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Ames, Iowa

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PROFIT OPPORTUNITIES IN HOGS

Hog prices at country points dropped below \$20 during the last week of October. The weekly average price was \$22.95/cwt, the lowest weekly price since April 1972 when prices averaged \$22.28. Actual take-home prices are higher than reported due to lean premiums and the low base price reported, but still well below cost of production.

Slaughter totaled 2.08 million head for the week and is expected to be near the available packer capacity. The supply will continue to test the capacity limits for the next month or more. Packers may be able to run additional overtime or operate a Sunday shift to process the large number of hogs. While the additional processing will reduce the backlog of heavy hogs that may occur, the packer will have to be rewarded for running the extra overtime and prices may not improve.

In addition to processing the large supply of hogs, there must also be a market for the product. Pork prices at these levels are typically good features for retailers and may attract additional export interest. Although official government data on retail prices does not capture current retail prices, there was little reduction in consumer prices through the summer. Those prices may be lowered now that farm-level prices have been down for a year.

Pork exports have been quite strong in spite of the strong U.S. dollar relative to other currencies. U.S. pork exports from Jan-Aug were 23.7% higher than during the same period in 1997 (Table 1). Exports to Mexico, our second largest customer, and Hong Kong, the fifth largest, were up 15% through August. The Russian Federation is now our third largest customer, ahead of Canada with a growth of 116% from 1997. Japan posted an 8% growth in exports Jan-Aug 1998, retaining its status as the largest U.S. pork export customer.

Table 1. U.S. Pork Exports January-August, 1998 vs. 1997.

Country	Metric tons	% Chg 1997
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Japan	126,022	8.4
Mexico	69,769	15.7
Canada	31,245	6.1
Russian Fed.	41,358	116.0
Hong Kong	27,498	15.8
All Others	60,211	54.7
Total	356,103	23.7

The humanitarian aid package to Russia that is expected to include pork will help move surplus product through the pipeline. This may offset the slowdown in exports because the ruble has been devalued. The export picture to Japan is becoming increasingly interesting. The current safeguard policy with Japan is designed to provide protection from extremely low import prices. A shipment must meet the minimum gate price. Typically, importers include a mix of high value and low value cuts on each load to meet the gate price. As the value of U.S. pork declines, traders are including more high value cuts to avoid the tariff.

Early 1999 Outlook

There is increasing evidence that liquidation is beginning. While weekly sow slaughter is not at the levels of previous liquidations, it does appear to be increasing. The University of Missouri reports that gilt slaughter has been in the liquidation range for the last 6 weeks. It is doubtful that this reduction in the breeding herd will have an impact on pork supplies until April or May (sows farrowing in November and December and beyond). First quarter barrow and gilt prices are forecast to average in the low \$30s. Futures adjusted to historic basis are also predicting prices in the \$32-34 range before lean premiums. With premiums, producers may reach \$35/cwt.

Profit Opportunities in Finishing Feeder Pigs

Feeder pig prices have declined dramatically along with the cash market for hogs. However, current feeder pig prices may offer a profit opportunity for farmers with existing facilities and equipment. The generated return is a return to operator labor, facilities, and equipment, assuming that there is little or no opportunity cost to these inputs. This analysis also assumes that the purchased pigs are of average quality and health.

The USDA reports Iowa and Central U.S. direct trade feeder pig and weaned pig prices each week. For the week ending October 30, 1998, 50-pound pigs in lots of fewer than

250 head ranged in price from \$17.25 to \$24.00 per head. The weighted average price was \$20.71/head. Larger size lots sold for slightly higher prices.

Table 2 is a budget of the expected returns to finishing feeder pigs. It assumes that the farmer has existing facilities and equipment (feeders and waters). There is no overhead or labor cost, but the "other expense" is slightly higher to reflect costs for repairs and preparation for the facility.

