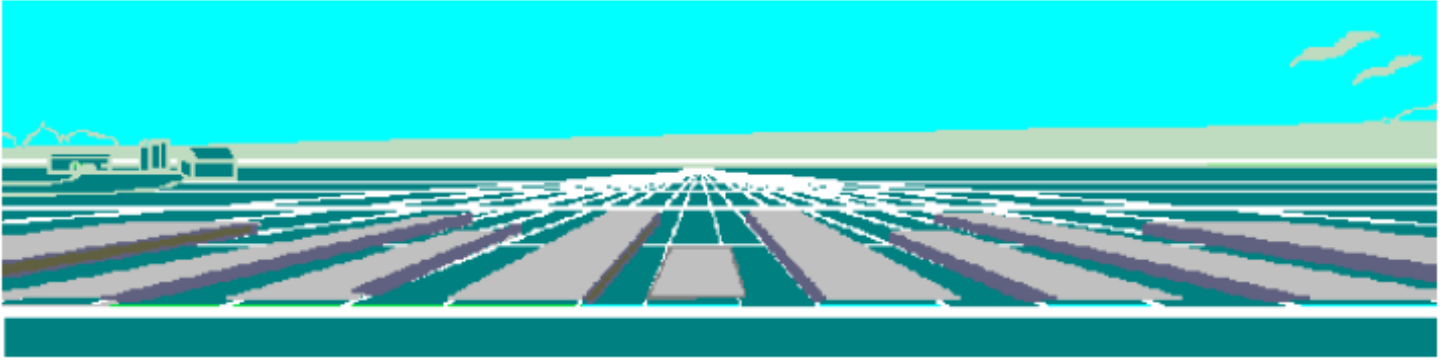


Iowa Farm Outlook



October 1, 2007

Ames, Iowa

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September Hog and Pig Report: Expansion Continues

The national swine herd continues to expand amid profitable market prices and moderating feed costs. The national swine inventory expanded 2.8 percent in the past year. This is the seventh year in a row that September national swine inventories have increased, with all hogs now totaling 64.6 million head. The national swine breeding herd is now 6.1 million head. Producers are still expanding at a steady and deliberate rate. Table 1 contains a summary of the September Hog and Pig Report with the percentage change from a year ago.

