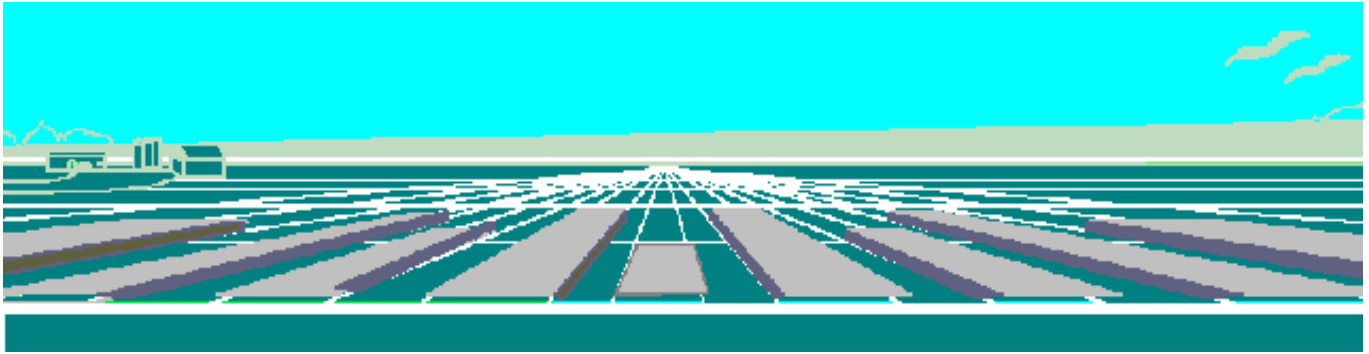


Iowa Farm Outlook



December 1, 2002

Ames, Iowa

Econ. Info. 1851

How Tight is the World Soybean Supply-Demand Balance?

USDA's November U.S. and world crop production reports increased combined estimates of U.S. and projected spring 2003 Brazilian and Argentine soybean production by about 128 million bushels. In a year when the U.S. soybean carryover stocks are projected at less than 200 million bushels, an increase of that size can have substantial impact on price prospects. The November changes shifted the world production prospects from a crop that was expected to be below last year's production, to a slight increase. As long as production prospects look good in South America, world supply prospects do not show the extreme tightness of adverse-weather years of the 1980s and 1990s. However, global supplies are significantly tighter than last year and should keep average U.S. soybean prices modestly above the loan rate through the winter. Modest short-term price strength is possible in response to South American weather concerns and periods of aggressive U.S. soybean sales. Also, tightening of world vegetable oil supplies should help support soybean prices into at least early spring. *However, Figures 1 through 3 below suggest caution not to be too optimistic in expectations for soybean price strength between now and late spring.*

Figure 1. Trends in World Soybean Production & Use

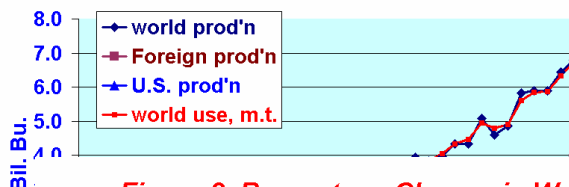


Figure 3. Percentage Change in World Soybean Use from Previous Year

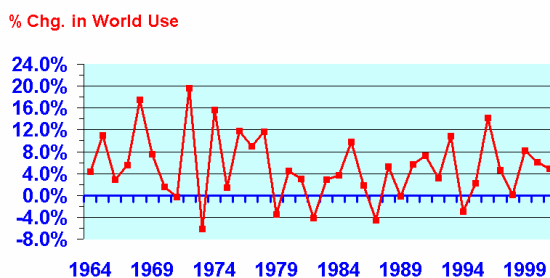


Figure 2. Percentage Production-Use Gap in World Soybeans

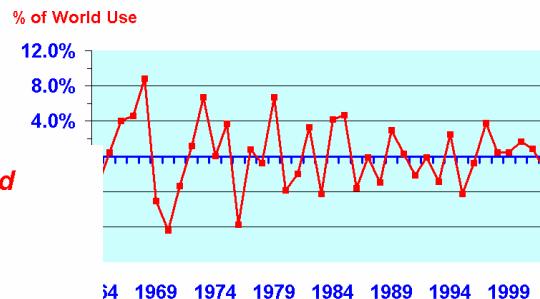


Figure 1 indicates the large South American crops, if they materialize as now indicated, will maintain an upward trend in world soybean production, although the trend will slow slightly from the last two years. Figure 2 shows the currently indicated production-use gap for this marketing year and comparisons with other years. While a gap between this year's expected production and projected use does exist, it is relatively small, and is not the type that in the past has been needed to generate exceptionally high soybean prices.

