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SEPTEMBER HOGS AND PIGS REPORT

There was good news for pork producers in the USDA September Hogs and Pigs report released September 28, 2001. USDA estimates the inventory of all hogs and pigs on US farms September 1, 2001 was 1 percent smaller than it was in September 2000 (Table 1). The breeding herd and market hogs inventory were also both down 1 percent compared with the same month the year before. The report was considered bullish by the trade because the numbers were slightly lower than expected and because USDA revised earlier inventory estimates downward. Traders expected futures prices to open higher on the following Monday.

Seasonally, prices are expected to trend lower on larger slaughter supplies and heavier weights, but the inventory report suggests that the fall market bottom may not be as low as earlier expected. The inventory of hogs over 180 pounds was steady with the year earlier figure and lighter weight classes were off 1-2 percent. Hog slaughter since September 1 has been half a percent higher than the same period last year, suggesting that the 180 pound and over weight class is consistent with slaughter data.

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

	US	% Chg	IA	% Chg
	Mil. Hd.	2000	Mil. Hd.	2000
Total hogs	58.64	-1.4	14.70	-4.0
Breeding herd	6.16	-1.4	1.12	-3.0
Market hogs	52.48	-1.4	13.58	-4.0
Under 60	19.51	-2.2	4.20	-5.0
60-119	12.82	-1.6	3.71	-5.0
120-179	10.71	-1.0	3.07	-2.0
180+	9.42	-0.1	2.60	-3.0
Pig crop				
Mar-May	25.17	-2.4	3.83	-12.0
Jun-Aug	25.03	-2.0	3.36	-12.0
Farrowing Intentions				
Sep-Nov	2.84	+1.3	.45	+2.0
Dec-Feb	2.87	+3.2	.45	+5.0

Iowa's inventory was off more than the national average. The March-June Iowa pig crop was much lower than the US figure, but Iowa farrowing intentions are higher than the national average for fall and winter.

Production

Year-to-date through the first 9 months of 2001 federally inspected hog slaughter was 70.431 million head, 0.9 percent lower than the same period in 2000. Due to heavier carcass weights, pork production was nearly identical to that

of the same period in 2000. Based on estimated pig crops for Mar-May and weight classes over 120 pounds, fourth quarter slaughter is forecast to be approximately 2 percent smaller. Heavier carcass weights will continue to add at least 1 percent additional pork to the supply, resulting in total pork supplies being 1 percent lower in the fourth quarter.

The Jun-Aug pig crop and weight classes under 120 pounds indicate that first quarter 2002 slaughter will be 2 percent less than first quarter 2001. Continued increases in carcass weights should push supplies to within 1 percent of year earlier levels.

Sep-Nov and Dec-Feb farrowing intentions indicated that second and third quarter 2002 supplies would continue to post year-over-year increases. In addition to carcass weight increases, pigs per litter could increase modestly, also adding to supplies. Thus the forecast is for pork supplies to increase 2-3 percent in the second quarter of 2002 and 4-5 percent in the third quarter compared with the same quarter of the previous year.

Prices

Based on the inventories in the September report and historic supply-price relationship, Iowa-Southern Minnesota barrow and gilt prices are forecast to remain at profitable levels well into the summer of 2002. 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
Oct-Dec	\$39.24	39-42
Jan-Mar	\$41.30	41-44
Apr-Jun	\$49.95	44-47
Jul-Sep	\$49.63	42-45

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	Farrowed	Pig crop	% Bred	Bred/day	Pigs/day
Oct	6072	1183	940	8319	19.48	38.16	268.35
Nov	6055	1168	928	8222	19.29	38.93	274.07
Dec	6090	1185	901	7803	19.46	38.23	251.71
Jan	6030	1169	906	7887	19.39	37.71	254.42
Feb	6031	1142	943	8279	18.94	40.79	295.68
Mar	6053	1200	963	8479	19.82	38.71	273.52
Apr	5987	1170	930	8207	19.54	39.00	273.57
May	5974	1165	952	8466	19.50	37.58	273.10
Jun	6001	1197	953	8369	19.95	39.90	278.97
Jul	5955	1155	932	8204	19.40	37.26	264.65
Aug	5955	1133	954	8455	19.03	36.55	272.74
Sep	5975						

The inventory does not include the entire US inventory. The September 1 inventory in the monthly survey was 5,975 million sows compared with 6.158 million in the quarterly report (97 percent of the total). While sow and gilt numbers declined from December to August, there was an increase from August to September.