Table 1. September Hog and Pig Report, US and Iowa

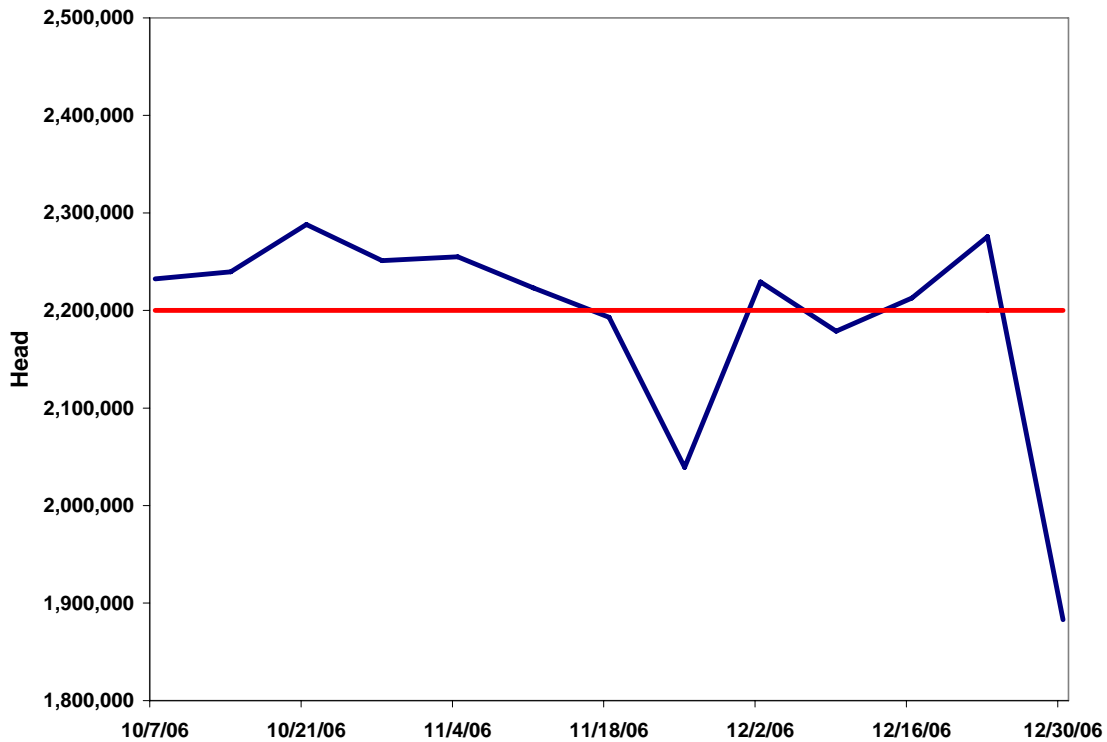
	US	%	Iowa	%
	Million	change	Million	change
All hogs	64.6	2.8%	17.8	4.7%
Breeding herd	6.1	1.1%	1.07	-0.9%
Market hogs	58.5	2.9%	16.7	5.1%
Under 60 lbs.	21.3	2.9%	5.1	8.2%
60-119 lbs.	14.6	2.7%	4.7	3.6%
120-179 lbs.	12.0	2.8%	3.8	6.4%
180+ lbs.	10.6	3.4%	3.1	1.0%
Pig Crop				
Mar-May	27.1	2.1%	4.07	2.3%
Jun-Aug	27.5	3.5%	4.14	0.0%
Farrowing Intentions				
Sep-Nov	3.0	0.5%	0.46	1.1%
Dec-Feb	2.9	1.3%	0.45	-1.1%

Iowa continues to have straight line inventories of breeding swine, while ever more feeder pigs are imported into the state. Iowa market hog inventories are up 5.1 percent from a year ago, while breeding swine numbers are down almost a percent.

Supply Side Factors

This is the largest September inventory of market hogs on record since the series began in 1973. The additional market hog supply is coming from the expanding breeding herd, more pigs produced in each litter, and reduced mortality. The vaccine for circovirus has helped to significantly reduce sickness and death loss among feeder pigs. Slaughter capacity has been a concern for the pork industry coming into the fall months. Figure 1 is a graph of the estimated fourth quarter hog slaughter based on current hog inventories. Packers, historically, have been able to handle over 2.2 million head each week, so packer capacity may not be as tight as once feared. There will be some busy weeks and perhaps several large Saturday kills as the larger supply of hogs are finished.

