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USDA HOGS AND PIGS REPORT CONFIRMS LIQUIDATION

The September USDA Hogs and Pigs Report estimated all hogs and pigs on farms in the U.S. at 60.7 million head. This estimate is 4.3% below the September 1, 1998 number and 0.5% above that of 1997. The breeding herd is 8.5% below 1998 figures; the market hog inventory is 3.8% lower. Most of the pre-report expectations were very close to the actual report, with the exception of the breeding herd, which was estimated to be down 6.5% and came in at 8.5% lower in the report. However, the Dec–Feb 2000 farrowing intentions were also about 2% higher than expectations.

The breakdown of market hog weights finally shows the effects of liquidation, with all weight categories below year earlier levels. Slaughter levels throughout most of August and September have been below 1998 levels. Hog slaughter levels can be expected to decline relative to year earlier levels during the fourth quarter and into 2000 with the under-180 pound pig inventory levels all approximately 4% below 1998.

The June–Aug pig crop was estimated at 25.9 million pigs, down 2.7 % from 1998. Sows farrowing during the June–Aug period were down 4.2%, while pigs per litter increased from 8.72 in 1998 to 8.86 in 1999. Farrowing intentions for the Sept–Nov period were estimated to be down 4.8% and the Dec–Feb 2000 intentions are estimated to be down only 3.1%. Table 1 shows the inventory levels, pig crop, and farrowing intentions for Iowa and the U.S.

Cold Storage

Pork cold storage stocks continue to decline. The August 31st inventory level of 435.9 million lbs. was down almost 65 million lbs. from the previous month. This reduction in stocks has brought them down to only 11% above 1998 and 20% above the five-year average. Stocks had previously been as much as 25% above 1998 levels in June. Seasonally, we would expect inventories to decline one more month before they begin to build in the fourth quarter.

Table 1. September USDA Hogs and Pigs Summary.

	US		Iowa	
	1,000 Hd	% Chng	1,000 Hd	% Chng
All Hogs and Pigs	60,736	-4.3	15,500	0.0
Breeding Herd	6,291	-8.5	1,150	-10.9
Market Hogs	54,444	-3.8	14,350	1.0
Under 60 lbs.	20,273	-4.3	4,660	2.2
60–119 lbs.	13,424	-4.3	3,940	-2.7
120–179 lbs.	11,149	-3.5	3,100	3.3
180 lbs. & Over	9,599	-2.4	2,650	1.9
Sows Farrowing				
June–Aug	2,925	-4.2	490	-7.5
Sep–Nov Intentions	2,850	-4.8	470	-7.8
Dec–Feb 00 Intns	2,808	-3.1	450	-6.3
Pig Crop				
June – Aug	25,907	-2.7	4,410	-4.9
Pigs per Litter				
June – Aug	8.86	1.6	9.00	2.9

Beef cold storage stocks are 5% below 1998; poultry supplies are up over 12%. Beef inventories normally climb during the fall of the year and can be expected to do so this year with the current large supply of cattle on feed. Poultry production is up this year also, indicating a large supply of meats competing for the consumer's dollar. For the Jan–Aug period broiler production is up 7.6% compared with 1998; turkey production is nearly flat.

Exports

Net pork exports have been lagging in 1999. For the Jan–June period, net exports are down almost 50% from 1998. Pork imports into the U.S. for the Jan–June period totaled 307.7 million lbs. carcass weight in 1998 and 400.8 million lbs. in 1999. Pork exports for the same time period totaled 644.4 million lbs. in 1998 and 570.1 million lbs. in 1999. The combination of decreased pork exports and increased pork imports have caused our net exports to fall by nearly 50%. Most of the increased imports are from additional pork coming in from Canada. The decrease in exports is primarily due to Russia being out of the market for our pork during the first six months of 1999. Japan, our best export customer, has imported almost 8% more pork from the U.S. during the first 6 months of 1999 compared to 1998.

Sow Slaughter

Sow slaughter for 1999 started out above that of 1998, then was very near year earlier levels from Mar–May. Since the June H&P Report, sow slaughter has actually been below 1998 levels. Total sow slaughter for 13 weeks during June–Aug declined 6.2% from 1998. However, sow slaughter during these 3 months as a percentage of the June 1st breeding herd has been at 12.7% for both years, suggesting decelerated liquidation in the breeding herd. This is supported by the September H&P Report estimate that the breeding herd was down about 8.5%, a bit more than the 6.5% in the June report.