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 13,000 a day from November to December and increased over 44,000 head a day from December to February. The pig/day number has been relatively stable March through August. While the accounting is not exact and does not account for death loss, this does suggest an increase in daily slaughter approximately 6 months after farrowing and about 10 months after breeding.

Strategy

Seasonally, cash prices trend lower into late November and this year should be no exception. The last week of September was the first week of the fall season to have slaughter over 2 million head, and numbers are expected to stay large and possibly increase over the coming weeks. Week-to-week declines should return after Thanksgiving.

Given the uncertainty in world politics and a generally weak US economy, producers may want to look for hedging opportunities if the market rallies following the report. However, based on the previous 20 years of futures prices patterns, futures contracts seldom were above contract expiration price in October. At best, some contracts were above the expiration price in half of the years in October. The April contract was above expiration price in October only 25% of the years. In 75% of the years, it was below the expiration price an average of 10 percent. For more information on life of futures contract price patterns, check the publication on my website, <http://www.econ.iastate.edu/faculty/lawrence/>. Look in the pork industry section for Risk Management for Pork Producers: Life of Contract Price Patterns 1980-99.

John Lawrence

GRAIN PRICE CHARTS REMAIN NEGATIVE AS HARVESTING BEGINS

Price charts for nearby corn and soybean futures contracts have been in a downward trend for several weeks, reflecting uncertainty about the strength of export demand and expectations that late summer rains may have slightly improved yields. These trends can be seen by clicking on the following web site, and then clicking on “commodity charts.” Java charts will let you see the high, low, and close for any day you select.

<http://www.econ.iastate.edu/faculty/wisner/index.html>

For December corn, a gap exists at \$2.04, \$0.1275 below the market's close on September 26. Gaps often become price objectives. Historically, they have been filled about 80% of the time. **At \$2.04, the market would provide moderate LDPs for newly harvested corn, but those LDPs might last only for a short time.** Harvest pressure has some chance of pushing prices down to that level at least briefly. Selecting the weekly corn chart on the site reveals a flag or a pennant formation, indicating a substantial (15-20 cent) price move is possible if the market breaks out of the flag area. The weekly soybean chart indicates a breakout occurred in late August, and that the market is still in a downtrend. November futures show a gap at \$4.455, which like corn, may be a downside objective as harvesting accelerates. That would be a decline of \$0.195 from the September 26 close.

These chart objectives are a caution that prices may work lower in the next two or three weeks in response to harvest pressures and economic uncertainty. Whether that happens will depend on harvesting weather and information from USDA's October 9 U.S. and world crop reports, which you will be able to get at the above web site by clicking on USDA World Crop Projections, and then WAOB for world numbers and the USDA U.S. supply-demand projections. For the U.S. crop estimates by states, click on NASS at that part of the web site. Cash soybean prices have weakened considerably more than futures in the last few days, as buyers wait for new-crop beans to avoid what was an extremely strong old-crop basis. North central Iowa cash soybean prices declined about \$0.35 per bushel from September 20 to September 26, much of which was due to basis deterioration. For producers near processing plants or river markets that still have a good old-crop basis, there is strong incentive to market beans quickly to take advantage of what may be a very temporary opportunity. Daily Iowa cash grain prices also are available at the above web site, by clicking on “Grain Market Information.”

