U.S. Feed Grain Exports Show Early Strength; Possible Price Pressure in the Offing

AGRICULTURE

Dec. 17 (NSIPS) — The U.S. Department of Agriculture this week raised its projections for U.S. corn exports, a revision based on an unusually strong showing in the first two months on the marketing year which began on Oct. 1. The upward revision in corn exports, which constitute the vast bulk of feed grain exports, comes on the heels of earlier U.S.D.A. estimates of a 5 per cent drop in overall U.S. feed grain exports for 1976-77.

The early burst in corn exports, fueled by the drought-reduced coarse grain harvests in both Eastern and Western Europe, by no means "locks in" the 1976-77 marketing year as the near record success, comparable to 1975-76, otherwise indicated. An anticipated 17 million ton exportable corn surplus among principally five U.S. competitors may exert unexpected price pressure may well be forthcoming as a result of increasingly price-competitive wheat substitution in livestock feeding both internationally and domestically. Domestic feed use typically accounts for 60-70 per cent of the annual U.S. corn crop disappearance.

As of Oct. 1, the U.S. corn crop was preliminarily estimated at 5.9 billion bushels, which together with .4 billion bushels carryover indicates total U.S. supplies for the 1976-77 marketing year of 6.3 billion bushels, slightly higher than last year. Historically, exports have accounted for 20-30 per cent of total disappearance. Exports and outstanding sales for October and November already bear out expectations that greatly reduced Soviet imports, a result of their record harvest, will be substantially compensated for by increased Eastern and Western European imports, a direct result of the drought damage to key grain producing centers in those areas. With the notable exception of Italy, every major Western European country has already taken delivery or contracted for one-third to one-half, and in some cases like the Netherlands, as much corn as they bought in the entire 1975-76 marketing year. In the past four marketing years October-December sales accounted for approximately 20-25 per cent of total ultimate sales.

While Western Europe's coarse grain production is down 12 per cent from a year earlier as a result of the drought, which most affected France where a fourth of West Europe's grain crop is produced, drought-induced livestock herd liquidation was according to U.S. Department of Agriculture reports not substantial enough to produce a corollary reduction in European feed grain demand. In fact, according to these reports, livestock feeding volume is rather simply "levelling off" after several years of significant expansion.

Eastern Europe's coarse grain production in 1976 is projected at 55 million tons, down 7 per cent from last year's generally poor harvests as a result of the drought. U.S. sales of corn to Eastern Europe in October-November are quite high — led by East Germany's 65.6 million bushels of exports plus outstanding sales. Czechoslovakia and Poland follow with 18 million bushels and 27 bushels respectively under contract.

Japan, traditionally *the* major single importer of U.S. corn, has similiarly contracted for 150 million bushels, more than half its 1976 imports of 228 million bushels.

Question Marks

These developments add up to a sound start for 1977 U.S. corn exports, and appear to lay the basis for fulfilling export expectations for the year as a whole even if orders diminish relatively significantly over the course of the year. Nonetheless two question marks remain in the annual export picture. One is the marginal but potentially decisive impact which the 17 million tons of coarse grain available for export from Argentina, Canada, Thailand, Brazil, and South Africa might have on corn and other coarse grain international market prices. Argentina, which has staked its national solvency on an all-or-nothing campaign of wheat and coarse grain production for export, is expected to have fully 6.1 million tons of coarse grain available for export following the spring harvest. In pursuit of its foreign-exchange-raising policy, Argentina is currently exerting tremendous competitive pressures in the wheat market, offering 20 per cent discounts. Brazil's coarse grain crop, which increased 15 per cent last year and is expected to expand an additional 10 per cent this season, could yield 2 million tons for export.

Canada is expected to have 4.6 million tons of coarse grains available for export, and South Africa and Thailand approximately 2 million tons each during the 1976-77 year.

A second significant factor in coarse grain market developments over the year is the general level of livestock feeding and related to that the extent of wheat substitution in feeding operations. Domestic feeding of feed grains, which accounts for 60-70 per cent of grain disappearance, is currently expected to be up 3-4 per cent. This is, however, an admittedly incertain projection, given persistently fragile profit margins in all feed livestock and poultry sectors, particularly cattle. While the combined number of livestock and poultry stock is larger than a year ago, the numbers of cattle on feed as of Oct. 1 were little changed from year-earlier levels. Following the disastrous feeding experience of 1974-75, when feeders were forced by soaring production costs and relatively depressed market prices to cut back livestock output and numerous cattle feeders in particular went bankrupt, feed demand rose 10 per cent in 1975-76 as all livestock and poultry feeding industries expanded operations in anticipation of recouping losses. Fall-out from the 1974-75 losses continued to dog cattle feeders, however, as continuing high slaughter rates for non-fed as well as fed cattle depressed meat prices. By the end of the 1975-76 season both hog and broiler producers' profit margins were squeezed as large supplies held down market prices. By early fall, for instance, both hog and broiler prices were down 30 and 18 per cent respectively from their summer peaks. At present, as the U.S.D.A. notes, futures prices for both hogs and cattle in 1977 do not allow much margin for feeding profitably.

