HOG EXPANSION GAINS SPEED

The USDA September Hogs and Pigs Report indicated an increase in hog inventories that were near trade expectations. However, the summer pig crop and fall and winter farrowing intentions were higher than expected. Much of the expansion was already factored into the futures market, and any surprises will likely come from the demand side,. particularly, if, when, and at what level exports to Japan occur will impact pork prices.

Prices are forecast to average in the mid- to upper $40s for the next 12 months with possibly the highest prices occurring this fall. Although heavily dependent on corn prices for the coming year, pork producers' cost of production should remain in the low $40s. ***As a result, producers are expected to profit during most months in the year ahead. The first significant losses are not expected until the fourth quarter of 1998.***

Larger Inventories

The total U.S. hog inventory September 1 was 60.25 million head, up 4 percent from a year earlier (Table 1). The breeding herd and market hog inventories were 3 and 4 percent higher, respectively. The number of hogs over 180 pounds was up 3 percent compared with slaughter since the first of September that has been unchanged. This difference may be due to heavier marketing weights that have delayed marketings or increased gilt retention and reduced sow slaughter. It may be that USDA has overestimated numbers, but the feeling in the trade is that, if anything, they are under counting hogs.

Iowa's inventories increased at a faster rate than those of the U.S. as a whole. This is the first time since December 1992 that Iowa's breeding herd grew faster than that of North Carolina. North Carolina has farrowed more pigs than Iowa since Sep-Nov 1996, but this difference may change as Iowa rebuilds its numbers. Growth in North Carolina has been slowed and then stopped by increased environmental regulation and finally, a building moratorium.

Table 1. USDA September Hog & Pig Summary.

	U.S.		Iowa	
	(1,000)	% Chg	(1,000)	% Chg
All Hogs	60,250	3.5	13,800	6.2
Breeding Herd	6,951	2.7	1,350	8.0
Market Hogs	53,299	3.6	12,450	6.0
Under 60	20,409	5.6	4,220	12.5
60 - 119	13,031	1.8	3,450	3.0
120 - 179	10,864	2.5	2,630	3.1
180 & over	8,995	3.4	2,150	2.4
Pig Crop				
Mar - May	25,548	1.8	4,472	-6.6
Jun - Aug	25,200	6.5	4,524	6.4
Sows farrowing				
Jun - Aug	2,898	5.0	520	4.0
Sep - Nov[I]	2,890	6.4	520	8.3

Dec - Feb[I]	2,880	7.6	500	8.7
Pigs per Litter				
Mar - May	8.65	2.1	8.6	2.4
Jun - Aug	8.70	1.5	8.7	2.4

I = Intentions

Production and Price Forecast

In addition to pork supplies, exports and prices of competing meats will impact pork demand and hog prices. Exports through June were lower than a year earlier, but are expected to increase in the second half of the year. The growth in export demand will hinge on Japan, our largest single export customer. The tariff on pork into Japan was relaxed July 1 and is not expected to be triggered until into 1998. Other countries increased their shipments to Japan through early 1997, but U.S. exports are expected to increase during the lower fall prices.

Supplies of poultry are expected to continue growing at a five to six percent a year rate. Beef supplies are expected to begin declining in early 1998 as the beef cycle turns the corner to lower supplies and higher prices. ***Domestic pork demand is expected to improve as retail featuring increases during October Pork Month and pork prices decline relative to beef prices in the year ahead.*** In addition, as retail pork prices decline from record high levels, consumers will find pork a greater value.

Fourth quarter pork supplies are expected to increase 2-3 percent over the same period the previous year based on a two percent Mar-May larger pig crop and heavier slaughter weight. Domestic demand is expected to improve as retail featuring increases during October Pork Month and lower pork prices relative to the summer highs attract customers. Prices are forecast to average in the $48-51 range depending on how aggressively exports enter the market.

First quarter 1998 prices are expected to average $43-47/cwt on sharply higher supplies. The June-August pig crop was 6.5 percent higher than the previous year on a 5 percent increase in farrowings. With heavier slaughter weights, supplies could increase 8 percent over the same quarter of the previous year.

Second quarter supplies will be determined by the Sep-Nov pig crop. Farrowing intentions for that period are 7 percent higher and the trend to larger litters and heavier weights could push supplies to 9 percent higher than the second quarter of 1997. Prices are forecast to average in the $46-49 range, and it is doubtful that prices will top $50 for a high next summer.

