9-9-1991

Oilseed Outlook; Fed and Feeder Cattle Situation and Outlook

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SOUTH DAKOTA STATE UNIVERSITY
No, 301 Sept. 9, 1991

OILSEED OUTLOOK

by

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Drought conditions in late July and early August caused irreversible damage to row crops, especially corn. However, rain the first week in August over most of the corn belt fell in time to boost potential soybean yields to levels near the long-run trend. Soybean prices have been on the defensive since early August.

The August USDA crop production report projects soybean production at 1.869 billion bushels, down from 1.922 billion bushels last year but higher than the trade expected. A relatively large beginning stock of 350 million bushels will keep supplies abundant at 2.219 billion bushels.

USDA yield and production estimates will be adjusted monthly until after harvest but don't expect more than 20 to 30 million bushel adjustments. Price rallies do not occur on such small supply changes. It takes about a 50 million bushel change in soybean supply to change the price $.25 per bushel.

Export demand, foreign soybean competition and world oilseed competition play an ever increasing role in soybean price levels after the August Supply and Demand Report. Competition from major exporters, Brazil and Argentina, diminished in 1990-91 as their harvest dropped from 31.3 million metric tons in 1989 to 26.5 million metric tons in 1990. Droughty conditions in parts of southern Brazil contributed to this reduction but late rainfall replenished short soil moisture conditions and 1991-92 production is expected to increase back to 28.3 million metric tons. South American growing conditions in January and February will be critical in reaching this yield projection. If achieved, world supplies will increase 3.25 percent back to 1989 levels.

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FED AND FEEDER CATTLE SITUATION AND OUTLOOK

by

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The first two weeks of August 1991 were less then friendly to cattle producers. Fat cattle prices fell $6-8 in most markets and live cattle futures and feeder cattle futures quickly dropped $5. The last time the cattle markets had such a negative move was in response to the Dairy Herd Buy-Out Program in 1986. What were the forces behind this 1991 summer bearish market move? Supply? Demand? General psychology? Where will the market go from here? A look at the recent past, and a glimpse into the near future may provide answers for some of these questions.

The Past -- 1987-1991

Supply

The overall number of beef cows in the U.S. remained fairly constant from 1987 to 1990. The actual number of beef cows in inventory reached a bottom in 1989 for the current herd inventory cycle. The beef cow herd started a minor increase in 1990 and the July 1, 1991 inventory was up 1.8% from 1990. Cattle numbers still remain well below inventory numbers of the 1970's and early 1980's.

However, there also has been a fairly strong trend towards heavier finished cattle weights, and a larger proportion of young animals being taken to finished weights prior to slaughter. This has tended to increase the supply of beef more then the herd inventory numbers would suggest. Overall though, the period of 1987 through 1990 has been one of favorable supply for the beef industry.

Demand

Several factors have influenced the

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Oilseed Outlook (cont'd)

World demand for soybeans is expected to increase by 1.6 percent with about half of the increase in the United States. Crush and feed usage are expected to make up much of the increase as livestock and poultry feed consuming units increase. The current crash in cattle prices in the U.S. could lead to selling at lighter weights and thereby decrease the demand for crush. It is also unknown how extensively the Soviets are slaughtering their livestock herd. Reduced protein needs of the Soviet Union could also keep a lid on any soybean post harvest price rally. At this time the long run impacts of the change in political leadership is unknown, but will more than likely be negative for all grain and oilseed prices in the short run.

The USDA August 1 U.S. ending stocks projection of 300 million bushels is a reduction from the beginning of the year but relatively high by historical standards. With normal growing conditions in South America higher prices will not be needed to ration soybean supplies next spring. Consequently, potential profits from storage will be limited. Selling at harvest unless basis is very wide may be the last alternative this year. The producer who wishes to speculate on spring price rallies from drought in South America or the U.S. may wish to consider buying an out-of-the-money call option. Producers with limited storage should consider storing corn rather than soybeans.

Production of competing oilseeds is up this year. The August Crop production report reported cotton production six percent higher than the trade expected. Also, sunflowerseed, flax and peanut acreage have increased compared to recent years (Table 2). Much of the minor oilseed acreage increase can be attributed to the flex or triple base provisions of the U.S. Farm Program.

Export demand for soybean oil will be a key factor to watch in the soy complex this year. Exports have dropped to around half of previous years' levels due to problems in the Pakistan market. Pakistan purchases U.S. soyoil mostly through long term credit with the PL-480 program. This was cut off when Pakistan was suspected of developing nuclear weapons. The substantial cut in Pakistan imports has reduced soyoil exports by one-fourth and left the U.S. with a burdensome carryover position. U.S. ending stocks for 1990-91 were raised from 1.7 to 1.8 billion pounds in the August crop production report and 1991-92 stocks are projected at 2.14 billion pounds.

To summarize, in some areas of the U.S. the marketing loan may kick in for brief periods at harvest time as cash prices drop below $5.00 per bushel. World demand will most likely be adequate to absorb most oilseed product supply increases. U.S. average soybean price will most likely fall between $5.25-$5.65 per bushel. Key factors to watch in the market are developments in the USSR and Pakistan, impact of U.S. marketing loan, changes in U.S. production, and 1992 weather trends.

