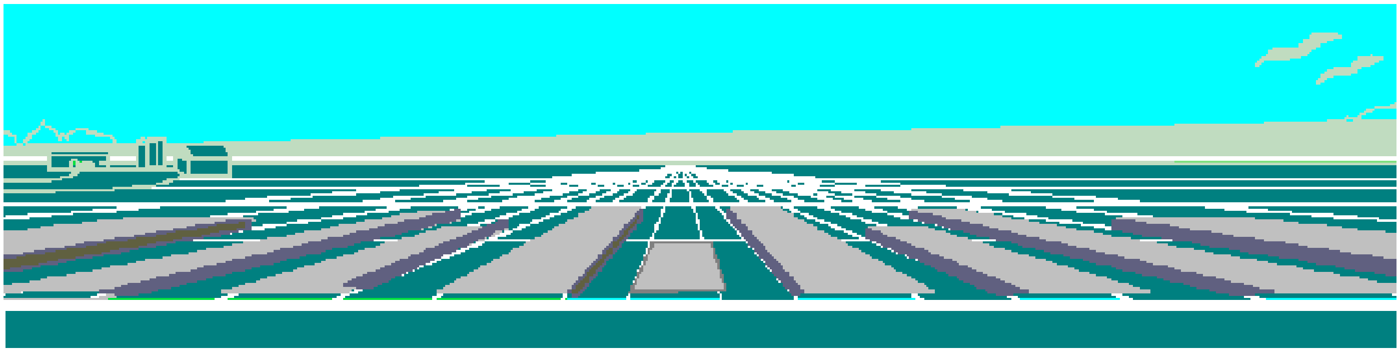


July 2, 2001 Ames, Iowa Econ. Info. 1817

JUNE HOGS AND PIGS REPORT

There was good news for pork producers in the USDA June Hogs and Pigs report released June 29, 2001. USDA estimates the inventory of all hogs and pigs on US farms June 1, 2001 to be the same as it was in June 2000 (Table 1). The breeding herd was down 1 percent compared with pre-report trade estimates of a 1 percent larger breeding herd. The market hog inventory was even with the year before, 1 percent less than trade estimates. Because the numbers were slightly smaller than pre-report trade estimates, futures prices may strengthen in the short term.

There is expected to be a larger supply near term based on the inventory of hogs over 120 pounds. However, hog slaughter since June 1 has been 2 percent less than the same period last year compared with 1 percent larger as the report indicates for the 180-pound and larger category. This difference may be due to more gilt retention, marketing delays, or the USDA may have overestimated the inventory.

Table 1. US and Iowa June 1, 2001 Hog Inventory And Percentage Change from June 2000.

	US Mil. Hd.	% Chg 2000	IA Mil. Hd.	% Chg 2000
Total hogs	59.1	-0.1	15.1	-1.9
Breeding herd	6.2	-0.6	1.1	-3.4
Market hogs	52.9	-0.5	14.0	-1.8
Under 60	19.7	-1.0	4.3	-4.0
60-119	13.2	-0.4	4.0	-2.7
120-179	10.8	1.3	3.1	1.6
180+	9.1	1.4	2.6	-0.8
Pig crop				
Dec-Feb	24.8	1.0	3.8	-5.6
Mar-May	25.5	-0.1	4.0	-8.2
Farrowing Intentions				
Jun-Aug	2.9	1.2	.45	0.0
Sep-Nov	2.9	2.0	.46	4.4

Iowa’s inventory was off more than the national average; in particular, the Iowa breeding herd was 3.4 percent lower than a year ago compared with the 0.6 percent decline of the US herd. The Dec-May Iowa pig crop was also lower, but Iowa farrowing intentions are higher than the national average for fall. The Sep-Nov increase suggests that Iowa producers may be more expansion minded than producers elsewhere.

Production

Year-to-date federally inspected hog slaughter was 47.157 million head, 0.6 percent lower than the same period in 2000. Due to heavier carcass weights, pork production was 0.6 percent higher than the first half of 2000. Based on estimated pig crops for Dec-Feb and Mar-May, third quarter slaughter is forecast to be 1 percent higher than a year ago with fourth quarter being 1 percent smaller. Heavier carcass weights will continue to add at least 1 percent additional pork to the supply in these quarters, resulting in total pork supplies being 2 percent higher in the third quarter and unchanged from the year before in the fourth quarter.

The Jun-Aug and Sep-Nov farrowing intentions indicated that first and second quarter 2002 supplies would continue to post a year-over-year expansion. In addition to carcass weight increases, pigs per litter continue to increase modestly, also adding to supplies. Thus the forecast is for pork supplies to increase 2 percent in the first quarter of 2002 and 3 percent in the second quarter compared with the same quarter of the previous year.