Third quarter supplies will depend on the Dec-Feb pig crop. Farrowing intentions are estimated to be 8 percent higher and resulting supplies could be 10 per higher than the previous year if producers follow through with intentions. These supplies would likely result in prices in the $45-48 range, compared to a $55 quarterly average this year.

Profit Outlook

Given these forecast prices and expected feed costs, average producers should remain profitable through the third quarter of 1998. However, fourth quarter 1998 is shaping up to be a period of losses that could last through the first half of 1999. Supplies are growing and typically fourth and first quarter supplies are the most burdensome.

Although lower, and even unprofitable, prices are expected in late 1998, a repeat of extremely low prices of late 1994 is not expected. Packer capacity has increased significantly since 1994 and packer demand should prevent the precipitous fall of 1994. Plants in Guymon, Oklahoma and Logansport, Indiana have opened

and are currently in the process of double shifting, and the Dubuque, Iowa plant has the capably to double shift. The Sioux City and Columbus Junction, Iowa plants that went to one shift in the spring of 1997 are expected to reopen the second shift this fall. The plants at Tar Heel, North Carolina; Crete, Nebraska; Austin, Minnesota; and Ottumwa, Iowa have also added space since 1994. The end result is packer capacity to process at least 15 percent more hogs daily than the fall record level of 1994.

The one wild card is the corn price outlook. Tight projected world feed grain stocks and potential for post El Niño weather problems suggests that corn price scares are possible next spring and summer. The higher corn prices in 1996 were accompanied by $60 hogs; that will not happen this time around. ***Be prepared for the risk of higher feed prices and the possible rapid liquidation of the breeding herd if we go into the fall of 1998 with low hog prices with high feed prices.***

…John Lawrence

GRAIN MARKETS REFLECT HARVESTING, STOCKS, HOGS & PIGS REPORTS

Soybean cash and futures prices have been pressured in the last two weeks by rapid harvesting, reports of better-than-expected yields in some areas, and slightly larger than expected carryover stocks. Technical indicators and the large crop suggest prices may drift a little lower in the next 2-3 weeks before beginning a post-harvest recovery. Chart indicators show strong support on November futures prices at about $6.05/bu. That would be $1 to $1.50 below early spring prices and would bring central Iowa cash prices down to about $5.65 to $5.70/bu. Prices at that level and accompanying meal prices should encourage further forward coverage by domestic and foreign users, setting the stage for a moderate recovery in cash bean prices into mid-winter. Export sales of beans, meal, and oil are already large for this early in the season, but declining foreign competition should bring additional sales.

Weather permitting, we expect corn harvesting to be in full swing in another 10 days. Limited reports from early harvesting in some areas are showing better-than-expected yields. Technical indicators on December corn have been neutral to slightly negative. Modest additional weakness is possible in cash and near-by futures prices between now and the fourth week of October. Gaps exist on the daily corn chart at $2.5375 and $2.375. Market history says such gaps have about an 80% probability of being filled before the contract expires in December. Barring lower-yield surprises in USDA's October 10 crop report, central Iowa cash prices may drift down to the $2.15 to $2.20 area during the peak of harvest. Extreme eastern Iowa prices will run about 23-25 cents above, northwest prices 2-6 cents below, and extreme southwest Iowa 8-12 cents higher than in central Iowa.

With a fairly tight world feed grain supply, these prices should be attractive to domestic and foreign users and will likely bring increased forward demand coverage. That, in turn, should set the stage for a modest post-harvest recovery in cash prices into late January or early February. Other developments will tend to reinforce this expected strength in prices: the projected 1997 U.S. grain sorghum crop is down 19% from last year and will bring increased demand for corn in the southern plains; hog numbers in the U.S. increased; and the September 30 U.S. corn stocks report was 57 million bushels smaller than had been projected.

September 30 Stocks Report

USDA's latest stocks report provides an updated indication of summer quarter corn feeding, as well as indications of how much corn remaining from previous crops can be used to meet market demand in the year ahead. U.S. September 1 corn stocks were reported at 884 million bushels, based on a large-scale survey of farmers and grain elevators. That is up sharply from last year's extremely low 426 million bushels, but is slightly below trade expectations. That means the corn feed demand base is slightly larger than previously anticipated, and (barring changes in the crop estimates) September 1, 1998 U.S. corn

carryover stocks may be around 800 million bushels. Stocks at that level would be fully adequate to cover market needs, provided 1998 crop prospects are favorable. However, the projected 1998 carryover is only about a 4.4 weeks supply. In case of serious Corn Belt drought, floods or other widespread weather problems, the carryover would be able to cover only about two weeks of normal market needs beyond pipeline supplies, essentially providing very little reserve supply. That means summer 1998 corn prices would likely increase sharply with serious weather threats.