Canadian Hog Imports

Monthly Canadian live hog imports for 1999 have been running near 1998 levels through August. In 1998 we imported 4.1 million live hogs into the U.S. from Canada, approximately 4% of our annual slaughter. Imports for the remainder of 1999 should be fewer than in 1998 due to the opening of a new slaughtering plant. Maple Leaf Foods has recently begun killing pigs at the new plant in Brandon, Manitoba. Startup will be slow, but expectations are to have the plant running at full, one-shift capacity of 1,000 head/hour or 45,000 head per week by next spring. They eventually hope to double-shift the plant. This additional slaughtering facility will help to keep Canadian hogs in Canada, as well as potentially pull pigs from the U.S. The combination of fewer market hogs this fall and the potential for fewer Canadian live hog imports should greatly ease the slaughter constraint the industry experienced in 1998.

Slaughter Weights

In addition to slaughter numbers, slaughter weights play a crucial role in annual pork production. Seasonally, slaughter weights are stable from Jan–May, decline during the summer months, and then increase into the fall and early winter. Weights in 1998 started out the year fairly high, but then followed a typical seasonal pattern. During the fourth quarter of 1998, when daily slaughter levels ran up against the packer constraint and there were reports of delayed marketings, weights climbed to record levels. Weights throughout 1999 have been above 1998 levels for all but the first 2 weeks of the year. Weights for 1999 have already started to trend up with the onset of cooler weather and inexpensive corn. With the threat of running up against the packer constraint significantly lower this year; weights during the fourth quarter should be below 1998 levels if farmers keep their marketings current.

Production and Price Outlook

Liquidation in the breeding herd is continuing but due to increases in productivity in the sow herd, pig crop numbers are not decreasing as much. The June 1st breeding herd inventory was down 6.5%, sows farrowing during the June–Aug period were down 4.2%, and a 1.6% increase in pigs per litter resulted in only a 2.7% decrease in the June–Aug pig crop. This phenomenon will continue into the future as producers eliminate unproductive sows and squeeze as many pigs as possible out of the remaining sows in efforts to minimize costs. The September report shows the breeding herd down 8.5% and the Dec–Feb 2000 farrowing intentions only down 3.1%.

Fourth quarter pork production is forecast to be down about 4% from 1998 based on inventory numbers. The greatly reduced threat of a packer constraint should allow producers to keep slaughter weights below year earlier levels. Live prices are expected to hang in the low 30s through most of October; then fall into the upper 20s in November and December when weekly slaughter levels are expected to be above 2 million head for most weeks. Even with year earlier prices still fresh in our minds, lower production should allow prices to average in the $28-31 range for the fourth quarter.

After the first of the year, supplies will continue to decline. The under-60 lb pigs were estimated to be down 4.3% in the report. Canadian imports should also continue to decline into the first of the year as the Maple Leaf Foods plant continues to gear up to full capacity. Prices are expected to average $32-35 in the first quarter of 2000 and then climb to $37-40 for the second quarter.

Prices are only expected to peak in the low $40s for 2000. The industry is liquidating, but not fast enough to expect a significant rise in prices. The 3.1% lower Dec–Feb 2000 farrowing intentions could only result in a 1 to 2% decline in pork production next summer with increased pigs per litter or heavier weights, resulting in prices only slightly above 1999 levels. Third quarter prices are forecast to average in the $39-42 range.

Factors to watch:

- Number of Canadian hog imports
- Slaughter weights this fall and into 2000.
- Cold storage stocks could climb to burdensome levels again this winter and into 2000.
- Keep marketings current, as prices will decline into Dec, and there remains a slight threat of nearing slaughter capacity constraint.

Alan Vontalge

STOCKS REPORT SLIGHTLY NEGATIVE TO CORN OUTLOOK; SOYBEANS NEUTRAL TO POSITIVE

USDA’s September 29 grain stocks report placed U.S. Sept. 1, 1999 corn stocks at about 100 million bushels above earlier USDA projections. Higher than expected stocks indicate June-Aug domestic corn feeding was 13% below a year earlier, continuing a trend of reduced corn feeding for 3 of the last 4 quarters. Higher stocks negatively impact the corn price outlook in two ways. First, they show a modestly reduced demand base from which to project corn feeding for the year ahead. Secondly, they indicate storage space may be a little tighter this fall than had been expected. Implications from the report, along with slightly better corn yields than expected over a large area may push corn prices slightly lower as harvesting accelerates. Cash prices in the

western Corn Belt may have slightly more downside potential than futures. Declines of 5-10¢ bushel in cash prices from Oct 1 levels are possible as harvesting accelerates.

