

September 2, 1997

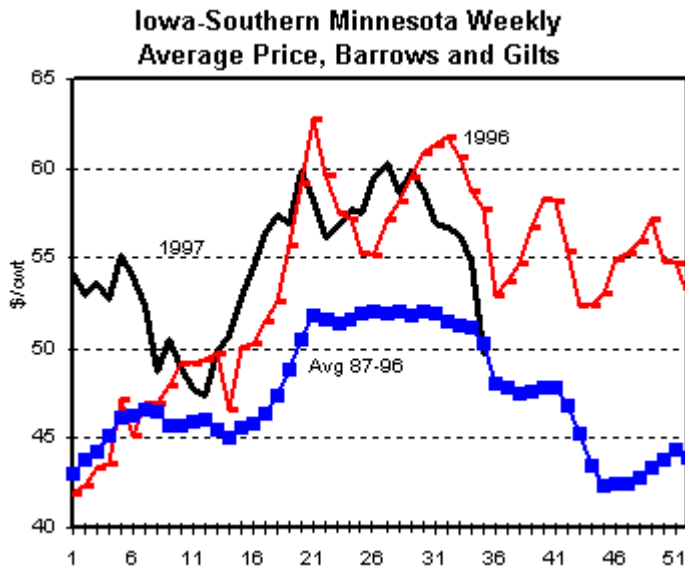
Ames, Iowa

Econ. Info. 1725

SEASONALLY LOWER HOG PRICES

Each fall, hog prices work lower and this year is no exception. Iowa Southern Minnesota averaged \$49.75 during the last week of August, down from a summer high of \$60.31 the week ending July 3rd. Prices may well move lower yet this fall, but there is reason to believe that we may see a brief rally first.

Figure 1 shows the seasonal price trend and 1996 and 1997 prices. Note that over the last 10 years, hog prices on average have leveled off after Labor Day (week 36). Figure 2 shows that in 4 of the last 10 years, prices moved higher following Labor Day as they did in 1996, and the remaining years prices declined. Also note that there has been only one year in the last 10 that prices were higher in week 37 than in week 35. The week that begins with Labor Day is week 36 this year, so the odds favor steady-to-weaker prices in early September.

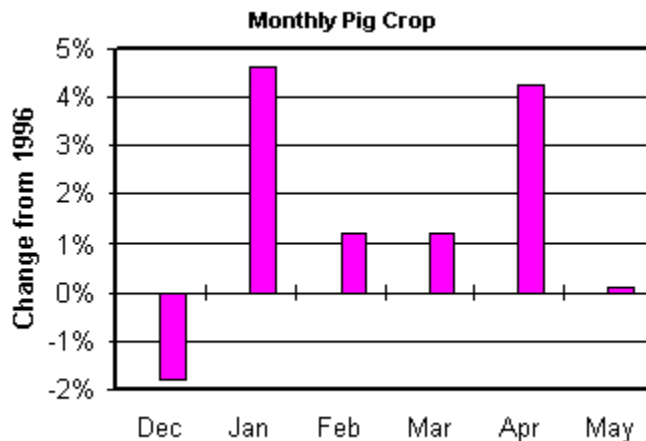


The average price decline from the summer high and the fall low over the last 10 years has been 25 percent, and only three years have declined 20 percent or less. These were 12, 18, and 20 percent respectively. A 25 percent decline from the \$60.31 summer high projects a \$45.37 weekly average price for the low. A 20 percent decline results in an average low of \$48.25.



Supplies will increase as we move into the fall. Over the last 10 years, weekly slaughter has increased 10 percent from the four weeks prior to Labor Day compared to the four weeks ending the first week of December. In addition, supplies this fall are expected to be one to two percent larger than a year ago.

The monthly pig crop reported in the June Hogs and Pigs report suggests that September supplies could increase 3-4 percent over the same period in 1996, based on April farrowings. Use caution interpreting these numbers as gilt and sow slaughter and seasonal growth rates may skew actual production one way or the other.



Reasons for Optimism...

We may not see low prices in the mid-\$40s this fall if the demand side of the price equation behaves as expected. First, there should be increased packer capacity this fall. IBP has been working toward a double shift at the Logansport, IN plants most of the summer. They may also reopen the second shift at the Columbus Junction, IA plant as hog numbers rebound this fall and early 1998. Smithfield is expected to reopen the second shift at the Sioux City, IA plant this fall as well. In addition, Seaboard has been working toward a second shift at its Guymon, OK plant. As hog numbers build this fall, the packer capacity should be available to handle the numbers and bid for the hogs.

Pork demand may also benefit from beef prices that are higher than many expected and that have been a featured product for some time. However, if the anticipated large supplies of beef do come to market, the competition at the retail counter will pressure hog prices. Pork may stand to gain somewhat from the beef recall and related negative press that beef has received. The recall was equivalent to only about one percent of July beef production and should have little effect, but the true measure will depend on consumer reaction to the news.