Table 1. U.S. Soybean Supply and Demand

	1989-90	Preliminary 1990-91	Projected 1991-92
Begin Stocks	182	239	325
Production	1,924	1,922	1,869
Imports	3	2	5
Total Supply	2,109	2,163	2,199
Crush	1,146	1,180	1,195
Exports	623	560	610
Other Domestic	101	98	94
Total Use	1,870	1,838	1,899
Ending Stocks	239	325	300

Table 2. U.S. Oilseed Acreage for Harvest, 1988-1991

	1988	1989	1990	1991
Soybeans	57.4	59.5	56.5	58.7
Cottonseed	12.0	9.5	11.7	N.A.
Sunflowerseed	1.92	1.79	1.85	2.53
Flax	.23	.16	.25	.29
Peanuts	1.6	1.6	1.8	2.0

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(Fed and Feeder Cattle ... cont'd from p.1)

overall demand situation for beef the last few years: health concerns, beef exports, competing meats, and consumer disposable income. From the mid 1970's to the mid 1980's domestic demand for beef was continually eroding away. Innovations in the poultry industry and health concerns with beef were generally the factors mentioned for this decreasing demand. It would appear that since 1986 domestic demand for beef has stabilized. However, this stabilized demand relationship is much lower then the beef demand relationship of the 1970's.

A very positive demand factor has been an increase in beef exports, primarily to Japan. Exports increased from 1987 to 1989, fell off a little in 1990, and looked to be on the increase again in 1991. Beef exports are a very small proportion of U.S. beef production, but have none the less, helped to strengthen the overall demand situation.

There is fairly strong evidence that total meat demand in the U.S. has been quite stable for some time. Given the fact that poultry supplies continue to increase and that pork supplies are also increasing in 1991 there will obviously be renewed demand pressure on beef. In fact the lackluster demand through this summer for beef bears this out.

The macro-economic gurus can't seem to agree on how long we have been in a recession, if we have been in a recession, if the recession is ended, or if we are headed towards further recession. Given this daily bombardment of mixed information, the beef consumer probably has been spending less of her disposable income for beef, or hasn't had as much to spend, or won't have. Which ever way it has been, I think the general economy has been slightly negative and will continue to be slightly negative towards beef.

Prices

Ignoring beef supply and demand fundamentals, fed cattle and feeder cattle prices have been very robust from 1987 to early 1991. Slaughter steer prices at Sioux Falls, South Dakota were around $65/cwt in early 1987 and steadily increased to a monthly high of near $82/cwt in December 1990. Feeder cattle prices have been even stronger. Early 1987 prices were below $70/cwt for 7-800 pound steers but have traded above $90/cwt for several months in 1990 and 1991.

The recent trend would have predicted summer seasonal lows for slaughter cattle around $74-75/cwt. However, record numbers of cattle on feed in July, record weights of slaughter steers, and a sluggish summer demand combined with a general psychology that high beef prices just couldn't continue and drove slaughter steer prices right through support at $74/cwt and traded in the mid $60's the second and third week of August.

Feeder cattle (7-800 lbs) were on a trend to spend most of 1991 above $90/cwt and even over $95/cwt for seasonal highs. The sharp decline in slaughter cattle prices contributed to significant losses for many cattle feeders. Feedlot losses coupled with forecasts for higher feed prices due to a poor corn crop in much of the corn belt resulted in a sharp correction in the feeder cattle market. The price for 7-800 pound steers in August has been around $85/cwt.

The Future -- 1991-1992

Fed Cattle

The first two weeks of August, 1991 probably have forced everyone involved in the cattle industry to re-think their price forecasts for the remainder of 1991 and early 1992. The last four years have been very optimistic years for cattle prices. However, with supply pressure likely to increase due to (1) a larger cattle inventory, (2) heavier weights of slaughter animals, and (3) a greater proportion of young animals being finished rather then slaughtered as calves, there is some reason for caution in the slaughter cattle market.

On the demand side, projected increases in poultry and pork supplies will weigh heavily on beef demand. There is not likely to be a big increase in consumer disposable income over the next year, even if the economy does pull out of the recession. Exports are likely to increase in the future, but not that substantially.

Given the potential for increased supply, weakened demand, and the price correction of early August, prices for fed cattle over the next year probably will be below year ago levels.

Feeder Cattle

The feeder cattle market has been very strong the last year and has been at quite a high premium in relationship to

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fed cattle prices. Cheap feed grain and abundant pasture in much of the country has enabled this relationship to exist. Prospects for higher feed grain prices this fall and winter could change that. Feedlot operators will be hesitant to pay premium feeder cattle prices given their recent losses and the expectation of higher feed costs.

However, the supply side is still quite favorable to feeder cattle. The 1991 calf crop was only up slightly from 1990 and if more heifers are being held for herd replacements there could be a relatively short supply of feeder cattle to satisfy demand. If there are favorable conditions for winter wheat grazing and early 1992 pastures look good, this demand could offset a decreased demand by feedlot operators.

The outlook should be for good support at $86/cwt for 7-800 pound steers but considerable resistance at $90/cwt.

Price Forecasts

Year	Quarter	Slaughter Steers (11-1300 lb)	Feeder Steers (7-8000 lb)	Steer Calves (5-600 lb)
91	III	69-72	87-90	96-104
91	IV	73-77	86-90	96-104
92	I	75-79	86-90	95-103
92	II	74-77	85-90	94-102

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