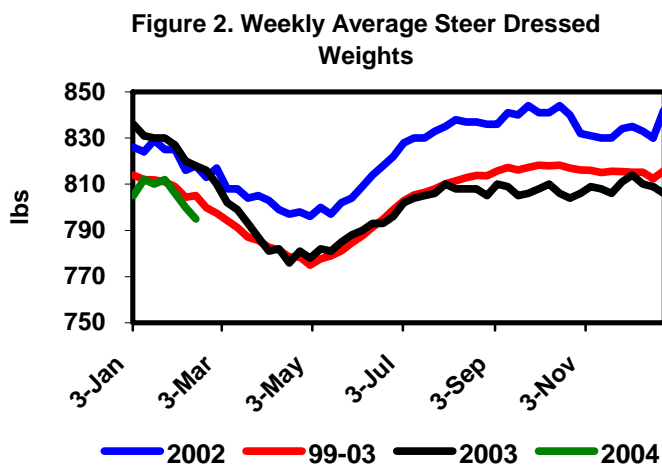


Rising inventories of market ready cattle is typically accompanied by rising average slaughter weights. Carcass weight data thus far, however, does not show any evidence an abnormal seasonal pattern. Figure 2 compares 2004 steer carcass weights with 2002 and 2003. For week ending February 14, steer weights averaged 795 lbs, down 17 lbs from the 812 lb peak on January 24th. While weights typically trend downward January through April, the rate of decline so far this year is at least as rapid as last year, and more rapid than both 2002 and the five-year average.

Weights during 2002 represent an upper extreme where heavy carcasses clearly depressed the fed cattle market. While a backlog may yet materialize this year, the severity so far is less we were anticipating 6-7 weeks ago.

One likely reason carcass weights are not growing as expected is adverse weather in the cattle feeding regions of the Midwest. Our colleagues at Kansas State University suggest participants in their Focus on Feedlots survey are reporting 3-4 weeks of weather stress in Western Kansas beginning in late January. We received another report of a southwest Iowa feedlot closing out cattle two weeks lighter than similar cattle last year on an identical feeding regimen. They attributed reduced growth rates to harsh February weather. While these reports are admittedly anecdotal, they do provide a plausible reconciliation between growing market ready inventories and declining slaughter weights. If the weather explanation proves true, look

for the downward trend in steer weights to moderate in the coming weeks and drift closer to historic levels.



Rising feed prices are another factor affecting slaughter weights and inventory levels. Corn prices are approaching the three dollar mark in much of the plains states, a 25-30% increase over last year. Consequently, optimal marketing weights are substantially lighter than the past few years. The next issue of the Iowa Farm Outlook newsletter will provide details on estimated cattle and hog feeding cost impacts of the current feed situation and outlook.

Industry Structure

Each year, the February cattle on feed report provides a snapshot of the number of feedlots by state and size category. Iowa continues to lead the nation in number of feedlots for both the over, and under 1,000 head capacity categories. At the beginning of 2004, there were 10,500 feedlots with in Iowa a capacity less than 1,000 head, down 4.4% from the year before. This rate of decline was somewhat larger than the national average of 2.2%. Average capacity for Iowa feedlots in this category was 55 head. There were also 340 feedlots with capacity greater than 1,000 head, down 2.9% from the year before. Average capacity for these lots was 1,088 head. Nationwide, the number of feedlots with greater than 1,000 head capacity totaled 11,253, up 5.6% from the year before. The nationwide average feedlot capacity for lots greater than 1,000 head was 5,103 head.

By Gary May

South American Crop Concerns, Strong Domestic Crush Boost Soybean Prices

Soybean cash and futures prices were sharply higher in late February in response to growing concern about drought, excessive rain, and rust damage to the South American soybean crop. Also supporting higher prices was the February 27 Census Bureau crush report showing January crushings at 2.3% above a year earlier and an upward revision of the December 2003 crush data. ***Cumulative crushings since September 1 have been down only 0.1% from a year earlier.*** That is in sharp contrast to the export market, where higher prices have pushed export sales sharply below a year earlier for most weeks since late November 2003. Total U.S. soybean export sales from November 25, 2003 through February 19, 2004 were 56% below a year earlier. From now through August 31, weekly average soybean export sales will need to be 76% below a year earlier to meet official projections.