Figure 3 indicates that with currently indicated global production, total soybean use will be able to maintain a long-term upward trend. However, the rate of increase is projected to slow from 8.2% growth in 2000-01 and 6.1% in 2001-02 to 4.8% in the current marketing year. Growth in demand for soybeans was stimulated in 2000-01 by a total EU ban on use of meat and bone meal and related products in livestock, poultry, and pet foods. In 2001-02, it was stimulated by a similar ban by Japan. These foreign government actions caused a shift from animal-based protein feeds to soybean meal. The shift has now been completed, and should bring a slower growth in soybean meal demand growth.

Robert Wisner

CME Changes to Lean Hog Contract

The Chicago Mercantile Exchange has changed the price report used for cash settlement in the Lean Hog Contract beginning with the April 2003 contract. The new contract reflects a leaner hog than the current contract and has implication for basis estimation. It is expected that the new contracts are approximately \$1/cwt carcass or \$.75/cwt live higher value than the current contract and thus the existing basis estimate will be \$1/cwt carcass too narrow. The contract change and impact on basis estimates are explained below.

The CME currently bases the cash settlement and therefore the Lean Hog contract price on a 51-52% lean hog. Beginning with the April 2003 contract the CME will use the average hog slaughtered and reported by the USDA. The average hog is leaner and is closer to 54% lean than 51-52% lean that is currently the base for the Lean Hog contract. The CME will continue to use a two business day weighted average price reported by USDA. The new price series is reported in the USDA LS_HG200 report as the prior day average net price for barrows and gilts slaughtered.

Figure 1 shows the difference between the new and old price series for August 2001 through mid November 2002, the length of the Mandatory Price Reporting series that the data are taken from. Notice that prior to May 2002 the difference was quite erratic and generally lower than more recent months. Over the entire August 2001 to November 15 periods the average difference is \$.76/cwt carcass (Table 1). The first year (Aug-Jul) the average was \$.59 compared to \$.96 for the more recent 12 months (Nov-Nov).