In contrast to corn, September 1 reported soybean stocks were about 18 million bushels larger than expected, but were still very low by historical standards, and were down from 183 million bushels a year earlier. Soybean stocks serve as a check on last year's crop estimates, and suggest the crop may have been over-estimated a little but not as much as previously indicated. The big difference between corn and soybeans is in the projected September 1, 1998 stocks. For soybeans (barring significant changes in the crop estimate), the September 1, 1998 carryover is now indicated to be around 300 million bushels. That projection is after allowing for a very large increase from a year earlier in total use of soybeans. A 300 million bushel carryover would be about a 6 weeks supply at the projected high rate of utilization. Thus, the expected 1998 soybean carryover stocks would provide about one-month of reserve supplies to help offset serious 1998 weather problems. Also, South American planting intentions surveys indicate farmers there plan to expand soybean acreage 5- 8% from a year ago..

Late Fall and Winter Soybean Demand Factors

South American farmers took advantage of unusually high prices this past spring and summer by selling aggressively. That has greatly depleted their available supplies for processing and exports in late fall and winter. Thus, we expect to see large U.S. exports of beans and bean products from mid-November through mid-February. This prospect will be reinforced by indications that China's oilseed crop declined again this year because of adverse weather, while its pork and poultry production continues to expand. Expanded U.S. hog and poultry production also will strengthen demand for meal. Oil exports will depend somewhat on the size of winter and spring palm oil production in Malaysia. Palm oil is by far the world's leading source of vegetable oil, and there is some concern that El Niño may reduce palm oil production in the next several months.

Alternative Ways of Owning Beyond Harvest

A recent ISU study shows that unhedged grain storage has been a high-risk business. Alternative ways of owning beyond harvest include (1) hedged storage, where basis improvement and futures carrying charges provide returns to cover costs, (2) forward contracted storage, (3) sale on price-later contracts, where storage costs are reduced but price risk remains along with unsecured creditor risk at the elevator, (4) sale on basis contracts with a partial cash payment for the grain, where storage costs are avoided but price-level risk remains, and (5) sale of grain plus re-owning by purchasing call options. This last alternative makes sense for producers who understand options markets, and when indicated net storage hedge returns are zero or negative but the producer feels futures prices have a good chance of rising after harvest. Retaining ownership with calls limits risk to the initial cost of the calls, while retaining the ability to participate in sharply higher futures prices, if that should happen. It avoids the risk of sharply lower prices, eliminates storage costs, unsecured creditor risk, and quality deterioration for farm-stored corn or soybeans. Usually, the risk of a sharp decline in prices or serious quality deterioration is greatest from late spring onward. Storing into mid-winter before buying calls maylower the cost of buying the options as time value in the premiums tends to decline from fall to winter.

Unhedged soybean storage returns from the harvest low this fall to late January or early February may be a bit larger than normal because of prospects for increased South American plantings and a larger than average U.S. carryover. Unhedged corn storage returns into mid-winter may be near to slightly above normal. Unhedged storage into early summer will have moderate risk, but sharply higher summer prices are possible with weather concerns and low subsoil moisture in significant parts of the Corn Belt.

Table 1 indicates frost risk on corn and soybeans is rapidly diminishing. Soybean harvest progress has likely been understated in this report due to excellent harvesting weather the last week of September

Table 1. Corn and soybean data by selected states on September 28, 1997, according to USDA's weekly weather and crop report:

State	Corn			Soybeans		
	% Dented		% Mature	% Dropping leaves		% Harv.
	9/28/97	'92-96 Avg.	9/28/97	9/28/97	'92-96 Avg.	9/28/97
AR	NA	NA	NA	23	24	7
IL	99	96	56	76	69	11
IN	91	98	52	84	79	6
IA	98	94	80	81	72	7
KY	99	99	65	35	40	7
LA	NA	NA	NA	75	58	41
MI	74	85	15	51	64	3
MN	99	91	45	96	76	14
MS	NA	NA	NA	68	57	34
MO	100	97	89	60	49	4
NE	99	98	67	91	69	5
NC	100	100	96	24	22	0
OH	91	94	17	74	81	4
SD	96	87	60	94	73	8
TX	100	99	92	NA	NA	NA
WI	90	82	25	NA	NA	NA
Maj. St.	96	94	59	72	64	9

…Robert Wisner