Market Update

Grains

- Current wheat and corn prices are down more than 50 percent from 1996 levels and more than 30 percent below prices a year ago. Updated Food and Agricultural Policy Research Institute (FAPRI) projections now forecast 1998/99 average farm prices for wheat and corn to be $2.69 and $2.05 per bushel, respectively, suggesting that prices are not going to recover much in the upcoming marketing year. Lower price forecasts are mainly due to the combination of increased production from major exporting countries and static grain trade.

- In the case of wheat, lower production estimates for Argentina, China, and Russia only partly offset greater production in Australia, the EU, and the United States. Based on International Grain Council (IGC) estimates, this year’s crop still will be second to the record 609 million metric tons (mmt) in 1997. On the demand side, countries will import less, but these declines are projected to be more or less offset by higher demand from Near East Asia, Pacific Asia, and sub-Saharan Africa. These trade figures may change significantly depending on the extent of flood damage in China and whether China will be able to make up these shortages by releasing its supposedly large carryover stock from last year. Without correct estimates of Chinese carryover stock, due to unavailable accurate information, it is difficult to project Chinese wheat imports for the next year.

- Corn prices are also down primarily due to large exportable supplies in the United States, Argentina, and China. U.S. corn exports in 1997/98 are down primarily due to China’s return to a net export position in international corn markets and also greater exports from Argentina. For the marketing year 1998/99, corn imports by Far East Asian countries affected by the recent economic turmoil are projected to be virtually the same as in 1997/98. Increases in U.S. exports for 1998/99 compared to 1997/98 depend entirely on China’s export capability. Currently, it appears that flood damage to grain crops will limit the availability of Chinese corn for export, enabling the United States to sell corn in the region. With the world corn import demand projected by IGC virtually unchanged from last year, we can expect an average farm price for corn that is lower than 2.05 per bushel, if China is able to export 3 mmt of corn.

- Unlike wheat and corn, the international rice market has remained steady and even strengthened in past few months. This is due to the downward revision of world rice production estimates in 1998/99, particularly in some exporting countries such as Vietnam, Pakistan, China, and United States, and stronger demand from Asia and Middle East countries.

Oilseeds

- While soyoil prices increased by more than 13 percent during the past year primarily due to decreased supply of palm oil in Malaysia and increased demand in India and China, soy meal prices have plummeted by almost 50 percent compared to a year ago. This large decline in soy meal demand, as well as large increases in harvested area in the United States and South America, have pulled down soybean prices from $304 per metric tons (mt) in 1996/97 to less than $250 per mt for the current year (CIF, Rotterdam). FAPRI has also revised its projections of soybean prices (FOB, Gulf) downward to $213 per mt for the 1998/99 crop year and to $216 per mt for 1999/00.
Livestock Products

U.S. pork and beef production is expected to reach record levels in 1998. The drought in the southern plains has reduced forage supplies and is reinforcing market pressures on cattle producers to liquidate cattle herds. Heifer placements into breeding are up over levels for the past two years, indicating the potential for beef production is likely to be much lower in 1999. Slaughter steer prices have been in the low 60’s since June, and updated FAPRI projections put the 1998 average price at $62.63 per hundredweight (cwt). The Nebraska direct steer price is expected to average nearly $69.00 per cwt in 1999. Hog prices have also been extremely low this summer, averaging between $34.00 and $35.00 cwt for the year. Large supplies and fairly stable demand are largely responsible for the weakness in pork prices. Similar market conditions in the feed sector have driven corn prices below $2.35 per bushel and soybean meal down to $150 per mt. Lower feed prices have taken some of the pressure off livestock producers caused by low meat prices; however, net returns have declined in both the cattle and hog sectors this year.

Unlike red meat industries, the U.S. broiler production growth has been slow this year, but demand for processed broiler products in restaurants has risen nearly 10 percent. Consequently, broiler prices have been stronger than in the recent past and may reach record levels before the year is out. With good profitability in the broiler sector in 1998, production is expected to rise 1.3 billion pounds in 1999, putting slight downward pressure on prices. Given the projected low feed prices, broiler growers are expected to enjoy net returns of at least $0.10 per pound for the next four years.

Lower beef and pork prices have helped maintain U.S. meat exports, despite the appreciation of the U.S. dollar relative to most currencies in Asia. Japanese beef imports from the United States reached 135.4 thousand metric tons (tmt) by May of this year, on track for annual imports of approximately 320 tmt. Although household demand has weakened as a consequence of the recent economic difficulties in Japan, hotel and restaurant demand remains strong. Japanese imports of U.S. pork and variety meats were up 24 percent for the first five months of this year. Competitive U.S. prices are expected to increase total pork exports to 1.26 billion pounds for the year.

India’s Future in the World Grain Market

India is the second most populous country in the world and third largest economy in Asia. Since its independence 50 years ago, India has followed a policy of self-sufficiency in food production and has never been a major player in the world grain market. This is likely to change in the future due to economic growth, population growth, and resource constraints.