The assumptions are based on 3.25 feed efficiency and 4% deathloss (reducing revenue 4%). Corn is valued at \$1.80/bu assuming that the corn does not have to be trucked to town. Interest is calculated on the price of the pig and half the feed for the 135-day feeding period.

Table 2. Estimated Returns to Finishing Feeder Pigs in Existing Facilities, October 30, 1998.	
Revenue	
250# @ \$.34 x .96	\$76.80
Expenses	
Pig: 50#	\$20.00
Corn: 9.4 bu @ \$1.80	\$16.92
Supplement: 125# @ \$.125	\$15.62
Other (trans, vet. med. Misc)	\$10.00
Interest @ 10%	\$1.50
Operating expenses	\$61.04
Return to labor & facilities	\$15.76

The \$32/cwt selling price assumes that the hogs are average lean, 51% or better, and there is no lean discount. The farmer will likely have to sell the hogs grade and yield rather than live because the packer will not be familiar enough with the hogs to make an informed bid on the hogs. If the hogs are sold during a time when supplies are near packer capacity, a new unknown seller may have a longer delay in selling the hogs than a regular seller to the packer.

The bottom line is that there is a profit opportunity to finishing feeder pigs at their current price level and at the forecast prices for market hogs in mid-March. The

projected return to operator inputs of facilities and labor of over \$15/head is a fair return to labor that is estimated to be less than one hour per head, or a significant return to facilities that have may no other use.

John Lawrence

GRAIN MARKETS AWAIT RUSSIAN AID DETAILS, CROP REPORT

From October 2 to October 30, nearby corn and futures prices increased by \$.135 and \$.36 per bushel, respectively. During the same period, north central Iowa cash prices rose by \$.175 and \$.47, respectively. Factors behind the strength included: (1) the largest percentage reduction from the September to October soybean crop forecast in 45 years, (2) a nine-percent decline in the trade-weighted exchange rate of the U.S. dollar against foreign currencies since mid-September, which lowers prices to foreign buyers, and (3) rumors that a large U.S. food assistance package to Russia will soon be announced. In late October, two other developments encouraged a surge of foreign buying in addition to the anticipated Russian aid package. Chart indicators suggested that weakness in the dollar might be nearing an end (at least temporarily). This and an approaching end of the U.S. harvest signaled to foreign buyers to increase their forward coverage of corn and soybeans.

Currently, rumors of the Russian aid package involving the U.S., Canada, and the European Union (EU) focused on assistance ranging from 3 to 10 million tons of all grains (about 115 to 380 million bushels). Russia's wheat crop is estimated to have declined by about one-third from last year's unusually good harvest, along with a decline of nearly 50% in its feed grain production. The Russian potato crop (which is used for food and feed) also was sharply below that of last year. Drought was a major factor in smaller Russian crops, as was a lack of financing for key inputs. Along with grain, a Russian aid package is expected to include lower-quality poultry and pork. An aid package near the upper end of the rumored range could modestly strengthen corn and soybean prices, provided these two commodities are given higher priority than wheat. Until the last few days, it was widely expected that wheat would receive top priority in any aid package, and that the resulting wheat business would be shared with Canada and EU. An announcement on the aid package is expected at any time. It will be important to be able to deliver the commodities before the worst of the winter weather. An aid package in the middle to lower end of the range might be a bit negative to grain prices.

Exchange Rate Developments

The U.S. dollar began to weaken with indications that the Japanese government would help its banking industry cope with the large amount of bad debt it has accumulated. Also, a drop in U.S. short-term interest rates contributed to the weakness. While strengthening foreign currencies are positive to U.S. exports of farm commodities, they create an opposite signal for non-agricultural exports of Pacific Rim countries. Earlier weakness in Asian currencies reduced the dollar price of industrial goods made in Asia and exported to the U.S., thus increasing the chances for some economic recovery in the

region by late 1999. However, strengthening currencies make Asian industrial goods less price competitive in foreign markets, and may delay an Asian economic recovery.

