

# Friona Industries, L. P.

## Feeding Supplement

Fall 2001

Volume 1, Issue 4

All Americans were shocked and saddened by the events that transpired on September 11, 2001 in New York City and Washington, D.C., and the unspeakable horror that developed over just a few minutes that morning. All of us were quickly reminded how fragile our basic culture and way of life becomes in light of events on a global stage. Within our Friona family, it is my job to try to verbalize the feelings and emotions that we all felt that morning, so I thought I would take this opportunity to do the same with you, our customers.

**God Bless  
America!**



Although we all thought it impossible to ever have events as catastrophic as these happen in our lifetime...it did happen...and our lives will never be the same. After some reflection during that day, we gathered our headquarter employees together and basically did three things. We vowed to include in our thoughts and prayers these people who were involved in this tragedy. Secondly, we solemnly pledged our total support and commitment to our political and military leaders and their efforts to apprehend and punish those responsible for these acts. Thirdly, we did what we always do in times of tragedy within our family...we dedicated our focus and energy to those around us both internally and externally who have been our friends, customers and family for so long.

Each one of us vow a simple commitment to never let these heinous acts of terrorism jeopardize the basic freedoms, rights, and liberties that all of our families have fought so hard to achieve. We will go about our business with strength, courage, honesty, and a total commitment to our heritage of American ingenuity and entrepreneurship. We simply will never let them win.

*James E. Herring  
President and CEO  
Friona Industries, L. P.*

### ON LINE COMMUNICATIONS

As we reported in our Spring issue of *Feeding Supplement*, we now have available to our customers, the ability to access certain key cattle performance reports over the Internet.

The response from our customers has been extremely positive. To learn more about how to access your cattle performance information, contact Benetta Roaming at (800) 658-6014.

### FOOT AND MOUTH DISEASE

Friona Industries, as well as all other commercial feeding operations we have visited with, continue to be on "full alert" against a foot & mouth outbreak in the United States, Mexico, or Canada.

All of our yards continue their process of visitor "sign-in" and prior travel disclosure. All tours continue to be suspended until further notice.

### **Grain Market Outlook**

*by Gary Holcomb,  
Commodity Procurement Manager*

Hot and dry weather conditions across the Plains and Midwest sections of the US during July caused significant market volatility. Conditions eased somewhat in August and the market calmed down trading into a narrowing sideways pattern.

The USDA's September crop report projected 2001 corn production to be 9.238 billion bushels, down from 9.968 billion last year. Ending stocks for 2001/02 are projected to be 1.361 billion bushels, down from 1.938 billion last year.

Market prices are focused on the smaller ending stocks that are a result of the smaller crop

*Continued on page 2*

## Grain Market Outlook...

Continued from page 1

and demand projections for this year which are almost 100 million bushels higher than last year. If current supply/demand projections are realized, corn prices will work higher during the year.

However, we still have harvest to deal with during the next couple of months and export demand has been lackluster so far. Just as these comments are being written, December corn futures are hovering just above support levels.

The market could see selling pressure from speculative funds as well as farmers in their harvest mode. Several private market forecasters see \$2.25 as the low end of expected trading range for December futures.

Last year at this time, December corn was below \$2.00. In addition to futures, cash corn basis values delivered to South Plains feedyards are \$.10 to \$.15 per bushel higher than last year.

Thus, with current corn prices, ration prices are projected to be 5% to 10% higher this fall through next summer as seen in the graph below.

An interesting phenomenon has been developing during the past two years regarding the Texas Panhandle corn market. The introduction of shuttle train programs in Amarillo and Hereford have provided consistent supplies of corn to South Plains feedyards.

