

HOG PRICES REBOUND

Hog prices have remained strong through mid-November compared with 1998. The Iowa-Southern Minnesota 49-51% lean hog carcass price averaged \$43.61/cwt for the week ending November 12th. Prices rebounded during the week to close at \$45.66 on Friday, compared with \$41.42 on the previous Friday, November 5th. Current prices are substantially above year earlier levels. Iowa-Southern Minnesota live hog prices averaged \$19.20/cwt for the week ending November 13, 1998. When converted to a live equivalent, last week's average price of \$32.27 was 68% higher than year ago prices. Figure 1 shows the weekly Iowa-Southern Minnesota live hog prices.

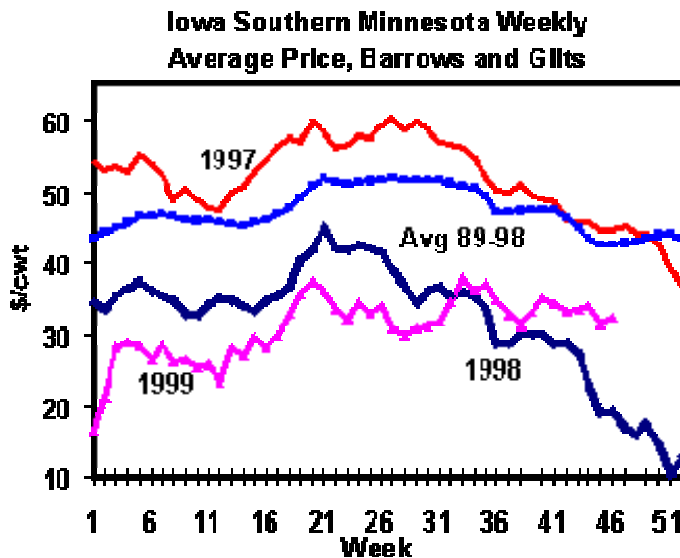


Figure 1

Slaughter Levels...

Hog prices continue to hold strong even though slaughter levels are running higher than expected. Since Labor Day week, Federally Inspected slaughter levels have totaled 18.522 million head. During the same 9 weeks in 1998, slaughter totaled 18.544 million head. This 0.1% decrease in slaughter is much less than was expected based on the USDA September Hogs and Pigs report which estimated the 180 pound and over pigs at 2.4% fewer than year earlier levels and the 120 – 179 pound pigs at 3.5% fewer. One possible explanation for the discrepancy between actual slaughter and estimates based on the Hogs and Pigs report could be the unseasonably warm fall, which has allowed pigs to gain faster and come to market sooner. If slaughter was expected to be 4% lower following Labor Day, then total slaughter for the past 9 weeks would have totaled 17.802 (18.544 x 96%) million head, instead of the 18.522 million head of actual slaughter. The difference of 720,000 head represents less than two days slaughter. If the milder weather has caused pigs to come to market two days earlier, then the difference between actual and estimated slaughter can easily be explained. Figure 2 shows the weekly slaughter for 1998, 1999, and projections into 2000.

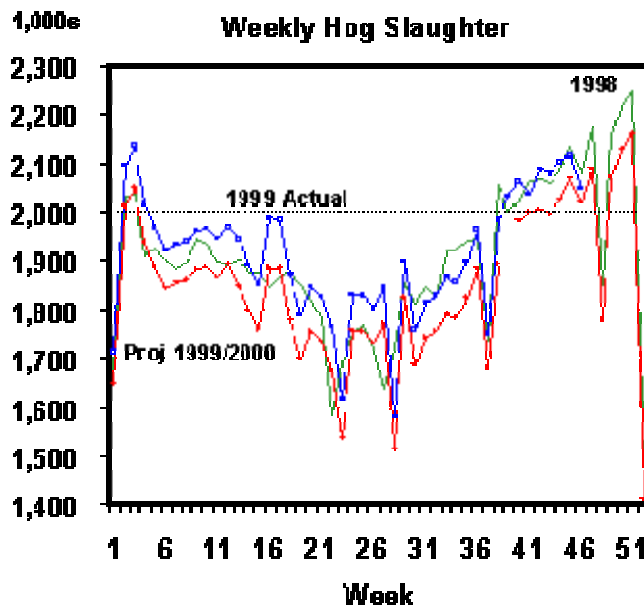


Figure 2

Even though slaughter levels since September 1st have been nearly equal to those of 1998, the threat of running up against the packer slaughtering constraint hasn't been a factor in pressuring prices downward yet. Saturday slaughter levels are one way to measure packing capacity based on the assumption that a packing plant will kill as few pigs as possible on Saturday to minimize overtime labor, employee fatigue, etc. Table 1 shows the Saturday kill levels since September 1st.

Table 1. Saturday Slaughter (Thousand Head).