Prices

Iowa-Southern Minnesota barrow and gilt prices are forecast to remain at profitable levels through Labor Day, 2001. Forecast quarterly average prices are shown in Table 2. Given current corn prices and the current feed price forecast, breakeven for average producers is estimated to be in the upper $30s. Less efficient producers or those with larger debt levels will have higher costs. It is possible that average producers will not experience more than a few days of red ink through the summer of 2002. However, such prosperity often results in expansion, larger supplies and lower prices at some point in the future.

Table 2. Forecast Average Prices for Iowa Southern Minnesota Barrows and Gilts.

	Year earlier	Forecast
Jul-Sep	$44.15	41-44
Oct-Dec	$38.73	38-41
Jan-Mar	$40.70	38-41
Apr-Jun	$49.42	45-48

Monthly Numbers

The USDA has been releasing monthly breeding herd numbers since October 2000. While it is still too early to know how to best use these statistics, they do provide some information. Table 3 shows the sow and gilt inventory at the beginning of the month and the number of these sows and gilts bred, litters farrowed, and pig crop born during the month.

Table 3. Monthly USDA Sows, Gilts, Litters Farrowed and Pig Crop (1000 Head).

	Inventory	Bred	Farrowings	Pig crop	% Bred	Bred/day	Pigs/day
Oct	6,072	1,183	940	8,319	19.48	38.16	268.35
Nov	6,055	1,168	938	8,311	19.29	38.93	277.03
Dec	6,090	1,185	934	8,153	19.46	38.23	263.00
Jan	6,030	1,169	941	8,244	19.39	37.71	265.94
Feb	6,031	1,142	950	8,379	18.94	40.79	299.25
Mar	6,065	1,200	977	8,627	19.79	38.71	278.29
Apr	5,999	1,170	941	8,337	19.50	39.00	277.90
May	5,986	1,165	960	8,580	19.46	37.58	276.77
Jun	6,013						

The inventory doesn't include the entire US inventory. The June 1 inventory in the monthly survey was 6.013 million sows compared with 6.198 million in the quarterly report (97 percent of the total). While sow and gilt numbers declined from December to May, there was an increase from May to June.

The numbers bred, farrowed, and born during the month represent the throughput of the industry, but because of a different number of days in the month, these numbers can be misleading. First, notice that the average number of pigs born per day decreased 14,000 a day from November to December and increased over 36,000 head a day from December to February. The pig/day number did decline again in March through May.

While the accounting is not exact and doesn't account for death loss, this does suggest an increase in daily slaughter approximately 6 months after farrowing. *That is, lower numbers in June and higher numbers by August. June numbers were 2 percent lower than a year ago, or about 4600 head a day less slaughter*. Also notice that the average number of sows bred per day increased from January to February suggesting a jump in farrowings approximately 4 months later (June) and slaughter 10 months later (November). We still have a lot to learn about the monthly data, but they are worth monitoring.

Strategy

The seasonal pattern for hog prices is for November prices to be lower than June prices. Figure 1 shows the average price for Week 46 (mid November and the lowest average price of the year) compared with Week 26, the last week of June. Week 46 has averaged about 88-90 percent of Week 26 prices from 1980-2000 (1998 which was 46 percent was adjusted to 66 percent). The average of the large declines years, excluding 1998 ('87, 91, 94, and 00), is 68 percent. It was 46 percent in 1998. ISM prices for the last week of June averaged $53/cwt this year. A November price at 68 percent of the June price would suggest a fall low in the $36 range. If you use the long-run average of 89 percent, the fall low would be $47.

On the Friday of the report, the December futures were trading at $54.60 providing a basis adjusted hedge price of $37.90/cwt live. This figure is slightly better than the seasonal pattern would suggest for this year. Other factors such as supply and demand can obviously impact this year relative to the historical pattern. Given the bullish nature of this report, look for futures to strengthen. Fall hedge prices in the low $40s should be taken seriously.