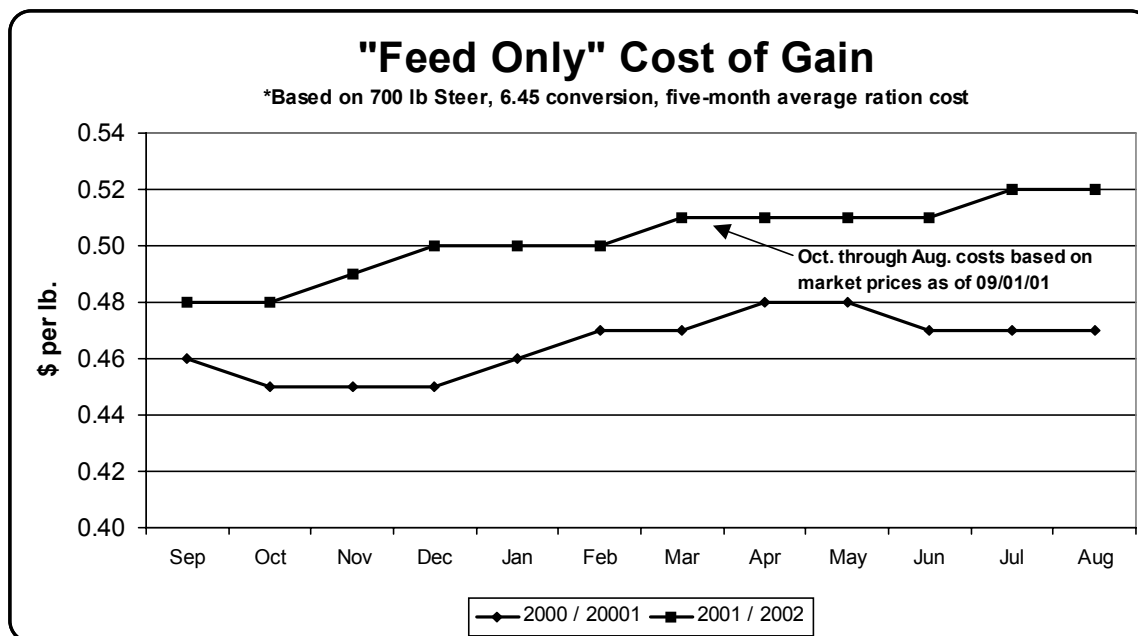
Historically, the South Plains has been deficit corn, and prices traded at enough of a premium to pay truck freight from North Plains and Southwest Kansas grain elevators.

The past two years have seen the corn price spread between the South Plains and North Plains narrow during the spring and summer months. In fact, North Plains corn has traded at a premium to South Plains on several occasions recently.

This situation is the result of reduced North Plains corn production last year, plenty of grain elevator storage space, and wide carries in the futures market. At the same time, the South Plains has incurred a huge reduction in local corn production, but the shuttle trains have provided enough corn to satisfy the demand.

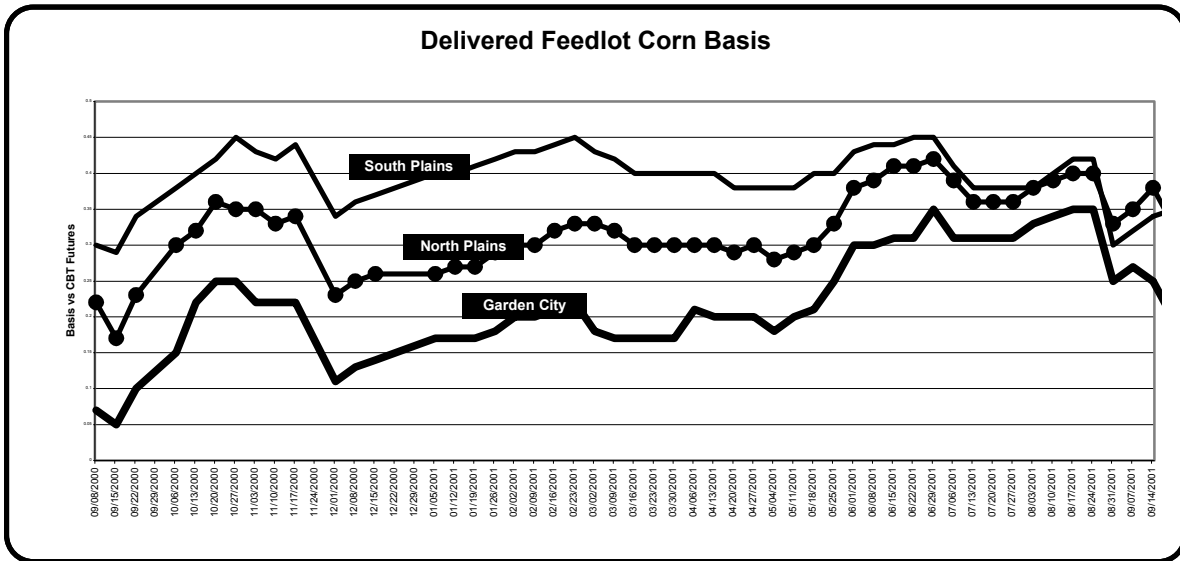
The end result is local cash basis on the North Plains must go up more than the South Plains to be able to buy corn. The increasing feedgrain demand from expanding livestock operations will continue to exacerbate the corn price spread.

Obviously, the narrower corn price spread will impact ration prices in a similar manner. The graph on page 3 compares average weekly corn basis values delivered to feedyards on the South Plains, North Plains, and Garden City, KS areas for the past year.



As you can see, the spread during harvest was fairly normal then gradually narrowed in late winter. The spread narrowed significantly during the summer with North going to a premium over South in early September.

