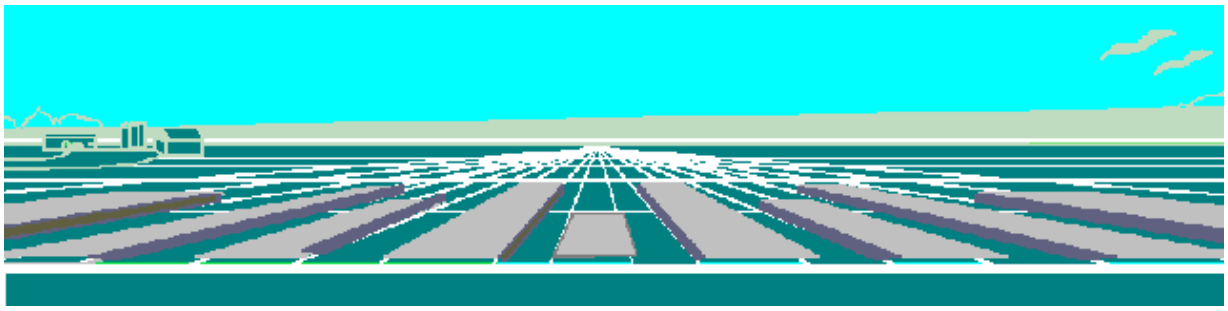

February 14, 2000 Ames, Iowa Econ. Info. 1783

DOES THE HOG CYCLE STILL WORK?

One of the more dependable market patterns in agriculture has been the hog cycle; however, everyone remembers these cycles differently. I have chronicled the last four cycles in a presentation on my homepage at: http://www.econ.iastate.edu/faculty/lawrence/. The cycles all began with a breeding herd liquidation in the December report as did the current cycle.

The question that everyone is asking is, "When will the higher prices return?" The past four cycles are split on that issue. In the cycles beginning in December 1988 and 1996, the peak price came in late May—18 months after the liquidation began. That would be comparable to this coming summer. The other two cycles, that began in December 1983 and 1992, saw a brief price rally a year later, but the prices during the summer corresponding to this year were lower than the spring prices.

Figure 1 shows the Thursday closing price for the June futures contract from the first week of October until the contract expires in mid- to late June. These June contracts cover the summer 18-21 months after the start of liquidation and correspond to the June 2000 contract this year.

Notice that the June 1990 and 1996 contracts rallied strongly from mid-February to late May and early June. However, the 1985 and 1994 contracts were higher in mid-February than they were in late May and June. In fact, the February cash price was higher than the June cash price in these years.

Price Signal????

Which track are we on this year? Figure 2 shows the relationship between cash hog prices the second week of February (week 6) and price in mid-March (week 10) and June 1 (week 21). There have been three years when the mid-March cash price was above the February cash price, 1990, 1993, and 1996. In two of the three years (1990 and 1996), June prices were sharply higher, approximately $17/cwt above February prices. In the third year, 1993, June cash prices were $5 above February prices.

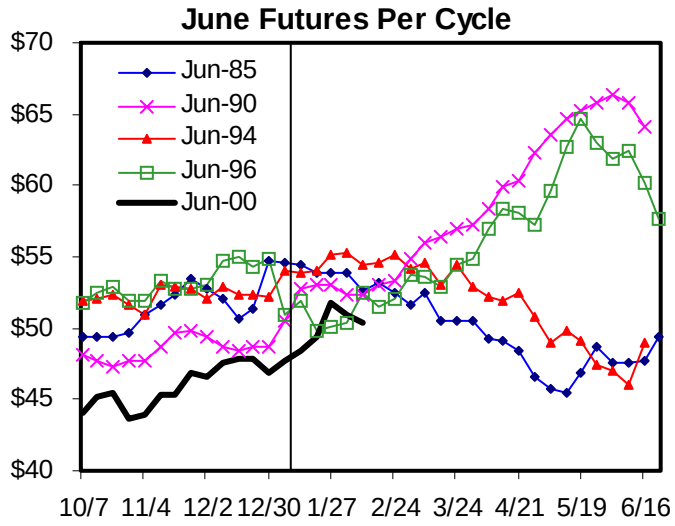

Figure 1

There were five years when June prices were less than February prices: 1980, 1983, 1985, 1994, and 1995. So, it can happen. However, there is not a clear signal for these years as prices in mid-March were below those in mid-February in all but the three years mentioned above.