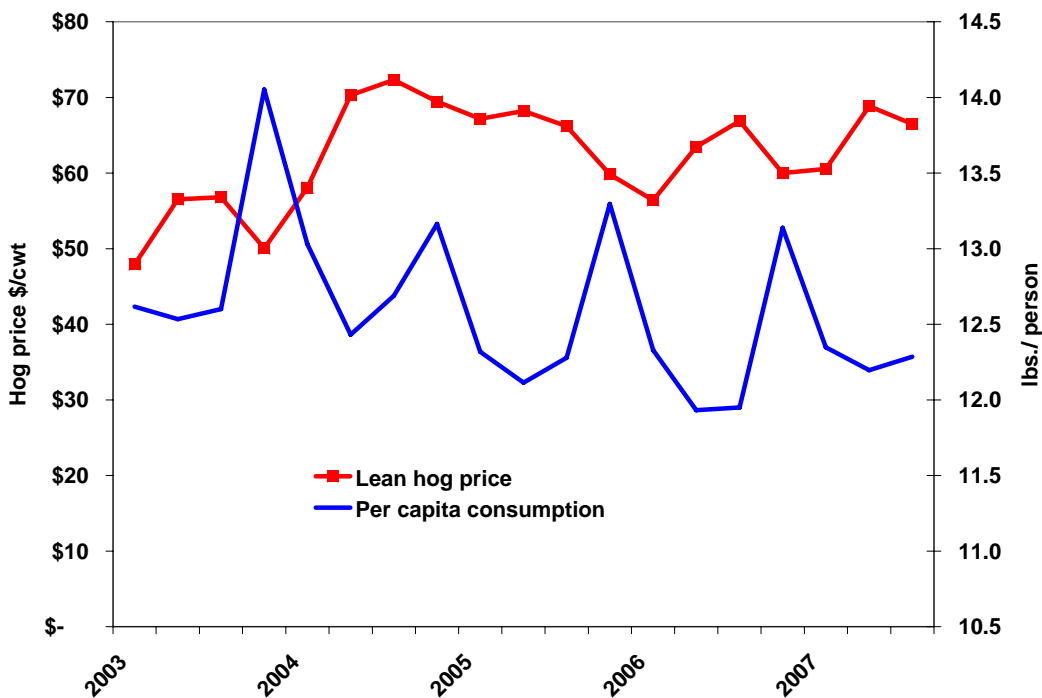
Figure 1. Fourth Quarter Estimated Weekly Hog Slaughter



Demand Side Factors

Domestic demand for pork is drawing most of its stability from the high price of competing meats. Poultry in particular has been expensive enough to drive consumers to the “other” white meat. August broiler retail prices were up 9% from a year ago, beef was up 6%, and pork was only 3% higher. Competition from poultry is likely to continue to grow in the coming months as egg sets and chick placements remain consistently higher than a year ago. Generally, an increased supply of meat leads to lower prices, and a moderation in pork prices in the next quarter will be accompanied by additional consumption. Figure 2 compares the trends in quarterly hog prices and per capita consumption over the past four years. The seasonality and trends between hog price and consumption are evident.

Figure 2. National Lean Hog Prices, Per Capita Pork Consumption



Foreign pork demand has proved to be a mixed bag so far this year. Total pork exports are down 2.8%, with Mexico and Russia importing 30% and 18% less US pork than a year ago. On the positive side, exports to China are up 79%, and Japan continues to be our largest pork consumer with 8% market expansion from a year ago. China may prove to be the next boom market for US pork. In the past year, disease has taken a heavy toll on Chinese hog production. Combined with a weakening US dollar, the conditions are very good for increased pork trade. The one catch is that China will only import pork that is free of ractopamine, a popular feed additive used in swine rations.

Production and Price Forecast

Additional hog supplies are going to create some bearish conditions in the hog market in the coming months. With strong demand in the corn market there will be chance of losses in the fourth quarter of this year and into the first part of 2008. Table 2 contains the ISU forecasted price, basis adjusted futures price, and change in pork production. Producers are likely watching the feed markets, as the start of harvest corn stocks were higher than expected. Soybean meal may become an increasingly scarce and expensive commodity with reduced soybean supplies.

Table 2. Production and Price Forecasts

	% change in production	ISU Forecast Live \$/cwt	Sept 28 Futures, Live	06 Cornbelt Basis	Basis Adjusted, Live
Oct-Dec	3.0	42-45	44.83	+.39	45.22
Jan-Mar	2.7	42-45	50.25	-3.03	47.22
Apr-Jun	0.7	51-54	54.54	-1.23	53.31
Jul-Sep	1.5	50-53	54.52	+.51	55.04

