

## Look into Futures

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### GRAINS

The recent surge in export business is a welcome change from the past year when expectations failed to be met. Continued heavy buying from Russia, China and Japan have invigorated grain markets.

Basis levels have strengthened as commercial handlers try to induce farmers to sell their remaining grain. Exporters will be hard pressed to fulfill commitments to Russia for shipment in September and October due to the lack of old crop supplies. Another reason for the continued strength in basis (number of cents the cash price is above Chicago futures) is that much of the remaining corn is locked up in the farmer owned reserve 5 where 321 million bushels still exist. A five day average cash price of 3.25 in the midwest would be required to release these supplies to the market.

This week Bridgewater Associates, a crop forecasting group, reduced its U.S. production estimates for corn to 7.467 billion bushels and for soybeans to 2.00 billion, down from last week's estimates of 7.492 and 2.01. Yields are projected at 105 for corn and 29.9 for soybeans. Some agronomists expect further deterioration in the cornbelt, especially in soybeans unless rainfall occurs in the next week — this deterioration despite the expected cooler temperatures.

A further note of the export market — the USDA is projecting that East Asian countries (Korea, Taiwan, Hong Kong and Japan) will become the number one U.S. agricultural market for this year. The region may import 10.9 billion dollars in U.S. farm products compared with 9.7 for Western Europe. The economic restrictions in the EEC markets will continue to make the European market a difficult one to fully penetrate.

Soviet imports of soybeans and especially soybean meal continue to decline. In 1984 their imports are down 90 percent compared to last year. This comes in the light of heavy herd liquidations that the Russians began in late spring when they realized their feed producing capacity might be severely impaired this year. Now, the Russians are being forced to import corn and wheat, but a great deal of this can be expected to go for human consumption rather than an aggressive livestock expansion program.

What this means for U.S. livestock producers is that soybean meal prices should continue to decline. Given that each 60 lb. bushel of soybeans produces only 11 lbs. of oil and 48 lbs. of meal, the current crushing to satisfy increasing oil demand should produce overwhelming supplies of meal. This should improve livestock feeding margins greatly.

### LIVESTOCK

On the East coast grain prices should remain fairly firm due to heavy exports and expansion in both hogs and poultry. Industry sources expect that broiler prices will remain steady for the rest of the year, around 50 to 52 cents per pound.

Pointing to the increased retail buying relative to both pork and beef, poultry producers anticipate a growing share of the meat market. Much to the detriment of hog and cattle feeding prospects, consumers show an increasing

willingness to buy cheaper non-red meat offerings.

In the red meat markets, there is some optimism amongst feeders and packers due to firming cash

prices. The markets have been able to move a substantial number of animals without a severe decline in prices. Supplies of boxed beef have cleared at the recent lower prices and recent demand can be attributed to replenishing of inventories and further confidence that packer margins will continue to increase.

Feed lots are being kept current, but analysts note that the 10.00 spread between Yield Grade 4 and Yield Grade 3 prices might indicate that cattle are being fed long. But no one is claiming that any sort of backlog is developing. Expected good beef demand through September should be supportive to prices and one can expect that steer carcass prices should remain firmly above the

1.00 level. Due to poor retail demand, a bleaker picture is developing in the hog complex. Large hog supplies and poor retail featuring have steadily eroded live hog prices. Although hog supplies are ample, feeders have kept current with marketings evidenced by light market weights — averaging 232 lbs. Some analysts fear that continued lower prices could cause some producers to withhold hogs which would only delay the ultimate blowout to the down side in prices.

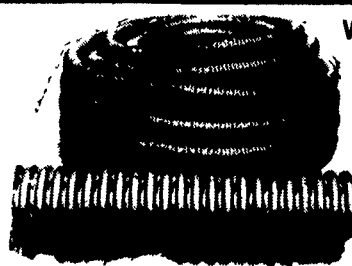
The one glimmer of hope is that these large supplies can be moved through the retail chains without further erosion of prices. This would give the market a degree of confidence it needs to start on a strong upward trend again.

Another potentially bullish sign for live hogs is the possible double bottom formation that is developing in the February pork belly contract. If pork bellies can be representative of the overall tone in pork product prices, an upward movement in bellies should bode well for the overall pricing structure in hogs.



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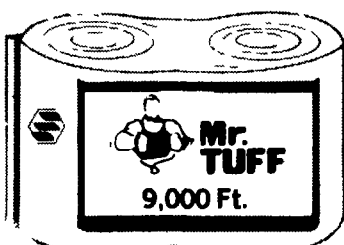
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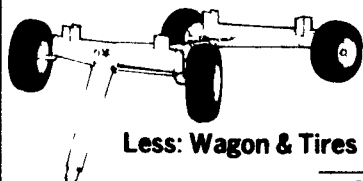
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