	1999	1998
Sep-4	81	94
Sep-11	216	237
Sep-18	159	170
Sep-25	128	124
Oct-2	155	162
Oct-9	112	171
Oct-16	177	193
Oct-23	133	168
Oct-30	160	187
Nov-6	167	237
Nov-13	148	273
Sum	1,636	2,016
Average	148.7	183.3

Ignoring the Saturday of Labor Day week (Sept. 11), slaughter levels have all been below 180 thousand head. By mid-Nov. 1998 we had already experienced four weeks above 180 thousand

head, with two weeks over 200 thousand. Slaughter for the first two Saturdays in Nov. have been over 35% lower than in 1998. Slaughter for the week ending November 6th totaled 2,113 thousand head, with only 167 thousand killed on Saturday and 1,946 thousand killed Mon.–Fri. Assuming that USDA inventory numbers are correct and that pigs have been going to market sooner due to weather conditions, slaughter levels should decline in the near future and the threat of a packer constraint should disappear.

Slaughter Weights

Weekly slaughter weights have leveled off near 260 pounds for the past three weeks. The average slaughter weight for barrows and gilts in the Iowa-Southern Minnesota market for the week ending November 6th was 260.5 pounds, slightly above year earlier levels. Slaughter levels have climbed from a low of 250 pounds in mid-August to their current levels. The faster climb in weights for 1999 could also be attributed to the ideal growing conditions during the recent three months. Figure 3 shows weekly slaughter weights for 1998, 1999, and a 5-year average.

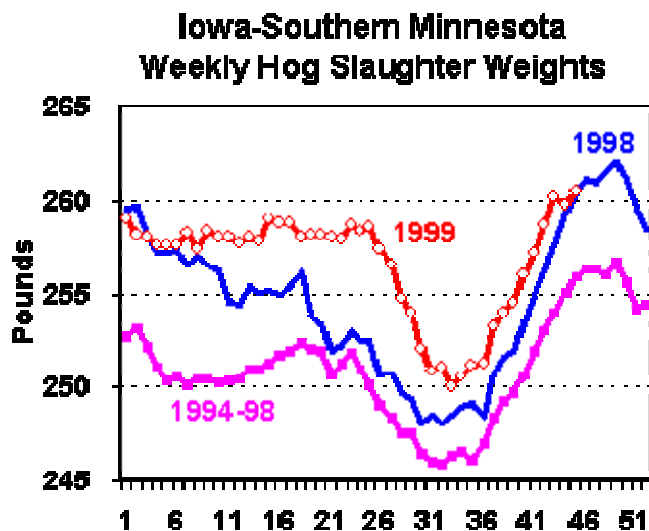


Figure 3

Canadian Hog Imports

The number of live hog imports from Canada into the U.S. continues to run near year earlier levels. Estimated total live hog imports through the end of October are down 1.3% to 3.4 million head when compared with 1998. Slaughter animal imports are lower in 1999, but are being offset by increased feeder pig imports. Through the end of October, nearly 50% of the imported hogs are feeder pigs, compared with only 36% in 1998. Slaughter hogs imported into the U.S. should continue to decline with the newly opened Maple Leaf Foods slaughtering plant in Brandon, Manitoba, but the total number of Canadian hogs slaughtered in the U.S. is remaining level with the increased feeder pig imports. Figure 4 shows the growth in Canadian imports for feeder pigs and slaughter hogs.

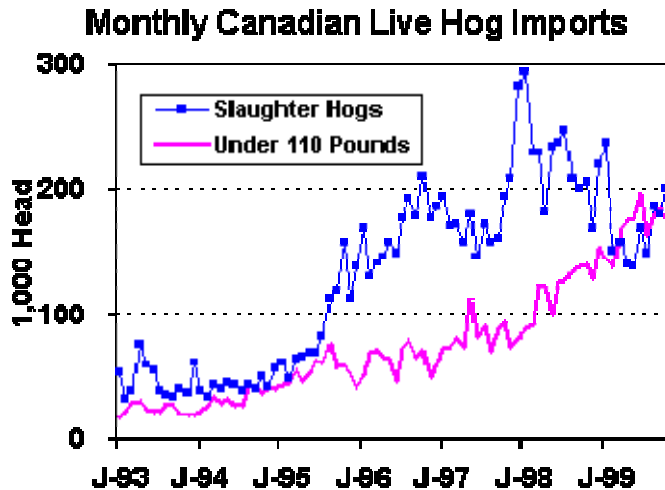


Figure 4

Alan Vontalge

GRAIN MARKETS SHIFT FOCUS AFTER CROP REPORT

Crop Estimates

U.S. corn production is estimated at 9,537 mil. bu., up 70 mil. bu. from October, but down 224 mil. bu. from 1998. Corn yield estimates were increased from October by 2 bu/ac in Indiana and Kentucky, 7 bu. in Michigan, but were lowered by 1 bu. in Iowa and 3 bu. in Kansas. Yields in most other major producing states were unchanged. Indicated production is only about 167 mil. bu. or 1.8% above expected 1999-00 utilization. The U.S. yield is estimated at 134.5 bu/ac, despite serious drought in the eastern and southern Corn Belt. The record U.S. corn crop was 10,103 mil. bu. with a yield of 138.6 bu/ac in 1994. That was 6% or 566 mil. bu. above this year's crop. This is the third consecutive year of near-trend U.S. corn yields.