The adoption of market-oriented domestic and trade policies in 1997/98 has led India to an accelerated economic growth. If this growth becomes broad based, it is likely that there will be a significant change in dietary preference. In addition, projected higher population growth will make India the most populous country by the middle of the next century, increasing the pressure on food demand. More importantly, according to United Nations projections, more than 55 percent of the total population will live in urban locations in 2030, compared to 26 percent in 1996.

In contrast, India’s agricultural production has slowed significantly in recent years. Historically, growth in agricultural production since the 1960s has been from a sustained rising trend in yields, with no, or slight, increase in area production. Three inputs—irrigation, fertilizer, and high yielding varieties—have accounted for much of the yield growth in the past decades. It has been argued that a declining rate of irrigated area and per hectare fertilizer application has been responsible for the slowing of yield growth. It is alarming to note that production growth is declining at a rate higher than the inputs in recent years.

In the face of the declining growth of agricultural productivity and likely increase in food demand, it is probable that in the future India will come to depend on imported food to meet domestic requirements. To quantify these effects, FAPRI evaluated India’s grain demand and supply situation for 2015. Food demand is estimated by taking into account structural change in consumption due to urbanization and income growth. Strong income growth and urbanization are expected to significantly change the composition of the food basket. The average per capita consumption of cereals is projected to rise from 160 kg in 1993 to 168 kg by 2007, and then start declining after 2007, falling to 165 kg by 2015. Rural per capita cereal consumption increases throughout the period, whereas urban per capita cereal consumption until 1999, and then starts to decline.

Although average per capita cereal consumption does not seem to change much throughout the projection period, its composition changes significantly. Strong income growth and shifts in diets from rice and other grains to wheat will drive per capita wheat consumption steadily throughout the period from 54 kg in 1993 to 70 kg by 2015.

Another crucial change is the consumption of corn and other coarse grains in the area of animal feeds. Corn demand for feed is projected to increase from 1.5 million metric tons (mmt) in 1993 to 7 mmt by 2015 due to a large increase in egg and dairy production. Unlike other developing countries, India’s meat consumption is not likely to explode in the future. Meat consumption in India is extremely low and is expected to remain low, primarily due to its large vegetarian population.

How will these changes translate into total grain demand requirements? Demand for cereal is projected to grow from 166 mmt in 1993 to 240 mmt in 2015. This is a slowdown from historical trends, caused by a change in both diet structure and continued slowing in population growth.

Within cereals, the largest demand increase is for wheat, from 56 mmt in 1993 to 99 mmt in 2015 (a 76 percent increase). Driven by rapid growth in feed demand, total corn usage is also projected to nearly double, from 9 to 16 mmt. Unlike wheat and corn, total demand growth for rice steadily declines throughout this period becoming negative during the last few years. This slowdown in rice demand may be attributed to a change in the diet because of urbanization and slower population growth. However, the real question is
The Impacts of Live Cattle Trade Growth in Southeast Asia

Driven by strong demand for beef, on the one hand, and faced with limited production capacity (land in particular) on the other, southeast Asian countries have begun augmenting domestic supply with imports. What is particular only in this region is the growing share of the meat equivalent of its live cattle imports relative to beef imports. This has been most evident in Indonesia, the Philippines, and Malaysia in the past six years.

Cattle imports in Indonesia increased from 2,000 head in 1991 to 428,000 head in 1997. In the Philippines, cattle imports increased from 18,000 head in 1991 to 165,000 head in 1997. Malaysia’s live cattle imports increased from 26,000 head in 1991 to 91,000 head in 1996. These increases represent 217 thousand metric ton (tmt) in meat equivalent. Moreover, this surge in cattle imports was not adversely affected by the Bovine Spongiform Encephalopathy (BSE) scare in 1995/96. In fact, while the net beef imports for Japan, Taiwan, and South Korea declined by 38 between 1995 and 1996, the meat equivalent potential of cattle imports for Indonesia, the Philippines, and Malaysia increased by 48 tmt during the same period. The degree of control over food safety offered due to importing live cattle versus beef might account for this change.

The imported cattle are primarily feeder animals rather than slaughter-ready cattle. In fact, to discourage imports of slaughter-ready cattle, Indonesia requires a 70-day feeding period within the country before imported cattle can be slaughtered. In the Philippines, a 30 percent tariff is imposed on slaughter-ready cattle. The reason for this bias is that many countries in the region are developing their feedlot sector to better utilize available agricultural by-products and underemployed labor, and to disperse the economic benefits of development. In addition, in Indonesia and Malaysia, the strong influence of Islam favors live cattle to beef; that is Muslims are required to consume only “halal” certified foods. For meat products, in particular, there are strict restrictions on the selection of animals and the slaughter process for “halal” certification in meats. This strongly indicates domestic slaughter.

Australia has effectively dominated the supply side of the growing live cattle market with a share of close to 100 percent, primarily due to its proximity to the importing countries and its adaptable breeds. Also, there has been a price premium for a number of years favoring exporting live cattle from the northern part of Australia versus beef exports. This market has become important to Australia’s cattle beef sector, with the meat equivalent of live cattle exports reaching 17 percent of its beef exports. It cushioned the adverse impact of BSE when Australia’s beef exports declined by 76 tmt between 1995 and 1996, while the meat equivalent of the live cattle export expanded by 42 tmt.