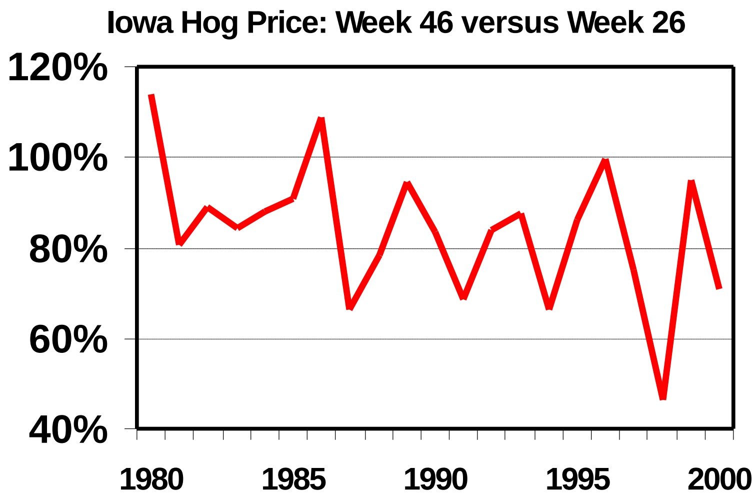


Figure 1

John Lawrence

CORN AND SOYBEAN CROP CONDITIONS; TIGHTENING SOYBEAN, CORN SUPPLY ANTICIPATED

Highlights & Implications of June 29 USDA Reports

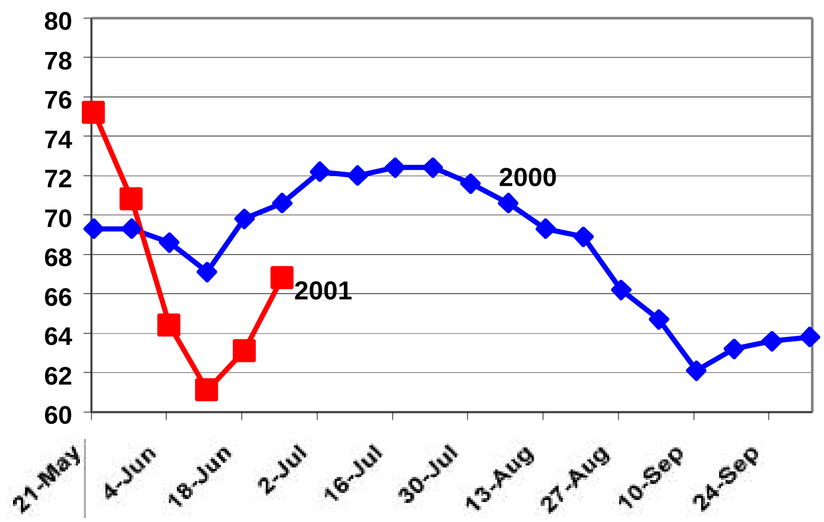
USDA's June 29 planted acreage and stocks reports showed positive news for both corn and soybean prices. Planted soybean acreage was 1.5 million acres below trade expectations and June 1 soybean stocks hinted that last year's crop may have been slightly overestimated. This news points to a potential decline in U.S. soybean stocks for the second consecutive year unless U.S. yields are well above normal. Prevented plantings features of crop insurance policies were a strong incentive for farmers to leave fields unplanted in the Midwest if they were unable to plant corn before May 31 or soybeans before June 15, and that resulted in a considerable drop in planted acreage from earlier expectations. Corn planted acreage was only 0.2 million acres below average trade expectations, but 3.5 million acres below that of last year. While not a surprise, that too sets the stage for declining corn carryover stocks next year even with modestly above normal yields, and is constructive for corn prices. Stocks of corn and soybeans were slightly below expectations and also are constructive to the price outlook. Prices of both crops will be increasingly weather sensitive this summer.

The current grain market environment still reflects continued uncertainty about the amount of acreage actually planted, as well as the slow start for crops in Iowa, Minnesota, Wisconsin, and pockets of neighboring states***. Further revisions in planted acreage estimates for corn and soybeans are likely in August with the August 10 crop report.*** Other important dimensions include very dry weather in a sizable part of China's Corn Belt in April and May, followed by above-normal rain over large areas in June. Corn, wheat, and soybean prices all have been in a downtrend for several weeks, until this week. At the time USDA's June 29 planted acreage survey was taken, about 5% or 3.8 million acres of corn and 30% or 22 million acres of soybeans, respectively, in major states remained to be planted. The June 29 grain stocks report indicated domestic corn feeding remained strong for the March-May quarter.

Crop Conditions And Comparisons with Last Year

Figure 1 shows the percent of the major-states corn crop rated good to excellent so far this season, and comparisons with last year. While conditions have improved somewhat in the last two weeks, the crop condition still lags behind the last few years, when yields at the national level were generally good, but not exceptional. In 1999, for the U.S. as a whole, the corn yield was near a normal trend yield, but a dry August took beans below trend. By late July, after pollination has been completed, the crop condition index and percent of the crop planted by the third week of May are strong indicators of corn yield potential. This early in the season, however, it is a less reliable indicator of yields. Between now and late July, ideal weather could significantly increase the crop condition ratings. Condition varies considerably across the Corn Belt. In Indiana and Illinois, crops were planted very early and are in considerably better condition than in Iowa. State crop condition details are available at: http://usda.mannlib.cornell.edu/reports/nassr/field/weather/ . The Illinois corn crop this week was reported to be 78% good to excellent, compared with 61% for Iowa.