What marketing strategies should be considered? First, remember that history is not a perfect predictor of the future. Second, the average cash price difference between weeks 6 and 21 (mid-February and early-June) in the 1990s was $6.50/cwt live weight. June futures on February 11 were $10/cwt live weight higher than February futures. This size of spread happened in only 5 out of 20 years.

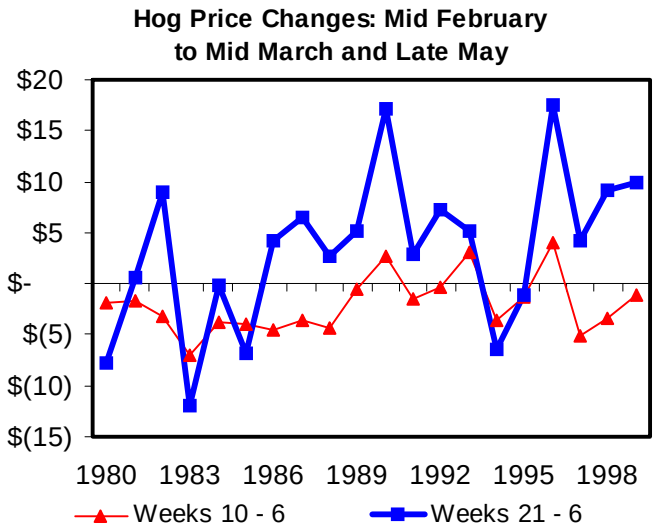

Figure 2

One strategy may be to sell futures on rallies to hedge your summer production and reevaluate the situation on or near March 10th. If the cash price is higher than mid-February prices, the market may be poised for stronger summer prices as was seen in 1990 and 1996. The producer could buy a call option or place a buy order to offset the hedge and take advantage of the price rally if it occurs. A second strategy would be to buy a put option to establish a floor price, but be able to take advantage of higher prices if they occur.

Producers deciding not to take price protection at this time in hopes of a summer rally should have a plan in place in case of lower summer prices. Buying an out-of-the-money put option, placing a market order to sell futures if the price falls below a trigger level, or using a market timing strategy such as moving average indicators would seem to make sense. You may give up some price declines or pay it out in option premiums, but you would be protected from sharp declines as was seen in the summer of 1985 and 1994.

John Lawrence

SOUTH AMERICAN CROPS STABILIZE, CHINA CORN EXPORTS INCREASED

USDA's world crop report on February 11 *lowered Brazil's projected corn harvest for this spring by 0.5 million tons (18 million bushels) from last month*, while Argentina's bean crop projection was raised 0.5 million tons. Projections were not made for Paraguay, which also produces soybeans, and has had a much larger percentage of its Soybean Belt with low soil moisture than either of the other countries. Brazil's crop is now projected to be 18 million bushels below the spring 1999 harvest, despite a reported 2% increase in plantings. Argentina's soybean crop is projected to be down 34 million bushels from 1999, despite approximately 6% increase in plantings reported by the Argentine Secretary of Agriculture. This suggests that the average Argentine soybean yield will be about 10 to 11% below that of last year, with considerable variability from area to area. Rain in the last two weeks has covered a large part of the South American Corn-Soybean Belt and should help soybeans, but will be too late to reverse earlier loss of yield potential on corn. It is possible that final South American soybean production could be above current projections. Large areas of its Bean Belt have had two to four inches of rain in the last three weeks. In limited areas of Brazil, excessive rains have delayed early harvests of corn and soybeans, although most of the harvesting normally occurs from mid-March through late April. One area that has missed much of the recent rain is Paraguay, which normally produces around 120 million bushels of soybeans per year.

USDA projections place the Argentine corn harvest this spring at 19.9 million metric tons, up 12% or 87 million bushels from last year. The Argentine secretary of agriculture estimated his country's corn planted acreage to be up about 15% from a year ago. The spring 1999 Argentine feed grain crop (corn and sorghum) is estimated to have dropped 275 million bushels from the previous year, so only a partial recovery is anticipated this year. The sharp decline in its 1999 crop, along with small decreases in South Africa, and in Australia's barley and sorghum harvests last season are important factors behind the 32% rise in U.S. corn exports in 198-99 and the modest increase so far this marketing year.