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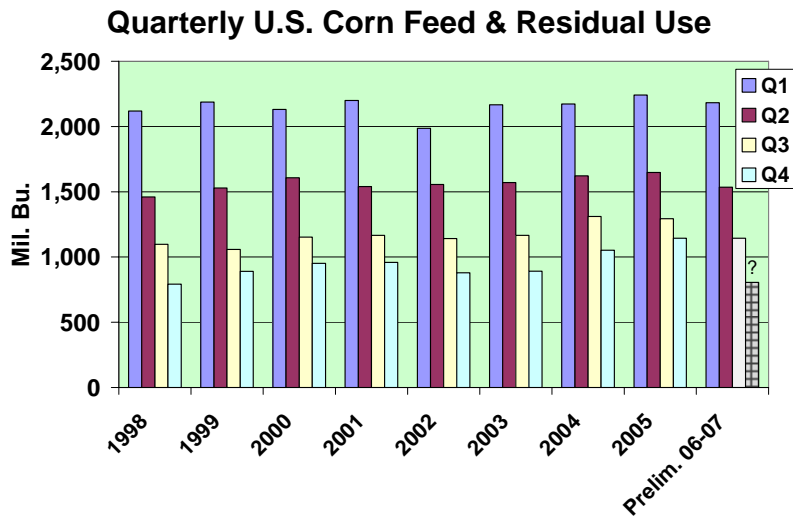
September USDA Grain Stocks Report Shows Reduced Corn Feed Usage

USDA's September 29 grain stocks report showed considerably larger corn supplies on hand September 1 than generally anticipated. The larger stocks are a caution sign in projecting corn feed usage and prices for the next few years. The updated numbers imply that U.S. corn feeding in the June-August quarter was about down 30% from the previous year – despite large hog and poultry numbers. The stocks also imply that corn feed and residual use (residual use = statistical errors and handling losses) for the 2006-07 marketing year was about 660 million bushels less than a year earlier. That's in sharp contrast to the previous 7-year average annual growth rate of 123 million bushels per year. The feed usage figures are preliminary and subject to possible future revision. Feed and residual numbers for the last few years were influenced by the expanding distillers grain supply for corn in domestic feeding, so increased distillers grain feeding this year is not a new development. Grain analysts now have the challenge of judging whether the sharply lower corn feeding was an aberration or whether the pattern is likely to continue in the next few years.

Increased distillers grain feeding in the past year falls far short of explaining the unexpectedly large decline in corn feeding. Other possible contributors to the indicated decline in corn feeding include: (1) an unusually large amount of low quality wheat that was fed this summer in the southern Great Plains – because of an extremely wet harvest season and (2) the very sharp increase in new-crop corn supplies in the South that provided more new-crop corn than normal for late summer feeding. USDA wheat stocks numbers suggest that up to 100 to 120 million bushels of the unexpected drop in corn feeding might have been due to increased wheat feeding. *Harvesting progress reports on September 2 suggest as much as 200 to 300 million bushels more new-crop corn than last year could have been available for feeding or export before September 1 in the region from southern Illinois and Kansas southward.* If this corn was used for either purpose in August, it would not have been picked up in the September 1 stocks report. Thus, it could reduce the reported feed and residual use.

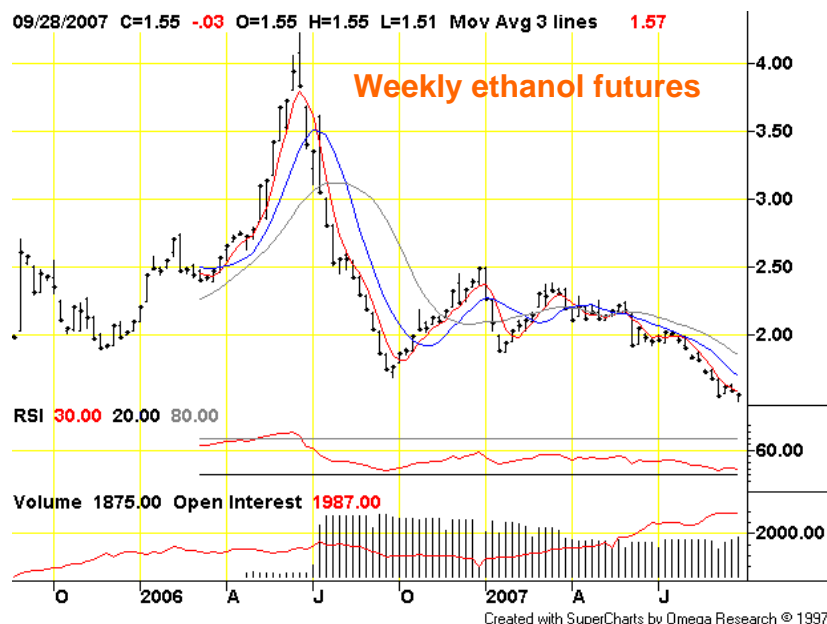
USDA's late September hog farrowing intentions report indicates a continued expansion in hog numbers is underway, which should be positive for corn demand later next year. September 1 cattle on feed numbers in feedlots over 1,000 head and placements both were 7% below a year earlier, signaling some slowing of feed demand in the fed cattle industry.