The 1998 economic crisis in Asia has adversely affected live cattle trade in the region. In the first four months of 1998, cattle exports from Australia to Indonesia, the Philippines, and Malaysia were only 2,200; 49,401; and 16,960 head, compared to their levels in 1997 during the same period of 132,565; 61,941; and 28,273, respectively. Total exports for 1998 are forecasted to be 470,000 head compared with the initial forecast of one million head at the beginning of the year.

There are fundamental reasons however, to believe that once the region regains economic stability, cattle trade will recover and grow. Cattle imports have become an important source of supply in these countries. Cattle imports represent 23 percent of total slaughter for Indonesia, 17 percent for the Philippines, and 55 percent for Malaysia. With a large population base that is growing at a relatively fast rate, coupled with an expanding middle class, Southeast Asia will continue to import either cattle or beef to meet its domestic demand.

Following slaughter, which came mostly from domestic cattle during the crisis, herd rebuilding is expected in the short-run. In the long-run, developing a domestic cow-calf operation to substitute for the imported feeder cattle is not very likely to occur in this region due to land...
constraints, high feed costs, and lack of breeds and breeding technology.

Australia and New Zealand will continue to capture a large share of the live cattle market. Although, the feeder cattle market in Southeast Asia offers limited potential for the United States, there are market niches that it can effectively penetrate. First, for the limited development in the cow-calf sectors in these countries, the United States can position itself to market cattle breeds and breeding technology. Second, the United States can position itself to market the more expensive primary cuts of beef targeted to institutional buyers and urban centers.

The Oilseeds Roller Coaster

Oilseeds markets and prices, in general, see more fluctuation than other field crops. The sheer number of oilseeds and products, the jointness of meal and oil production, the variability in substitution possibilities across countries and crops, and varying degrees of correlation between prices of different products all epitomize the intricate technical relationships among oilseed products. Projecting the future movements in such a market is not only difficult to model but also requires continuous in-depth review of changes in these relationships. Following are some of the major factors that may have profound effect on oilseeds markets in the short- and long-term:

The Chinese Factor: China is the second largest oilseeds producer in the world. It is the world’s largest producer of rapeseed and cottonseed, second-largest producer of peanuts, and the fourth-largest producer of soybeans. However, along with its rapidly expanding livestock sector, Chinese imports of soybean and products have grown more than 200 percent during the last four years. China imported 3 metric tons (mt) of soybeans and 4.5 mt of soy meal in 1997/98. Although its soy meal requirements have subsided in recent months, severe floods along the Yangtze River are expected to decrease the domestic oilseeds output by about 10 percent. This should increase Chinese imports of oilseed products to record levels in the coming months. In the long-run, China is expected to continue to play a dominant role in the world oilseed markets, while increasing its domestic production of major oilseeds.

The Indian Factor: India is the world’s third largest oilseeds producer. Its soybean production has increased by more than 500 percent during the past decade. The government of India discourages imports of oilseeds as an incentive to domestic producers. However, this policy is increasingly being contested by the domestic processing industry as being unfair to them, in view of (stated) excess crushing capacity of more than 35 percent. The government has recently agreed to reevaluate the ban and allow imports of soybean and other oilseeds during domestic shortages (like the current year).

Demand for vegetable oils is increasing rapidly in India, along with the stable growth in incomes during the past decade. This can be expected to substantially increase India’s vegetable oil imports in the coming years. This year, the government has had to allow imports of more than 2 mt of oils (mostly palm) to meet the growing demand, as well as to control the rapidly increasing domestic oil prices. It also reduced the import duties on edible oils from 25 percent to 15 percent in wake of the 35–40 percent increase in vegetable oil prices so far in the current year.

In the meal sector, India has recently emerged as an increasingly stable exporter of soy meal. Although India has the world’s highest cattle population, the livestock industry is characterized by mostly backyard units for household milk consumption. The feed for these cattle consists primarily of roughage and green fodder. Since the Indian soybean production has increased rapidly in the past several years, exports of soy meal have also increased many fold. At present, more than 75 percent of the meal output is exported. If the current ban on oilseed imports is relaxed, we may see even more meal exports out of India in the coming years. On the other hand, the expanding poultry industry might account for increased domestic consumption of meal, thus marginally affecting the total meal exports.

The Joint-Products Factor: During most of 1995–97 period, it was the demand for protein meals which was driving the international oilseed prices. As a result, the major oilseed producers, including the United States, Brazil and Argentina, considerably increased their soybean plantings as well as crushing. Since soy oil is a byproduct of the crushing process, the excess production of soy oil softened the prices last year quite a bit. The tables have turned, however, in recent months. While the soy meal demand has subsided in the past six months (compared with that a year ago), due primarily to the reduced demand from China, oil prices are leading the market this season. The world palm oil production has declined by about 4 percent, mainly in Malaysia, and this has bid up the premium on palm oil prices. This has also kept the prices of other vegetable oils steady, and has cushioned the fall in oilseed prices.

These ups and downs in product demand are expected to continue to influence the short-term fluctuations in oilseed markets.