China Corn Export Projection Raised

In this month's report, *USDA increased its projected Chinese corn export projection by 3 million metric tons (119 million bushels) from last month. The latest figure is 8 million tons, up 132 million bushels from 1998-99.* The increased projection reflects efforts by China's government to keep corn carryover stocks from rising. This year's carryover is projected at 32% of annual use, down slightly from last year's 33% of annual use. When China imported 169 million bushels of corn in 1994-95, its carryover/use ratio dropped to 28%. Without imports that year, it would have dropped to about 24%. In the recently publicized U.S.-China trade agreement, China would be required to phase out its corn export subsidies over the next few years. Several more stages of negotiation are needed before the agreement takes effect, including working out similar agreements with several other countries. The exact impact on U.S. corn exports would depend on a number of other variables including possible efforts by China to encourage a shift of some resources from corn to soybean production, exchange rate of the Chinese currency to the dollar and other currencies, China's adoption rate on corn production technology, the mix of pork vs. poultry and fish production, and China's long-term goals regarding food security. Despite a sharp increase in Chinese corn production in the last 15 years and extensive irrigation, China's average corn yield is only a little over half that of the U.S., according to U.S. data. Most assessments project U.S. agriculture to have a net gain from the agreement, but for this year, China appears likely to be a substantial competitor in corn exports. For an historical perspective on China's corn exports, see Figure 1.

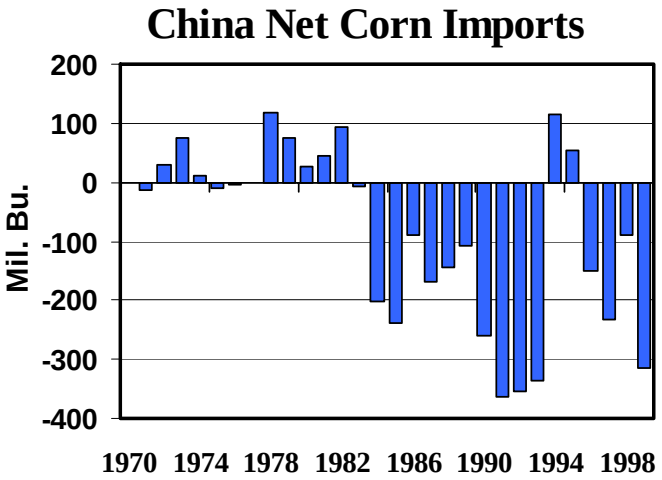

Figure 1

The positive news from USDA's revised China projections was in soybeans. China's 1999-00 soybean imports are now projected at 4.8 million metric tons, up 18 million bushels from last month and up 35 million bushels from last year. Over the last 15 years, China has been able to sharply increase its corn production, but has had very little success in sharply expanding its soybean output. The U.S.-China trade agreement should also be positive for longer-term U.S. soybean exports, unless China shifts land and other resources from corn to soybeans and other oilseeds.

U.S. Subsoil Moisture: Potential Market Factor in the Spring

So far, weather worries about 2000 U.S. corn and soybean production have not been a major market factor. However, low Corn Belt subsoil moisture is likely to receive more market attention in April if significant recharge has not occurred. Long-term monthly average precipitation for selected locations from the Midwest Climate Center in Champaign, Illinois, show the potential for substantial soil moisture recharge—provided rainfall returns to normal. For Central Iowa (Boone County), the long-term average shows about 8 inches of rain received in April and May. For Lyon County in extreme northwest Iowa, the combined average for the two months is about 7 inches, as it is for a large part of Iowa. In northern parts of the eastern Corn Belt, some areas have a little more rain in April and a little less in May than Iowa.