Figure 1 shows quarterly U.S. corn feed and residual use for the last several years, including the latest indications for summer quarter 2007. Another point to note in the chart is the unusually high summer quarter corn feed and residual use during 2005 and 2006. Part of the higher indicated use in those two years likely was due to severe deterioration in the quality of corn stored the previous fall in outside piles. Since domestic corn feeding is still the largest source of demand for the U.S. corn crop, feed usage trends will have a major role in determining how tight U.S. corn supplies are for the next several years and how much additional acreage is needed to meet the rapidly growing demand for corn for ethanol.



Declining Ethanol Prices Also a Caution

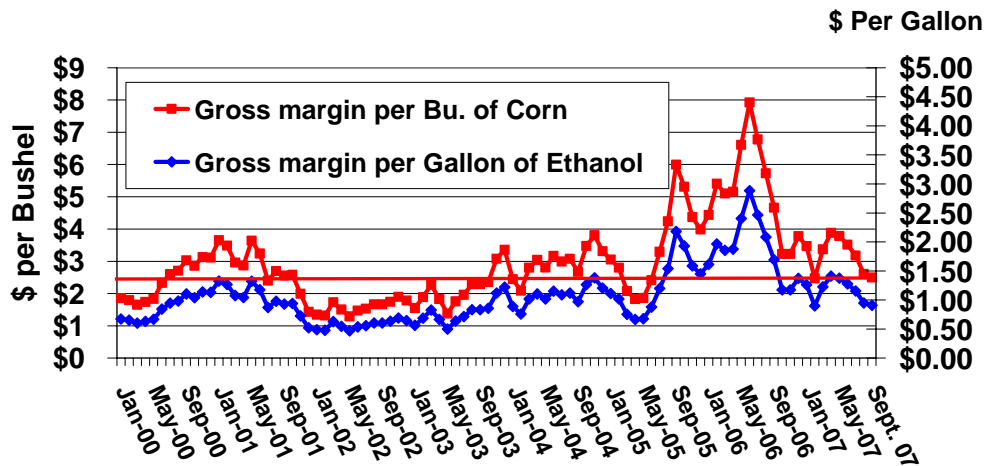
The chart below shows the weekly nearby CBOT ethanol futures contract high, low and closing prices. While the futures market is very thinly traded, trade sources indicate it is a reflection of what has been happening to wholesale ethanol prices. Declining ethanol prices and a strengthening corn market have substantially reduced ethanol processing margins, in some cases to below full break-even levels (when financing and other fixed costs are included). *With more capacity scheduled to come on stream in the next several months, margins may deteriorate further.*



The major factor behind declining processing margins is limited fuel blending capacity and transport capacity to move increased supplies from the Midwest to coastal regions that currently use less ethanol than the Midwest. High transport costs reduce the ethanol price available at Midwest processing plants. The current large discount of rack (wholesale) ethanol prices to gasoline provides a strong incentive to expand blending capacity. Transportation limitations may take longer to work out, since manufacturers of specialized rail cars for ethanol transport are operating at full capacity and reportedly are booked at capacity for at least a couple years out. An increase in the government mandated level of biofuels production, if that happens, would provide an additional incentive for increased investment to deal with these challenges.

