IOWA FARM OUTLOOK

March 15, 2000 Ames, Iowa Econ. Info. 1785

SUMMER HOG PRICE FORECAST

Although the March Hogs & Pigs report will be released March 24, history may provide some insight into this summer's hog market. If you have been following this newsletter, you know that we have talked about previous hog cycles and have pointed out that not all cycles are alike.

There have been five liquidations since 1983. All of these cycles showed their first breeding herd liquidation in the December report. Figure 1 shows cash prices for the half of the year comparable to 2000, 13 months after liquidation began. Two of the four previous cycles (summers of 1990 and 1996) saw summer cash prices peak in late May. The other two cycles (summers of 1985 and 1994) actually had lower prices in early summer compared with February.

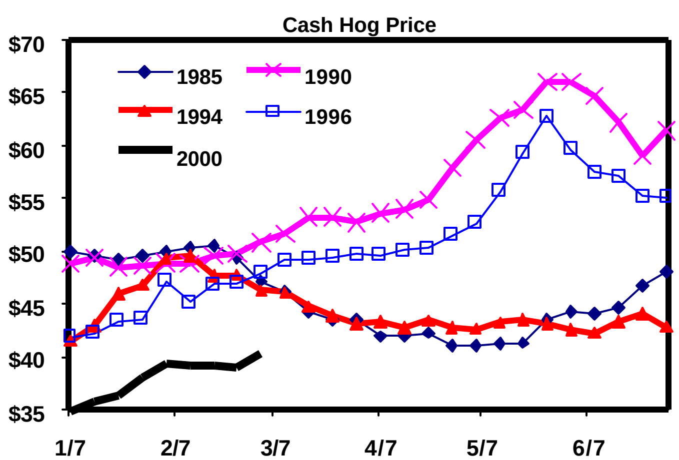

Figure 1

Futures prices followed a similar pattern to the cash market. Figure 2 shows June futures from the beginning of the fourth quarter until expiration. Note that the 1990 and 1996 June contracts began a rally in mid-March, then continued into May and June, but peaked before the end of the contract. ***The other two years saw the contract prices trend lower into the first of June. There were hedging opportunities in the spring, and beginning in mid-March prices began to decline.***

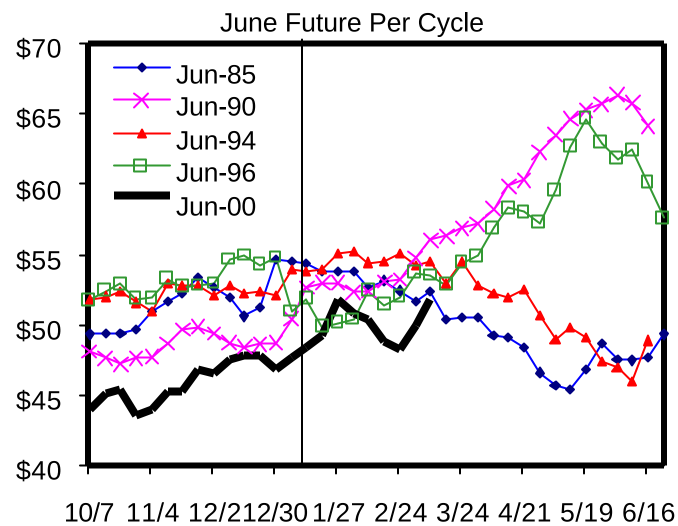

Figure 2

Which way in 2000???

The question is, which track are prices on this year? We can look to historical prices for signals (Figure 3). Since 1980 there have only been three times that prices in week 6 of the year (approximately the second week of February) have been higher than prices in week 10 (approximately the second week of March). The three years were 1990 ($2.75), 1993 ($3.05), and 1996 ($4.00). Prices in week 21 (approximately the first week of June) were over $17 above week 6 prices in 1990 and 1996, and $5.10 higher in 1993.

This year, week 10 was $1.18 above week 6, which favors higher summer prices. ***June futures on March 13, after adjusting for a five-year average basis, were offering a hedge price of $51.30***, $12.18 above the week 6 price. The 1990-1999 average spread between week 21 and week 6 has been $6.56/cwt live weight. Thus, the current futures bids are $5.62 over the average spread, but $5.25 below the 1990 and 1996 spreads.

While history is not a perfect predictor of the future, Figure 2 shows that the upward-trending 2000

➡ *The Iowa Farm Outlook can be viewed on WWW at:* **http://www.econ.iastate.edu/outreach/agriculture/periodicals/ifo/** *and on "Local Pages" of DTN and "Iowa News" on FarmDayta.*

June futures appear to be following those of 1990. Friday March 10 closing prices for April, June, and July were above chart resistance and signaled a return to an upward trend in those months. As a result, futures traders are expecting stronger prices into mid-summer.