**Will this phenomenon continue?** Probably. Water for irrigation continues to decline. Energy costs to operate irrigation equipment are uncertain. Local corn production will suffer. Livestock feeding demand is growing. The need for rail grain supplies appears to be here for good. Additional shuttle train facilities are being built on the North Plains and rail freight spreads support the narrow price spread between North and South. Price spreads will still fluctuate seasonally with supply and demand. But, the trend has changed! ■

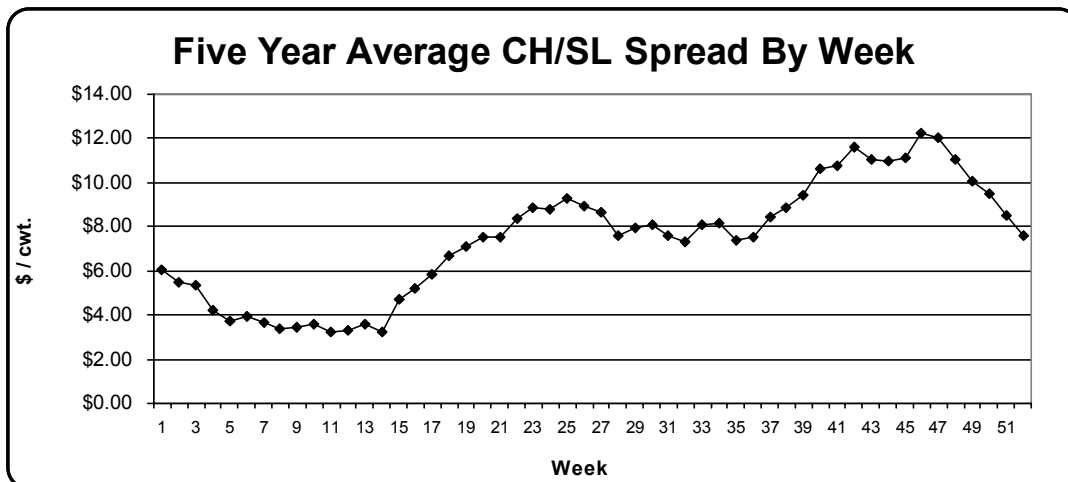


**PERFORMANCE ANALYSIS AND GRAIN PRICING**

With commodity prices projected to be 5% to 10% above last year's levels and winter feeding months on the horizon, please do not hesitate to call if we may be of assistance in calculating estimated breakeven projections. We can also forward contract your grain needs.

**HISTORICAL CHOICE / SELECT SPREAD**

The seasonal supply and demand for choice beef is illustrated below in the five-year weekly choice / select spread. Last week (week 37) was quoted at a \$10.32/cwt spread between choice and select, \$2.78/cwt over the prior week. It appears we are on course for the normal increase in the Fall Choice / Select spread. This will effect the formula/grid carcass price as well as the cash price.



**Friona Industries, L. P.**

500 S. Taylor, Suite 601  
P.O. Box 15568  
Amarillo, Texas 79105-5568

**We're on the Web!**  
[www.frionaind.com](http://www.frionaind.com)

**Feed Supplement Reminders**



Don't miss the **Texas Cattle Feeders Assn. 2001 Annual Convention** set for November 2-4, 2001 at the Double Tree Lincoln Centre in Dallas, TX.

For more information about the convention or to register "on line" go to TCFA's web site at [www.tcfa.org](http://www.tcfa.org).

Would you like more information on our cattle for sale and joint ownership opportunities, or would you like to receive a free estimated breakeven projection, call or email Brad Stout or Mark Hooker.

Receive this newsletter, Cattle for Sale notices and other important information via email. Just forward us your email address and we will include you on our list.

**Our Feedyard Locations**

**Friona Feedyard**  
David George, Mgr.  
Friona, Texas  
(800) 658-6086

**Spring Lake Feedyard**  
Harold Greenhouse, Mgr.  
Earth, Texas  
(800) 658-6085

**Littlefield Feedyard**  
Jonny Miller, Mgr.  
Littlefield, Texas  
(800) 687-5141

**Swisher County Cattle Co.**  
Gene Pool, Mgr.  
Tulia, Texas  
(800) 658-6064

**Randall Co. Feedyard**  
Richard Winter, Mgr.  
Canyon, Texas  
(800) 658-6063

**Corporate Feedyard Division:**  
Dave DeLaney, General Mgr.  
Brad Stout, Customer Services  
Mark Hooker, Customer Services

**Friona Industries, L. P.**  
**500 S. Taylor, Suite 601**  
**P.O. Box 15568**  
**Amarillo, Texas 79105-5568**

**(800) 658-6014**  
**(806) 374-1811**  
**Fax (806) 374-1324**  
**Email [FI@frionaind.com](mailto:FI@frionaind.com)**