Figure 2 shows estimated gross ethanol processing margins, based on wholesale ethanol prices and prices for dry distillers grain. It is intended to provide a general indication of the trend in Iowa ethanol processing margins, although actual margins at any specific plant will depend on its access to transportation and the local basis for ethanol, as well as production costs and its market for distillers grain. Our estimates indicate gross margins are at levels last seen for a short time early this year and in the spring of 2005. However, they are not as depressed as in the period from late 2001 through early 2003. Depressed margins have caused some investors to put plans for new plants on hold, with a few actually canceling their plans entirely. However, these developments should not be read as indicating that the expansion in corn processing for ethanol is coming to a halt. Capacity of plants currently under construction is almost enough to double the existing processing capacity. Along with plants currently under construction, a large number of planned plants are getting close to breaking ground.

Figure 2. Iowa Gross Processing Margins for Ethanol, January 2000-Prelim. Sept. 2007



Export Sales

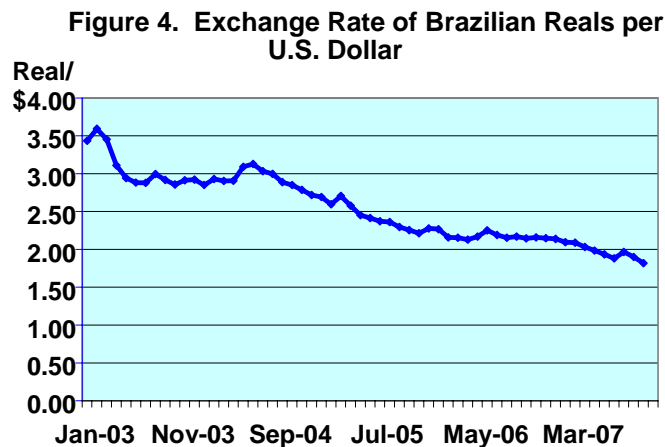
As we have noted in previous issues of Iowa Farm Outlook, U.S. corn export sales are the largest for this time of year since 1995. Figure 3 shows cumulative exports and outstanding sales through September 20 (the most recent data available). With wheat prices at an all-time record high, part of the normal international feed wheat demand is shifting to corn. At the global level, billion bushels or more of wheat normally are reported to be fed to livestock annually. Current corn export shipments and outstanding sales are 42% larger than a year earlier. They represent 35% of the latest projected USDA marketing year total exports. That’s up from a 22% average for the past five years. Using the 5-year average would imply this marketing year’s total U.S. corn exports would be about 3.65 billion bushels. Exports at that level are highly unlikely because of limited transportation capacity, but exports in the 2.35 to 2.45 billion bushel range appear to be a good possibility. USDA projects the season total at 2.25 billion bushels. Stronger exports may help offset lower than expected summer quarter domestic corn feeding.

Weak U.S. Dollar

The chart below shows the weekly high, low, and close of the trade-weighted index of the U.S. dollar for the last several years. Media reports have given widespread coverage of weakness in the dollar, but as the chart indicates, recent weakness has been much less than in the 2002-2004 period. Even so, from the viewpoint of foreign buyers, the weakening dollar offsets some of the strength in U.S. domestic prices.



The Brazil/U.S. exchange rate is a key relationship this fall, since it will influence how high soybean prices have to go to bring a sizeable expansion in Brazil's soybean acreage. Figure 4 shows this exchange rate for the past four years. A declining trend in the chart means that when Brazilian farmers sell their soybeans for dollars in world markets, they receive fewer units of local currency to cover living expenses and purchase production inputs. Thus, a higher dollar price of soybeans is needed to compensate them for the changing exchange rate.



Robert Wisner