Figure 1. U.S. Corn Crops, 2000 & 2001, Percent in Good to Excellent Condition



Chinese Weather

Last month, USDA's World Agricultural Outlook Board reduced its projected 2001 Chinese corn crop projection by 400 million bushels from a month earlier, reflecting dry weather in the northeastern provinces. The latest Chinese weather, and satellite crop imagery and comparisons with a year ago can be found at the following internet site: http://news.bridge.com/gws/home/gwshome2.htm. This site also contains 10-day and 90-day weather forecasts for China, as well as for other major grain areas. Click on "Agriculture," then China and the appropriate boxes for this information. Recent rains appear to have brightened China's crop prospects somewhat, although good rains will be needed throughout the growing season. The three extreme northeastern provinces are major corn and soybean growing areas, and have less irrigation than other parts of China. Even so, there is a significant amount of irrigation in the region, provided water is available in the reservoirs. About 60% of China's total cropland is irrigated.

Positive Soybean Demand Developments

The soybean market has received several positive new developments in the last two weeks in addition to the stocks and acreage reports. The Census Bureau placed the U.S. May soybean crush at a record 132.6 million bushels, up 12% or 14 million bushels from last year. Also, the European Union extended its ban on feeding of animal-based protein to any type of livestock. The ban is now "indefinitely" extended, and some in the grain trade expect this is a way of making it permanent. Protein in livestock and pet food rations previously supplied by meat meal and related products will have to be replaced by plant protein. Part of the replacement may come through increased wheat and rapeseed meal feeding, but much of it will come through increased feeding of soybean meal, as has been happening since January. While the exact impact is uncertain, the ban may create a shift in demand equal to the meal from 150 to 200 million bushels of soybeans annually. Part of this added demand has already been experienced in the soybean market, but extending the ban means it will not be cut off in the foreseeable future.

Another positive development for soybeans is that China has begun purchasing new-crop U.S. soybeans. Most of the growth in U.S. soybean exports (up 5%, September 1, 2000 through June 21, 2001, including outstanding unshipped sales) has been in sales to China. The total shipments and outstanding unshipped soybean sales to China is 33% above a year ago. Cumulative U.S. soybean meal exports and outstanding unshipped sales are running 9% above a year ago, while the total for soybean oil is down 8%. In contrast to soybeans, cumulative U.S. corn exports and outstanding unshipped sales are down 6% from last year. These trends in exports and sales hint that the USDA may raise its U.S. soybean export projection and lower the corn export projection in the July 11 supply-demand report.

Planted Acreage & Stocks Reports

USDA reported U.S. corn, soybean, sorghum and other spring wheat planted acreage as shown below.

USDA Planted Acreage Estimates, Mil. Acres.

	June 29 estimate	March intentions	2000 plantings
Corn	76.11	76.69	79.6
Sorghum	9.75	9.37	9.20
Soybeans	75.42	74.66	74.5
Other Spr. Wheat	15.25	15.50	15.24

USDA Grain Stocks Estimates. Mil. Bu.

	June 29 estimate	March 1, 2001	June 30, 2000
Corn	3,920	6,037	3,587
Sorghum	75	167	127
Soybeans	708	1,405	775
All Wheat	873	1,340	950

Soybean planted acreage was a major surprise to the grain trade, with total plantings indicated to be about 1.5 million acres below average trader expectations. With normal yields, this acreage would produce only about 34 million bushels more soybeans than last year. Our balance sheet indicates that unless the U.S. average soybean yield is above trend, these plantings are likely reduce carryover stocks again in 2001-02, following a moderate decrease that is occurring this year. That news should push cash and futures prices for soybeans modestly higher in the next several days. It will also make the soybean market increasingly sensitive to weather developments through August. Our updated balance sheets are available at http://www.econ.iastate.edu/faculty/wisner/

The corm planted acreage estimate was a very slight 0.2 million acres below average trade expectations, not enough to cause major price reactions. However, strength in soybean prices should be supportive to the corn market. Also, a modest decline in corn carryover stocks is indicated in the year ahead, even if yields are slightly above normal.

Both corn and soybean June 1 stocks were slightly below trade expectations. The soybean stocks hint that last year's U.S. soybean crop may have been overestimated by15 to 20 million bushels. Corn stocks point to slightly stronger than expected domestic feed demand during the March-May quarter. The stocks estimates thus will reinforce the positive influence on soybean and corn prices that is likely from the planted acreage report.

Robert Wisner