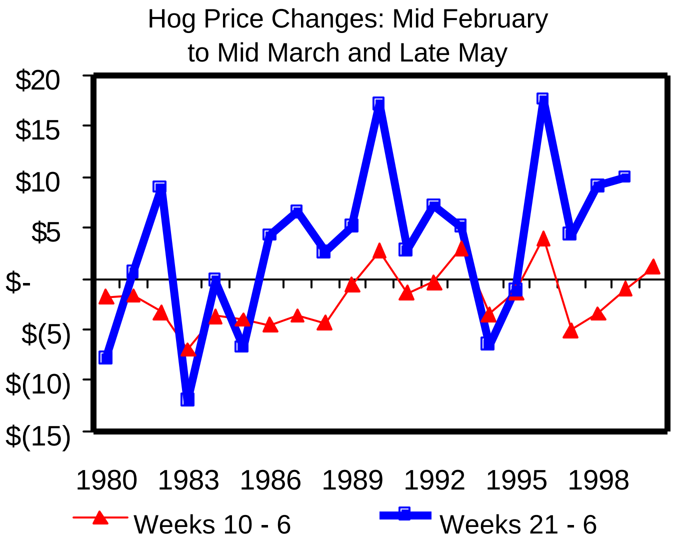

Figure 3

Beyond the Peak…

If the market peaks in early summer as it did in 1990 and 1996, should a producer hedge hogs for further-out months? Table 1 shows what happened to futures prices following the late May price peak in these two years. ***First, the two years are not alike***. In 1990-91 July and August futures also peaked at the same time as the cash market in late May. October, December, and February contracts were near their contract high in late May. In 1996-97, July was near a contract high in late May, but all other months continued to move higher during their contract life.

While charts support stronger early summer prices, August, October, and December contracts are still below previous contract highs and do not show as strong a trend as the earlier months. The recent low levels of sow slaughter suggest that the liquidation phase of the cycle is slowing. The March report is not expected to show an increase in the breeding herd. However, given the productivity increases of recent years, it is possible to increase pork tonnage over the previous year with one to two percent fewer sows.

Closing Futures Price for High Week of the Year and Contract High After that Date ($/cwt).

Contract	1990-91 5/31	1990-91 High	1996-97 5/23	1996-97 High
Jul	63.65	63.50	80.14	82.66
Aug	61.80	60.92	74.42	84.19
Oct	53.75	57.50	68.04	80.57
Dec	53.37	55.60	70.88	80.74
Feb	51.20	52.85	72.60	78.70
Apr	47.60	54.10	69.70	76.20
Jun	49.70	58.85	77.91	85.45

Bottom Line…

The bottom line is that the March report released next week will provide new information that may impact the markets. Currently odds favor, ***but do not guarantee***, continued strength in prices, and possibly futures prices, into early to mid-summer. However, prices later in the year are awaiting more information.

Producers may want to consider selling stepwise into a rising market, or at a minimum, following the market higher with a stop order to sell if prices set back. They should be particularly cautious of prices for the second half of the year and beyond. Watch for our analysis of the March Hogs and Pigs report late Friday or Saturday following its release.

…John Lawrence

DROUGHT FEARS ENTER THE GRAIN MARKETS

In coverage of the National Weather Service's 30 day to 90 day weather forecasts, the *Wall Street Journal* and *USA Today* carried prominent stories about Midwest and Southern drought prospects for 2000. These developments were contributing factors behind the recent sharp rise in corn and soybean futures prices. July futures on March 17 were about $2.72 per bushel, offering a central Iowa potential hedging price for delivery in May through early June 2001 of about $2.42 (plus or minus a few cents basis risk). At the market close on March 16 ($2.59), December 2000 corn futures were about 70 cents above the fall 1999 lows. November soybean futures were up 60 to 85 cents from last harvest season, despite widespread expectations that U.S. soybean plantings will increase again this year. U.S. soybean plantings have increased every year since the introduction of "Freedom to Farm," and last year were approximately 11 million acres larger than in 1995. Most private and USDA projections show plantings up 1.5 to 2.5 million acres from last year. My projected soybean plantings are up only 0.5 million acres from last year. However, condition of the winter wheat crop in the central and southern plains in April will be a major potential swing factor. About two-thirds of the Texas wheat crop was in poor to very poor condition on March 13. Without modest rain, part of this acreage could be replanted to soybeans, along with a small amount in Kansas and Nebraska, and could push soybean plantings up to private projections. Texas has about 3.5 million acres of wheat, not all of which could be replanted to soybeans. Southern plains drought brought a quarter-million acre increase in Texas soybean plantings in 1992.