The remaining wild card for pork prices is export to Japan. The tariff on pork imports into Japan was reduced July 1 making U.S. pork cheaper at the Japanese docks. However, the market has not reflected significant new demand that was anticipated. Japan was believed to have large frozen stocks of pork and may have been waiting until pork declined from the seasonally high summer prices. If that is the case, the U.S. could see increased buying from Japan in the coming weeks. If imports remain below the trigger level for the tariff measured in October, trade can continue until next spring without the tariff. If this more deliberate strategy is followed, the U.S. could see slow but steady export demand from Japan through the fall and winter. The hog market would not be explosive; it may stay stronger than a normal seasonal price pattern would forecast.

...John Lawrence

WORLD FEED GRAIN SUPPLIES TIGHTEN, OILSEED SUPPLIES INCREASE

Corn and soybean prices have fluctuated in a relatively wide range this summer in response to U.S. weather conditions. For the next seven months, foreign crops and resulting foreign grain and oilseed import needs may become increasingly important. Key areas where adverse summer 1997 weather may contribute to increased export demand for U.S. corn and soybeans are China, India, and Australia. The first two of these countries sometimes shift from being exporters to importers, depending on the size of their crops. Sizable parts of China had severe drought until mid-August, which is believed to have reduced its corn crop sharply from last year.

The International Grains Council in London, in its end of August report, projected a 26.5 million metric ton (1.04 billion bushel corn equivalent) decline in world coarse grain or feed grain production from last year. About two-thirds of the drop in production is estimated to have occurred in China, with reductions also occurring in India, Australia, and some other areas. Some northern areas of India have had below-normal rainfall, and interior Australia is in a severe drought, both of which may be related to the El Niño weather pattern. Australia's main grain harvest is from late November through January, since it is south of the equator. Grain production is expected to be above 1996 levels this year in the former Soviet Union. Some former Soviet republics likely will export grain in the year ahead.

World Oilseeds...

World oilseed production is indicated to be a new record and is projected to be well above that of last year. Even so, fall and winter export demand for U.S. soybeans should be relatively strong because of weather problems and growing demand in China, and very low South American old-crop supplies. Other foreign oilseed supplies appear likely to be above those of last year and may slightly temper the increase in demand for U.S. soybeans, but overall demand prospects look quite favorable from November through February. Early indications point to above-normal returns for storing this year's corn and soybean crops into mid-winter. However, cash soybean prices have substantial downward risk in the next few weeks as the market adjusts from very tight old-crop supplies to more plentiful new-crop supplies. Reports from the South indicate farmers are harvesting soybeans earlier than usual to take advantage of the large old-crop price premium over new-crop prices.

The USDA September 12 crop report will be a major indicator of harvest-time prices. Dry weather in parts of the Midwest in late August is widely believed to have lowered corn and soybean production potential. Parts of the Canadian Grain Belt have just had scattered light frosts. However, damage to crops appears to have been insignificant from a market perspective. The timing of the first Corn Belt frosts may cause some price volatility in the next 2-3 weeks.

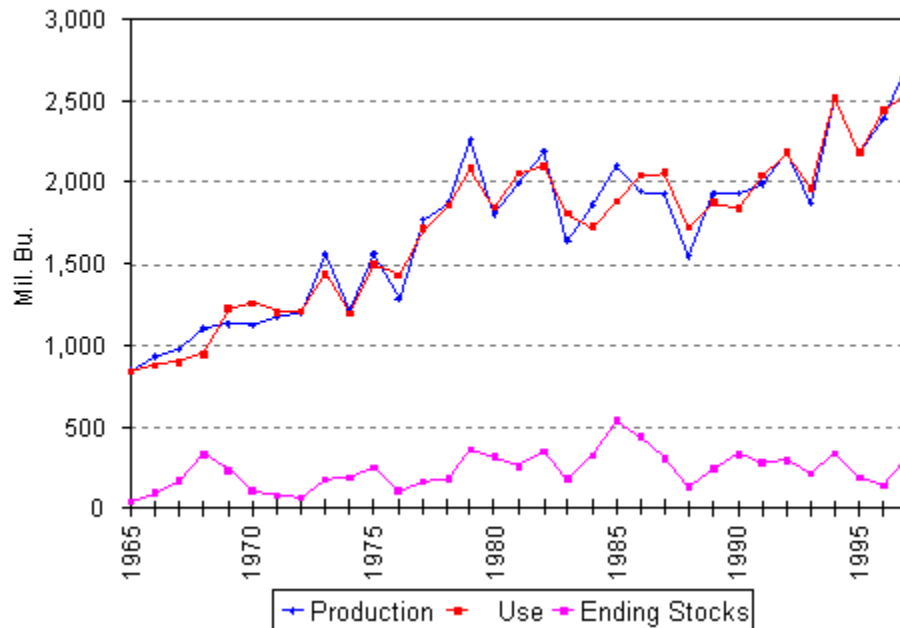
China's Corn Import Needs Are Uncertain, But Big Factor in Corn Outlook...