GMO Update

Last week, a large poultry and hog producer in Brazil reportedly turned back a vessel of U.S. corn because it contained GMO grain. The reason given was that GMO grain is illegal in Brazil. Last year, Brazil was a market for 105 million bushels of U.S. corn. Also, a report published on FARMSOURCE by ProFarmer, Inc. indicates that in one area of western Canada, volunteer GMO canola has developed that is resistant to three major herbicides used for canola production. The problem apparently resulted from cross-pollination of different types of GMO canola, each resistant to a different herbicide. Management practices were prescribed to prevent such problems in the future. For more details, check with ProFarmer, Cedar Falls, Iowa. This development may fuel more controversy about environmental risks of GMOs.

GMO 2000 Conference

Des Moines, Iowa -- Iowa Secretary of Agriculture Patty Judge announced a conference designed to assist producers and agribusiness organizations in assessing risk and management of genetically modified organisms. The conference, "GMO 2000: Assessing Risk and Seeking Opportunities," will be held at Iowa State University's Scheman Building, Benton Auditorium in Ames, Iowa on Thursday, February 24, 2000 beginning at 8:30 a.m.

Judge said, "Participants will learn to identify new tools for effective decision making. Emphasis will be placed on marketing of GMO crops, the seed industry, and legal issues and liabilities".

Conference sponsors: Iowa Dept. of Agriculture & Land Stewardship, Iowa Corn Growers Assn., Iowa Farm Bureau Fed., and Iowa State University's College of Agriculture, Iowa Grain Quality Initiative, and Iowa State University Extension.

Guest speakers will include:

Patty Judge, Iowa Secretary of Agriculture;
Brent Halling, Iowa Deputy Secretary of Agriculture;
Dr. Stan Johnson, Iowa State University Extension;
Dr. Colin Scanes, Director Seed Science Center, ISU;
Dr. Roger Ginder, Iowa State University;
Dale Voss, Sully Cooperative Exchange;
Nick Huston, Grain Merchandiser, Colusa Elevator;
Edward Shonsey, CEO, Novartis;
John McClenathan, VP, Grain Operations, ADM- Growmark;
Dr. Arnold Foudin, Special Asst., Plant Protection and Quarantine Div., APHIS, USDA;
Mike Gumina; Director, N. Am. Seed Sales, Pioneer;
Dr. Arnel Hallauer, Senior Plant Breeder, ISU;
Bill Latham, Latham Seed Co;
Dr. Dermot Hayes, Iowa State University;
Eric Tabor, Chief of Staff, Iowa Atty. Generals Office;
Dr. Neil Harl, Charles F. Curtis Distinguished Professor, ISU;
Kyle Pattison, VP, Pattison Bros. River Terminal;
Paul Lang, CEO, Natural Products, Inc;
Doran Zumbach, Z-Valley Grain

Registration fee including lunch is $25 before Feb. 18, or $30 at the door. Iowa Communication Network (ICN) sites will be available at $10/person. To register, contact ISU Extended and Continuing Education at 515-294-6222.

ICN conference downlink sites:

Algona - Algona High School, Room 86, 600 South Hale
Cedar Rapids - Cedar Rapids NG Armory, 10400 18th St. SW.
Corning - Corning NG Armory, Room 111, 1925 210th Street
Denison - Denison NG Armory, 12 North 35th Street
Ft. Dodge - Arrowhead Area Ed. Agency 5, Rm 204 Lib. Bldg.
Jackson Junction - Turkey Valley Jr.-Sr. HS, 3219 St. Hy. 24
Jefferson - Greene Co. Med Cntr, Publ Hlth Rm, 1000 W. Lway
Lewis - Wallace Rsrch. Farm, Ext. Ctr, 53020 Hitchcock Ave.
Mason City - NIACC, Rm 128 Careers Bldg, 500 College Dr.
Mount Pleasant - Mount Pleasant NG Armory, 1000 S. Walnut
Muscatine - Muscatine CC-Larson Hall Rm 60, 152 Colorado St.
Newton - DMACC, Newton Poly, Rm 118, 600 N. 2nd Ave. W.
Oelwein - Oelwein NG Armory, ICN Classroom, 201 10th St.
Ottumwa - Indian Hills CC, Video Conf. Cntr, 525 Grandview
Sheldon - Sheldon NG Armory, 920 Western Avenue
Spencer - Spencer Public Library, 21 East Third Street

Robert Wisner