U.S. and World Grain Stocks…

Despite recent extremely depressed grain prices, U.S. and world corn and feed grain stocks are at very modest levels when measured as percent of annual use. The August 31, 2000 U.S. corn carryover is expected to be about 18% of total domestic use and exports. The last time corn prices were as low as in the September-February period was in the farm crisis of the mid-1980s, when corn stocks were 60 to 65% of annual use. At the global level, feed grain stocks at the end of the current marketing year are projected at 17% of annual use. That compares with stocks at about 30% of annual use in the mid-1980s. Low prices would seem to imply that global grain stocks are huge. However, the U.S. and global trend in farm policy has greatly reduced government-owned grain stocks that isolate supplies from the market. In the U.S., the government is essentially out of the grain storage business except for a very small strategic wheat reserve. The modest level of total stocks creates the potential for a strong rise in corn prices in case of a drought as severe as in 1983 or 1988.

The U.S. average corn yield in 1988 was about 25% below a trend yield. A yield that far below trend in 2000 would cut production about 25% or 2.4 billion bushels below the current annual rate of utilization. Total utilization of U.S. corn would need to be reduced about 1.1 billion bushels from the current rate of use. If most of the reduction occurred in livestock, as has typically happened in other short-crop years (except in 1995-96, when hog prices were in the upper $50s and low $60s), livestock feed use would need to be trimmed by almost one-fifth. A 25% drop from the long-term trend in U.S. soybean yields, a small rise in harvested acreage, and a stocks drawdown would require that U.S. soybean use be reduced about 10% from the current level.

Don't Overlook Downside Risk…

Dr. Elwynn Taylor, ISU climatologist, indicates that La Niña has been a major factor in the current drought and that it has been weakening in recent weeks. It is uncertain whether it will fade out this spring. If that happened, he would expect U.S. drought risk to be substantially reduced. A U.S. corn yield near or above the long-term trend would likely leave a price/carryover situation similar to that of the last 18 months. Soybean stocks could increase significantly with the widely expected increase in U.S. plantings. To gauge downside price risk, consider how low prices were last fall and much of the winter.

Brazil and Argentina...

Argentina's feed grain crop is forecast to partially recover from last spring's sharp decline, although yields in a few localized areas were hurt by earlier dry weather. This spring's harvest is expected to be 99 million bushels larger than a year earlier, and signals a modest increase in competition in world markets from June onward. However, production is still indicated to be 214 million bushels below two years ago, despite a 19% increase in Argentine harvested acreage this marketing year. South Africa's spring 2000 corn harvest is estimated to be up 71 million bushels from last year, also due to better weather than in 1998-99.

Brazil's soybean production forecast remains unchanged from last month, at 30.5 million bushels, while Argentina's crop estimate was raised 0.5 million metric tons (18 million bushels) from the February projection). Combined production of the two countries is estimated to be down slightly from last year. However, their total exports of beans and meal (in soybean equivalent) are projected to be modestly above those of last year, and well above the U.S. total. Indicated exports from the two countries and the U.S. total exports are as follows, in millions of bushels:

	Brazil + Argentina		**U.S.**	
	1998-99	1999-00	1998-99	1999-00
Beans	446	480	801	910
Meal	1,088	1,093	297	292
Total	1,534	1,573	1,098	1,202

Export Sales...

Combined shipments of U.S. soybeans since last Sept. 1 and unshipped sales as of March 10 were up 15% from a year earlier. So far, China has purchased 111 million bushels of U.S. soybeans, up from 61 million bushels a year earlier. China has purchased no U.S. soybean meal, and very little U.S. soybean oil. It continues to be a substantial exporter of corn. USDA's latest projections place this season's Chinese corn exports at 8 million tons (about 320 million bushels), with imports of about 120 million bushels. Some analysts see China's increased corn exports as a move to cut inventories ahead of a potential decline in its export subsidies that would be required if the U.S./China trade agreement goes into effect next year. China's indicated stocks/use ratio for this summer is well above the level of the early to mid-1990s that triggered an abrupt shift from Chinese corn exports to imports. It is about at the average level of recent years.

U.S corn exports and outstanding unshipped sales to all destinations are up 5% from a year earlier, while soybean meal shipments and sales are down 3% and soyoil is down 57%. U.S. soybean meal sales to EU, often the largest U.S. soybean meal export market, were 1.76 million metric tons two years ago, but dropped to 0.4 million tons last season, and so far this season are 0.1 million metric tons

GMO Developments...

Starting this April 1, Japan will use a testing and certification program to identify genetic origin of corn and soybeans imported for food use. Japan will implement its food-labeling plan in the spring of 2001, as will South Korea. Other countries expected to implement labeling programs next year include Taiwan, Malaysia, Philippines, Taiwan, New Zealand, and Australia. EU countries already are using labeling for grain products processed directly into human food. A shipload of U.S. corn for feed was turned away from Brazil a few weeks ago, since GMO crops are illegal in that country. Brazil is a potential market for 40 to 80 million bushels of corn, depending on the final level of its spring 2000 corn yields.

Exports to Date...

Total U.S. corn, soybean and wheat exports since the start of the current marketing year, comparisons with 1999 and needed exports to reach current USDA projections:

	Mil. bu.	% Change vs 1999	% Change needed rest of season
Corn	1,032	+07	+11
Soybeans	661	+16	+07

…Robert Wisner

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