Change in Lean Hog Basis, New - Old

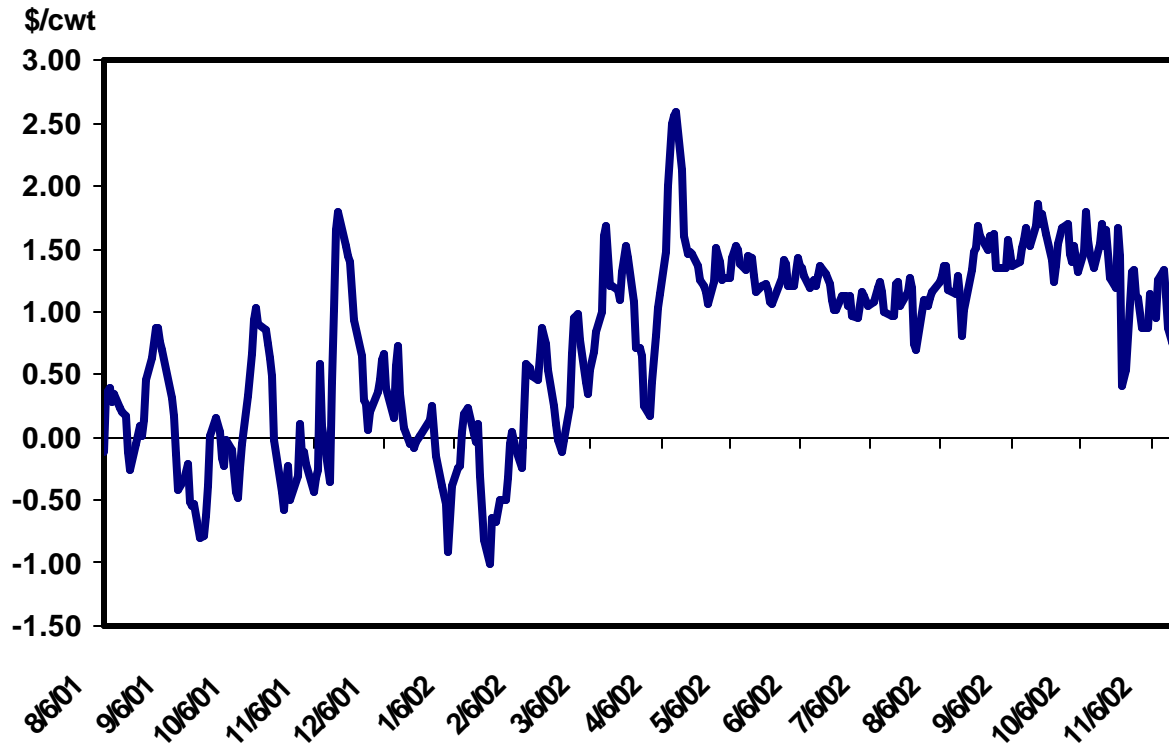


Table 1. Average Differences in Reported Hog Prices: Average Price - 51-52% lean

	Carcass	Live 74%
Aug 01 - Nov 02	0.76	0.57
Aug-Jul	0.59	0.43
Nov-Nov	0.96	0.71
Aug-Apr	0.38	0.28
May-Nov	1.28	0.95

A conservative adjustment to the basis estimate beginning with the contract that will expire in April 2003 would be to subtract \$1/cwt carcass to the previous basis estimate to reflect the new price report series. Table 2 makes the \$1/cwt adjustment to our previous basis estimates. We will continue to monitor these changes and refine the estimates as more information is available.

Month	Half	Contract	5-year Low	More Negative 15% of time	Average Basis	More Positive 15% of time	5-year High
Jan-	1st	February*	-10.22	-9.19	-6.23	-3.28	2.33
Jan-	2nd	February*	-10.03	-7.06	-4.18	-1.31	1.76
Feb-	1st	February*	-9.34	-5.18	-3.23	-1.27	0.40
Feb-	2nd	April	-10.18	-7.85	-5.22	-2.58	-1.51
Mar-	1st	April	-9.27	-6.73	-4.33	-1.93	0.05
Mar-	2nd	April	-10.34	-6.49	-4.24	-1.98	0.60
Apr-	1st	April	-7.30	-5.09	-2.98	-0.86	2.52
Apr-	2nd	June	-16.12	-13.70	-9.88	-6.07	7.89
May-	1st	June	-11.56	-9.47	-6.73	-3.99	-0.20
May-	2nd	June	-9.01	-6.19	-3.17	-0.15	3.07
Jun-	1st	June	-8.23	-5.98	-3.76	-1.54	-0.72
Jun-	2nd	July	-5.85	-4.07	-2.31	-0.55	2.79
Jul-	1st	July	-5.20	-4.09	-2.54	-0.98	1.60
Jul-	2nd	August	-6.61	-2.98	-0.30	2.39	4.43
Aug-	1st	August	-5.36	-3.61	-1.86	-0.10	6.20
Aug-	2nd	October	-3.98	2.00	4.62	7.25	11.33
Sep-	1st	October	-2.18	-0.92	0.40	1.73	3.27
Sep-	2nd	October	-2.76	-1.56	0.06	1.68	4.14
Oct-	1st	October	-4.92	-2.93	-1.24	0.44	3.34
Oct-	2nd	December	-8.53	-4.02	-0.89	2.23	5.31
Nov-	1st	December	-11.83	-8.04	-4.39	-0.75	2.08
Nov-	2nd	December	-10.30	-6.84	-4.07	-1.29	1.43
Dec-	1st	December	-8.32	-4.87	-3.02	-1.17	1.33
Dec-	2nd	February	-15.02	-11.48	-7.06	-2.64	1.57

* February 2003 contracts are under the 51-52% lean price series and basis estimate will be \$1 more than listed in this table.

John Lawrence