If recent estimates of China's corn crop are an accurate assessment of 1997 production, Chinese corn imports for the year ahead could be in the four to six million tons (160 to 240 million bushels) range or higher. In the year just ended, China is estimated by the grain trade to have exported around 110 million bushels. A shift of this magnitude from being an exporter to an importer would have the potential to tighten U.S. and world feed grain supplies quite significantly by next summer. That would be reinforced by increased pork and poultry production in the U.S. (some of which is a transferring of production from Taiwan and Netherlands to the U.S. due to disease problems in those countries).

Chinese corn import prospects are clouded by at least two factors. First, China is believed to have large feed grain reserve stocks, continuing a long-standing policy for food and political security reasons. The exact size of its stocks is unknown. Some analysts believe the total may be around 1.0 to 1.1 billion bushels, but no accurate data are available.

The second factor obscuring China's import needs is that it has continued to export corn up to the end of August, according to Far East grain trade sources. Moreover, reports from that area indicate China has made commitments in the last two weeks to ship three million tons of corn from its severe drought area to southern feeding regions by ocean freight-that caught traders by surprise. Many traders had expected the southern area's needs to be covered by imports from foreign supplies because world corn prices are below internal Chinese prices. This move could possibly indicate China's carryover stocks and/or its 1997 production are larger than expected. However, caution is advised in relying on this interpretation, since the Chinese are very shrewd traders. The Chinese drought was relieved by widespread rains in mid-August, and by lighter and more scattered rains earlier in the month. The extent of yield losses from earlier hot, dry weather remains uncertain, but significant crop damage is widely believed to have occurred. In contrast to reduced feed grain production, China's 1997 wheat crop is estimated to be up 258 million bushels or 7 percent from last year. China often is a large importer of wheat, and sometimes has feed wheat to livestock. In the year ahead, its wheat imports are expected to be unusually low.

U.S. Soybean Production, Use & Stocks



A better reading on corn price prospects for the year ahead will be available after the September 12 USDA crop forecasts. So far, new-crop corn futures prices have been considerably below levels that would be expected if China does import four to six million tons of 1997 U.S. corn. China's imports appear likely to be relatively small or non-existent until after the first of the year, while it initially relies mainly on its 1997 harvest and old-crop supplies. USDA's September 12 World Crop Report will contain an updated estimate of China's 1997 grain and oilseed production.

Soybeans...

Old-crop carryover stocks appear to have been about 2.6 week's supply on September 1. Since that is a bare-minimum working level, essentially all of the U.S. soybeans used during the 1997-98 marketing year will have to come from this year's crop. USDA estimated the crop at 2.74 billion bushels on August 1, the largest soybean harvest on record and up 15 percent from last year. If the final crop size is near this indication, total use of U.S. soybeans could increase by a maximum of 14 percent from this year. The largest one-year percent increase in total utilization of U.S. soybeans since 1965 was 30 percent in 1969-70. Other years of larger increases in use were 24 percent in 1975) after a 17 percent decline the previous year); 19 percent in 1977-78; 18 percent in 1973-74; and 28 percent in 1994-95 (after a 10 percent decline the previous year). In the year just ended, total use of U.S. soybeans was about 12 percent above that of a year earlier.

Strong world demand for world protein meal and oil will be accommodated partly by the large U.S. crop, but also by increased production in Canada and western Europe, and an anticipated sharp increase in South America's 1997-98 plantings for harvest next spring. The European Union oilseed crop currently is estimated to be up 12 percent from 1996. Early projections call for a five to eight percent increase from last year in South America's late November - January soybean plantings. Much of the projected increase in plantings is expected to come from grassland being converted to soybeans in northwestern Brazil, and from wheat

Table 1. Percent of corn and soybean plantings by selected states on September 2, 1997, according to USDA's weekly

weather and crop report:				
State	Corn		Soybeans	
	% Dented		% G-Ex	% G-Ex
	8/31/97	'92-96 Avg.	8/31/97	8/31/97
AR	NA	NA	NA	54
IL	54	47	48	56
IN	37	42	56	62
IA	43	33	64	66
KY	76	81	35	50
LA	NA	NA	NA	55
MI	5	15	54	67
MN	25	24	75	61
MS	NA	NA	NA	72
MO	80	69	37	40
NE	41	40	64	54
NC	85	90	52	69
OH	17	36	68	69
SD	34	27	77	75
TX	89	90	73	NA
WI	8	22	84	NA
Maj. St.	42	40	62	61
Pr. Wk.	NA	NA	63	60
* G-Ex = Good-to-Excellent				

...Robert Wisner