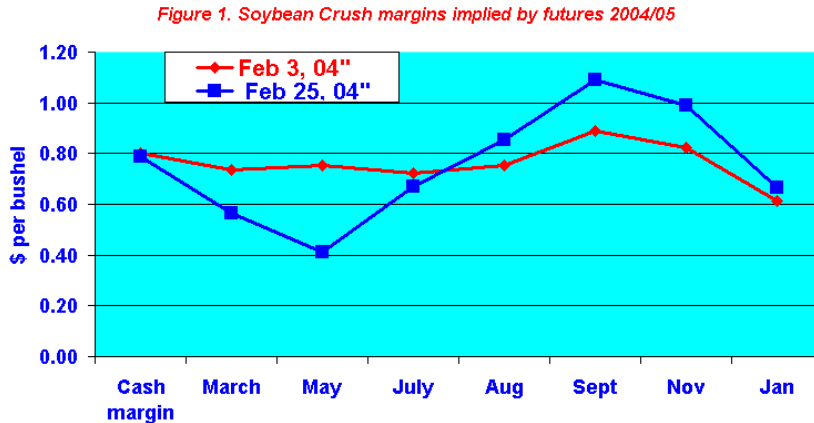
Strong domestic processor demand along with concerns about South American crop prospects appears likely to push old and new-crop soybean prices irregularly higher into mid to mid-April. However, prices will be very volatile. Prices being watched by traders as possible up-side objectives include the \$9.60 high reached in September 1983, with severe drought and a whole-base idling farm program. Another possible chart objective for near-by futures is \$10.99 reached in June of 1988, as major drought began to affect the Corn Belt. The all-time high in the soybean market was in June 1973 at \$12.90 per bushel, just before a major grain export embargo was put in place.

In considering these possible chart objectives, farmers should be cautioned that down-side risk increases significantly as prices trend upward. There are very large speculative long commodity fund positions in soybeans. At some point, these will need to be liquidated through sales. When fund traders believe the market has reached its peak, prices may drop sharply. Early indicators of increasing risk in the soybean market could include one or more of the following: (1) deteriorating domestic crushing margins, (2) reports of U.S. processing plants being shut down, (3) rapid movement of new-crop South American soybeans into export markets, (4) allowing imports of South American soybeans into the U.S., and/or (5) larger than expected U.S. soybean planting intentions on March 31.

Domestic Crushings: 18% Cut Needed

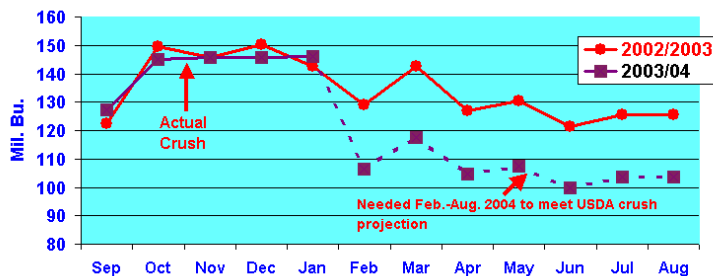
From now through August 31, crushings will need to be about 18% below a year earlier because of limited U.S. soybean supplies stemming from last year's short crop. Prices in the last few months have been high enough to do much of the rationing job needed in export markets, but the latest crushing data indicate prices have not been high enough to ration domestic usage. However, the first hint of rationing was indicated by increases in soybean oil and meal stocks from the previous month of 20% and 18% respectively.

Figure 1 shows indicated crushing margins from soybean and soybean product futures prices on February 27. The estimated margins are based on meal and oil yields as well as bean and bean product basis data used by USDA, AMS to estimate gross Central Illinois crushing margins for February 25, 2004. So far, the futures prices have not provided incentive to sharply curtail crushings. However, the soybean basis has



strengthened in the last 10 days, and has weakened margins some. Additional basis strength as well as strength in soybean prices appears likely in the next several weeks as farmer marketings decline seasonally and buyers have to bid more aggressively for beans. The cash soybean basis at some central Iowa elevators on March 1 was an extremely strong \$.06 per bushel under near-by futures. With prospects for very tight supplies through August, additional basis strength appears likely this spring and summer. Figure 2 shows U.S. monthly soybean crushings for the first five months of this marketing year and comparisons with a year earlier. The dashed line represents the crushings needed the rest of this marketing year to meet USDA projections. Unless U.S. soybean imports increase substantially or large export cancellations occur, limited supplies will require the February-August crush to be near the level shown in Figure 2.

Figure 2. Monthly U.S. Soybean Crushings, 2002-03 and 2003-04 Marketing Years



forecasts of late February. These estimates should be viewed with much caution, since crop conditions there are highly uncertain.