U.S. soybean production is now estimated at 2,673 mil. bu., down only 23 mil. bu. or 0.9% from October and down 68 mil. bu. or 2.5% from 1998's record production. Yields were lowered 1 bu/ acre in Iowa and Minnesota; and 3 bu. from October in Indiana. Production is about 33 mil. bu. above expected utilization. Over the last 20 years, corn estimates have been increased from November to the final estimates 55% of the time for corn and 45% for soybeans.

World Crop Estimates

The global wheat production estimate was increased 256 mil. bu. from last month. The increase reflects improving crop prospects in Argentina and Australia. World wheat production is indicated to be down 0.5% from last year, and 1% below expected utilization. Global feed grain production is estimated to be down 1.5% from last year, but up 254 mil. bu. from a month earlier. World soybean production was increased 14 million bushels from October, but is projected at 2.9% below 1998-99. Indicated production is 0.8% below expected utilization.

Supply-Demand Estimates

Levels of corn carryover stocks, projected to increase to almost 2 bil. bu., are still modest by historical standards. The last time cash corn prices were as low as this fall was in the mid-1980s, when the stocks-to-use ratio was in the 60 to 64% range. This year, it is expected to be 21%, up from 19% last year.

The low prices reflect the fact that the entire corn inventory has to be financed and stored privately. In past years, all but about 500 to 600 million bushels of the carryover stocks would have been financed through the Farmer-Owned Grain Reserve and CCC inventories. When 1999-crop CCC loans mature, market conditions will have to be adequate to cause farmers, agricultural lenders, and the grain industry to finance and store about 1.5 billion bushels of corn for another year. Barring major U.S. crop problems, conditions that will cause the grain to be stored include low prices, a severely depressed basis under near-by futures, and a large carry in the futures market. The carry or carrying charge is the difference between prices for the harvest-delivery and May or July futures contract.

The potential supply-demand balance would tighten substantially in 2000-01 if the U.S. corn yield would drop 15% below trend. That is slightly less than the decline in the 1980 drought and 1993 flood years. However, it would be much less than the 22 to 25% declines from trend yields that occurred in the 1983 and 1988 droughts. With a 15% drop from trend yields, a sharp rise in corn prices would be expected next summer that would continue into 2001. However, with all of our cropland in production except for the Cropland Reserve Program, a price picture similar to 1999-00 is indicated for next year, unless yields are well below normal.

LDP Use Heavy

Through November 17, 43% of the U.S. soybean crop had the LDP cashed out, along with 28% of the U.S. corn crop. FSA sources indicate that many LDP applications have not yet been processed, so that the actual LDP volume may be considerably larger than reported. Reports from across the country suggest that most of this grain is unpriced. Taking the LDP without pricing the grain leaves the producer open to downward price risk, without protection. Even with current low prices, further downside risk is possible, especially for soybeans. Well over half of the U.S. soybean crop probably is not eligible for the price support loan or further LDP protection. Suppose a high percentage of the farmers holding these soybeans decide to sell in late February and early March to meet cash-flow needs and/or to avoid further price weakness. This possibility by itself increases the downward price risk.

Taking advantage of storage hedging opportunities is one way to remove the downward price risk from cashing out the LDP. Current cash-equivalent put option purchases are another tool to greatly reduce risk exposure on such grain, although they do not let producers gain from basis improvement and the carrying charge built into futures prices. March puts are the least expensive, but expire in late February. A September put purchase would retain protection until about August 20. Note that the local cash prices reflected by the July and September futures prices are well above current bids. That means a put options strike price equivalent to the current cash bid is well out of the money, keeping premium costs fairly low.

Export Sales Update

U.S. corn exports since Sept. 1 and outstanding un-shipped export sales so far this season are 15% above a year earlier. That and a 300 mil. bu. drop in Southern Hemisphere exporters' feed grain production last spring means U.S. corn exports are likely to remain strong through at least mid-February. Exports from late May onward will depend heavily on production in that region next spring. USDA's November projections indicate that feed grain crops of the three Southern Hemisphere exporters will recover about half of last spring's decline. Soybean total exports and unshipped sales are about equal to a year ago while bean products are down sharply.

Trade Agreement With China is Positive

A trade agreement just announced with China should be longer-term positive for U.S. farm exports, although its impact will require time. The U.S. Congress must first approve the agreement, a necessary step for China to participate in the World Trade Talks. Also, China must work out similar agreements with Canada, the European Union, and other countries. It would require China to reduce average import duties on farm products from the current 31.5% to 14.5% by no later than 2004. China would be allowed to shift to import quotas, which would have to be increased over time. Also, China would end state trading of soybean oil, and phase out export subsidies. Currently, it uses export subsidies on corn. The most immediate effect might be to increase China's imports of soybean oil, some of which could come from importing less whole oilseeds for processing.

Bill to Require Genetic Food Labeling

About 50 members of Congress have introduced a bill to require food to be labeled transgenetic if it contains over 0.1% GMO ingredients, a much tighter tolerance than 1% as allowed by the European Union.

Robert Wisner