At the moment it is not certain to what extent this situation will ultimately affect the volume of livestock placed on feed, and consequently feed demand over the coming year. To be sure, it is a situation in which the relatively large supplies of wheat together with the past six months'wheat price collapse may result in significant wheat substitution for the increasingly less price competitive feed grains proper. Wheat prices have fallen by approximately 30 per cent from a year ago to the vicinity of 2.62 dollars per bushel. Cash corn prices today stand at 2.42 dollars per bushel.

European Steel Outlook Grim and Getting Worse

STEEL

Dec. 17 — A London press conference scheduled by the European Economic Commission steel commissioner Henri Simonet, in which he was to announce the implementation of his plan as of Jan. 1,was abruptly canceled this week. The plan calls for EEC steel producers to voluntarily cut back sales along guidelines specified by the commission, so that they can split up the "shrinking pie" that remains of the European steel business. It has met with stiff resistance from the West Germans who are complaining that the cutbacks hit their industry hardest. The Germans have stated that they would have to reduce sales on certain products compared with 16 percent for the United Kingdom and 10 percent for the Italians.

By its own admission, the situation in the EEC is at a "crisis stage." In France alone 50,000 steel workers are unemployed, and in West Germany the situation is equally critical. The European steel industry as a whole is in worse shape now than during the depths of the 1975 recession. The November figures for West Germany showed slippage of crude steel production to 130,000 metric tons from the October figures. The November figure of 3,296,000 metric tons brought the year's eleven-month total to only 4.8 percent above last year's dismal totals. Crude production for the year will total no more than 43 million metric tons, 2 million tons below the year's projected output and almost one-third lower than the levels reached in 1973 and 1974.

All the major German producers have announced layoffs for the Dec. 13—Jan. 10 period, affecting more than 20,000 workers. Kloeckner-Werke AG reported a dip in sales in the year ended Sept. 30, to 3.35 billion deutschemarks ($1.4 million), down from the 3.386 billion in 1975. The total loss for the year started at the "absolute low point for decades" and after some high hopes wound up at the same level. Total crude production of 2.95 million metric tons was just over 55 percent of total capacity utilization of 5.3 million tons.

The small amount of steel sold internationally is being sold mostly below cost with many items dipping to price levels that existed during the recession of late 1974-75. The Japanese (the supposed villains of the steel industry) have reported that Europeans are intensifying their export drives to North, South and Central America and to the Middle and Near East offering prices that are $40—$50 per ton below those of Japan. In the U.S., low-carbon wire rod is being sold at prices that are $60 per ton below the published price of U.S.Steel. Flat rolled goods, which were just increased in price by about 6 percent, are in many cases being offered at $30-$40 below the listed level.

France's leading steelmakers, Usinor (L'Union Siderurgique du Nord et de l'Est de la France) and Sacilor (Acieries et Laminoirs de Lorraine) have just instituted the first major dismissals of personnel since World War II. As many as 3,500 jobs may be eliminated by the end of 1977's first quarter. With no immediate prospects for improvement, steel executives throughout France are seeking government compensation to prevent additional layoffs in the coming months.

"The current situation imperils the corporation, even the survival of the profession, (and threatens) the pure and simple elimination of some markets," said Jean Hue de la Colombe, chairman of Usinor, France's largest producer. The closing of three rolling mills in Lorraine will leave 700 workers jobless and threaten another 1500 to 1,800. "It is quite clear that to produce 8 million tons this year, a workforce of 42,000 is excessive," Colombe said. Finding new positions for those laid off in France cannot be guaranteed since market conditions for 1977 "hardly appear any better" than 1976, he said.

At Sacilor, Pierre Durand Rival of the management board said that the 32-hour work week that affects 28,000 of the 48,000-man workforce would continue in the first three months of 1977. In addition, Rival said that layoffs would be unavoidable due to poor first quarter expectations and "the risk of the unacceptable gap between expenses and revenues." Industry sources expect layoffs in the area of 3,000 jobs.

Burdened by debt service on the order of 12 percent of the industry's sales, Usinor has been forced to suspend plans for new heavy plate capacity at its Dunkirk facility, to halt modernization work at its Thionville mill,