Storage Not as Tight as Expected

While very good yields are being reported over a large part of the Corn Belt, storage space has not been quite as tight as anticipated. In Iowa, the October 26 weekly Crops and Weather report noted that storage space both on and off-farm was tight in about one-third of the state's counties. However, inadequate storage space has not caused as much grain to be stored outside as in 1994, and has not caused as much negative pressure on prices as anticipated.

Follow Marketing Loans, LDPs Closely

There is a good chance that Loan Deficiency Payments will fade out in the first several weeks after harvest, with a slow post-harvest recovery in prices for both corn and soybeans. If you are concerned about downside price risk when storing unpriced corn after paying off the marketing loan, purchasing a loan-rate equivalent put can continue protection. For corn, that would be about a \$2.20 July or September 1999 put. In central Iowa, deducting a normal May-early June basis of around $-.27$ per bushel would give local price protection at about 1.88 after deducting a $.01$ brokerage fee and $.04$ premium. Corn loan rates in central Iowa are about 1.76 per bushel, so this would give about $.12$ more protection than the loan rate. Eastern Iowa loan rates are a few cents higher. If prices drop back to the loan rate, the value of a 2.20 corn put should be around $.16$ per bushel (plus any time value if there are several weeks before expiration). July 2.20 puts recently have been trading at $.03$ to $.04$ per bushel. Very little trading is occurring in the September puts, but the cost would be slightly higher for this contract because of additional time value. It should be possible to purchase September puts by submitting a buy offer at a specific premium and observing the results. If it is not filled, another offer can be made at a slightly higher premium.

Export Sales

With a spurt in sales activity in late October, outstanding unshipped U.S. corn export sales plus shipments since the start of the marketing year (September 1) were up 9% from a year earlier. Sales plus shipments to Mexico were well ahead of last year because of that country's severe summer drought. Sales to Korea and Japan also moved ahead of last year's severely depressed level in late October. In contrast to corn and soybean oil, shipments plus outstanding sales of soybeans, soybean meal, and wheat were well below those of a year earlier as shown in the table below. Soft red wheat is a variety often used for feed in the eastern Corn Belt and South. Severely lagging exports and sales of this type of wheat hint that feeders might use some soft wheat in livestock feed later on.

Table 1. Outstanding unshipped export sales plus shipments since the start of the marketing year vs. a year earlier (grain in mil bu., meal &

oil in 000 metric tons).

	1997-98	1998-99	% change
Corn	502	548	+9
Soybeans	473	379	-20
Soybean Meal	3,020	2,217	-27
Soybean Oil	238	275	+16
All Wheat	638	573	-10
Soft Red Wheat	123	46	-63
Grain Sorghum	59	51	-14

Indicators to Watch

Key influences on corn and soybean prices in the next few weeks will be: (1) announcements about Russian food aid, (2) weekly export sales reports released on Thursday mornings, and USDA's November 10 crop report. No major changes from October are anticipated in the crop estimates. Historically, about two-thirds of the time, corn production estimates have increased from October to the final estimates. For soybeans, the record has been close to 50% of the time.

Robert Wisner

Alan Vontalge has been appointed extension program specialist in the area of livestock economics. He will be assisting John Lawrence in the development of programs and delivery of information in all aspects of livestock economics.

Alan was raised on a swine and grain farm in northeast Iowa. He received his M.S. from Iowa State in agricultural economics in 1991. He has been with the Economics Department at Iowa State University for over six years. Prior to this appointment, Alan was an extension associate in farm management. We welcome Alan to our office. He can be reached at (515) 294-6311 or by e-mail at: vontalge@iastate.edu

ProAg on ICN continues to be a successful delivery program for the Department of Economics and ISU Extension. The November 17 program will address the impact of

current global economic conditions on Iowa's farm economy, and ISU response to agriculture's challenges.

The December 15 program will focus on 1999 grain and livestock outlook. It will also examine the 1998 Iowa Land Value Survey.

Please call your county extension education director for information on how to register to attend *ProAg on ICN* in your area.