In contrast to corn, Sept. 1 soybean stocks were a very slight 15 million bushels below Sept. 9 USDA projections. Unlike corn feeding, domestic use of soybeans is measured directly by the Census Bureau. The main indication from the soybean stocks report is that the 1998 U.S. soybean crop may have been slightly overestimated. Early harvesting reports for soybeans show considerably more variability than for corn. Soybean yield prospects likely declined in the first half of September in the mid-South and Southeast, due to hot, dry weather, followed by extremely heavy rains along the east coast. Essentially North Carolina's entire 30 million bushel soybean crop was not harvested when the rain struck. It would not be surprising to see a loss of 6 to 8 million bushels of soybeans from the N.C. crop—and possibly more. Some areas of the Midwest also lost a little yield potential in the first half of September. USDA's next crop forecast is October 8, and will reflect weather conditions through the end of September.

Export Developments

Cumulative new-crop exports through September 23 and outstanding unshipped sales are shown below for corn, soybeans, and soybean products. Corn export sales continue brisk, reflecting last winter and spring's sharply reduced Southern Hemisphere feed grain harvest. U.S. corn exports will continue to benefit from reduced competition in that region until at least mid-February, and possibly longer. Exports from May onward will be influenced heavily by the winter-spring 2000 Southern Hemisphere harvest. Australian barley is harvested in December-January, providing the first source of new-crop competition from the region. Argentine and South African corn crops are harvested from late April through early to mid-June, providing competition from June onward in world markets. In the last month, our office has had 12 visitors (farmers and farm consultants) from Argentina. These people indicate Argentina's soybean plantings will be up considerably from last year, despite low prices. Wheat acreage in Argentina appears to be 10 to 15% larger than a year ago, and much of it will be double-cropped with soybeans. Corn plantings in Argentina are believed to be about steady. In Brazil, the picture is mixed. Northern areas are expected to increase soybean plantings slightly; some southern areas may reduce plantings slightly. Southern Brazil recently received general rains, although more would be desirable before soybean planting, which will be in full swing by late November and early December.

Cumulative U.S. Exports and Outstanding Unshipped Sales % chg. vs. a year earlier, 9/23/99.

Corn	+13	Soybean Meal (new crop)	-48
Soybeans	-20	Soybean Oil (new crop)	-27

Pricing Considerations

The corn and soybean basis (differential of local cash prices to futures) is exceptionally wide this fall. Also, May and July futures prices are showing considerably higher prices than harvest-delivery futures. The December-July corn spread has been running at or above $.20/bushel, with November-July soybeans around $.28. These sets of information are the market's way of signaling to farmers and the grain trade to store as much of the crop as possible this fall. However, farmers should be cautioned that substantial risk is involved in storing unpriced corn and soybeans into next spring and summer. Historically, unhedged, on-farm storage into the late spring in north central Iowa has generated a net storage profit only in about half of the years since the late 1970s. The percentage of profitable storage years drops sharply for grain stored into late July and August. With this risk in mind, farmers may want to consider storage plus hedge sales for spring or early summer delivery using the futures market—for those who understand and are

comfortable with futures. If you are inexperienced in futures, you may want to check with your local elevator about the availability of contracts that would pass on a significant part of these potential returns to farmers. The examples below show recent potential farm storage hedge returns, where the quality can be maintained. The basis under July futures in May involves some risk, which historically has been a few cents either side of the indicated normal basis. Basis patterns in eastern Iowa river markets typically are around 20-22¢ narrower than in NC Iowa. In SW Iowa, the corn basis may be a little stronger than in NC Iowa. Extreme NW Iowa typically has corn and soybean basis patterns 4-5¢ wider (larger) than in north central Iowa.

These examples also show LDP returns if the LDP is taken at harvest. If the grain is stored without pricing it, substantial risk is involved when the LDP is taken at harvest. The risk exposure occurs when prices decline and further protection through the marketing loan or LDP is no longer available. The examples also show approximate government payments for corn and soybeans (per bushel of actual production with normal yields) that are expected, from legislation now being finalized in Washington. FSA officials tell us most farmers have already received half of the indicated corn AMTA payment. The soybean payment is a very rough estimate since the legislation provides funding for oilseed producers, and it is not known exactly how it would be distributed between producers of canola, sunflowers, soybeans, and other oilseeds.

Storage Hedge, 9/29/99

	Corn	Soybeans
July futures	$2. 35	$5.18
Less expected basis	.31	.33
Less Costs	.01	.01
Expected Hedge Price	2.03	4.84
Current new-crop bid	1.59	4.34
Gross Storage Return	.44	.50
Farm storage costs	.15	.20
Potential net storage profit	.29	.30
LDP	.20	.80
Net Gain over harv.price	.49	1.10
Effective net price	2.08	5.44
Expected AMTA Pmt.	.48	.15

Robert Wisner