A map of South American soil moisture conditions

Domestic Crushings: 18% Cut Needed

Two private crop forecasts from South America in late February placed Brazil's potential production this spring at 120 to 180 million bushels less than USDA's February 11 report. This week, another private forecast showed an additional 40 million bushel reduction from private

on March 1, is shown at this web site:

http://weather.tradingcharts.com/Bzl_Arg_Current_Crop_Moisture.html

Northeastern and northern parts of the Brazilian Soybean Belt have been plagued by excessive rain, making it difficult or impossible to spray for Asian rust and creating other problems. In parts of southern Brazil and much of Argentina, rainfall has been limited and has caused drought stress on corn and soybeans. Excessive soil moisture shown on the above map appears to be a bit less widespread than indicated by a number of other non-map reports.

USDA world soybean projections on February 11 indicated that with normal South American soybean yields, world soybean production would be adequate to meet potential utilization with only a very modest decrease in August 31, 2004 world carryover stocks. But a decrease of 120 to 250 million bushels in the Brazilian crop would substantially tighten the world soybean supply. ***Potential ending world carryover stocks, assuming all other supply-demand variables remain at USDA's February 11 projected levels, would be down 13 to 20 percent from a year earlier and would range from down 2 percent to up 6 percent from two years earlier. Losses in Argentine production potential would further reduce world stocks. So far, private estimates have shown much smaller potential crop losses in Argentina than in Brazil.***

Corn Market Prospects

In contrast to soybeans, U.S. corn export sales have remained well above levels needed to meet USDA projections. Uncertainty about Brazilian and Argentine corn crop prospects also is helping to strengthen corn prices, along with a larger increase in processing for ethanol than previously projected. These conditions appear likely to push cash and futures prices irregularly higher into May, for both the 2003 and 2004 crops. However, the price trend will be highly volatile. The \$3.20 level on near-by futures, reached in April 1997 is a possible up-side objective for old-crop prices this spring. The next up-side peak was at \$3.89 in August 1996, and would be a possibility with additional strength in export sales and/or serious weather problems this year.

Export Sales

Figure 3. Net Weekly Old-Crop U.S. Corn Export Sales

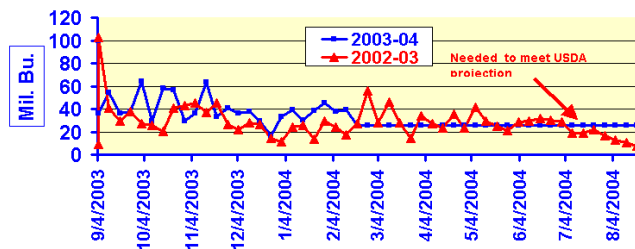
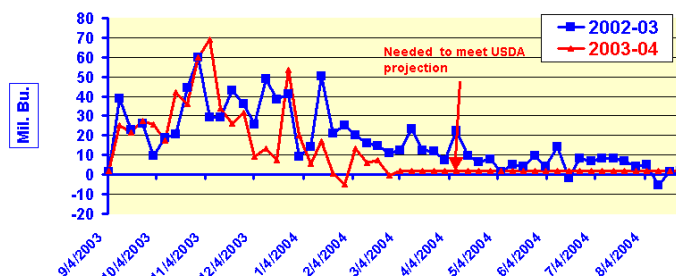


Figure 4. Weekly U.S. Soybean Export Sales



Figures 3 and 4 show weekly U.S. corn and soybean export sales so far this marketing year and comparisons with a year earlier. The stable lines going out to late August show the average level of weekly export sales needed the rest of the marketing year to reach USDA February 11 projections. For corn, average weekly export sales of about 26 million bushels or 0.66 million tons from now through late August would bring total export sales to about the level USDA projects for the season total. That's after allowing for exports of processed products. For soybeans, weekly average export sales will need to be extremely small from now

through August to keep from running out of soybeans (unless USDA allows South American soybeans to be freely imported into the U.S.) Our analysis shows allowable weekly export sales, without imports, of 1.27 million bushels or only about 46,000 metric tons.

At this writing, USDA's APHIS is considering whether importing South American soybeans would risk bringing Asian rust into the U.S. Reports so far indicate the risk would be quite low if the beans have zero or near-zero foreign material. ***Look for an announcement on this issue from APHIS soon, possibly yet this week. Large imports of beans into the U.S. would likely weaken the soybean basis, and might also be psychologically negative to soybean futures prices.*** If unrestricted imports are allowed, final South American crop estimates will be a major influence on the volume imported.

By Bob Wisner