September 28 Grain Stocks Report

USDA's September grain stocks report provided slightly negative news for the soybean market, but was slightly positive for corn. The report showed 24 million bushels more soybeans in storage on September 1 than most analysts had anticipated. Last year's bean crop had been overestimated according to USDA, but by less than generally expected. USDA revised the 2000 U.S. soybean crop estimate down by only 10 million bushels. In contrast, the report showed 37 million bushels smaller U.S. corn stocks than the average of trade expectations. The difference could be due to slightly higher than expected summer quarter corn feeding, or due to larger August corn exports and processing use than previously expected. August Census data on exports and processing should be available in the next few weeks to show where the additional use occurred. ***Data at this time suggest summer quarter corn feeding was about 7 percent above that of a year earlier, due at least partly to reduced wheat feeding. For the marketing year ending August 31, U.S. corn feeding appears to have been about 4 percent above the previous 12 months.*** Slightly higher than expected domestic corn feeding slightly reduces corn supplies for the year ahead, and slightly increases the base from which projections for corn feeding in the year ahead are made.

Supply-demand Projections

Our latest corn and soybean supply-demand projections (taking into account the September stocks report) are shown at <http://www.econ.iastate.edu/faculty/wisner/index.html> by clicking on "Balance Sheets." Later in the marketing year, our projected 717 million bushel decline in August 31, 2002 U.S. corn carryover stocks (column B, most likely) is likely to be more positive for corn prices than at harvest time.

Post-harvest Price Prospects and Marketing Alternatives

There is a good chance the seasonal rise in cash prices into the spring will be greater than normal. Over the last 21 years, May prices for north central Iowa corn have averaged about 25 cents per bushel higher than in the previous October, although the pattern has varied widely from year to year. Marketing alternatives to consider this fall, in addition to unpriced storage include:

- Storage with hedge sales in the futures, for delivery next spring if stored on farm, or in early to mid-winter if stored in town
- Sales on price later contracts or basis contracts
- Sale and re-own through purchases of July, September, or November 2002 call options
- Sale and re-own through purchases of futures contracts
- Outright sales at harvest if storage hedges do not provide profitable storage opportunities

For those planning to sell on price later contracts, be aware that these are credit sale contracts and could place sellers at risk in case of an elevator financial failure.

Prospects for post-harvest strength in soybean prices are more uncertain than for corn, and will depend heavily on acreage and yield prospects in South America this winter. Early reports indicate plantings in Brazil may rise 10 to 12 percent from last year as its farmers shift from corn to soybeans. The Brazilian government has offered low-cost put options to corn growers, to prevent a large shift out of corn. However, farmer response to the program is not clear at this time.

Frost Impact Minimal

There were light frosts this week in the northwestern Corn Belt, including parts of northern and western Iowa, Nebraska, Minnesota and the Dakotas. Reports so far indicate damage to soybeans was relatively light from a national perspective. Some local areas of Minnesota and the Dakotas may have had significant damage. For most of Iowa, it appears that crops were mature enough and frost was light enough that the state average yield was not seriously affected. For information on crop maturity and harvesting progress by state, go to the web site noted previously and click on "World Crop Projections," then WAOB, then "Weekly Weather and Crop Bulletin." Soybeans have matured rapidly in the last week in Iowa, although there are pockets that still are not quite ready for frost. Crops in Midwest states east of Iowa, except for Michigan and Wisconsin, are generally more mature than in Iowa. Soybean harvesting has begun in a few

areas. With good weather, harvesting will accelerate sharply in the next week. Corn moisture generally is reported to be in the 22% to 28% range. With the high price of propane, farmers are likely to let corn dry down more before harvesting. However, December propane futures prices have dropped about 10 % in the last week (click on “Commodity Charts” at the above web site). If the decline is passed through to local propane prices, it may encourage faster harvesting and increased use of corn dryers. The recent low price in this market matched the early July low of \$0.385. A close under that level might encourage prices to move still lower in the next few weeks.

Export Developments

Rumors indicate China may have canceled 300,000 metric tons (11.8 million bushels) of corn export sales, and has delayed receipt of and/or cancelled soybean import purchases. The corn volume would be 4 to 5 percent of the total volume of corn China is believed to have sold so far this marketing year. If the rumor is correct, reasons for the cancellation are not clear. Several aspects of the rumor are confusing. The soybean delays/cancellations appear to be more clear-cut, stemming in part from details of its emerging GMO food-labeling program. The labeling program is not expected to prevent U.S. soybean exports to China, but details of how it will work have been holding up shipments. Additionally, Chinese buyers reportedly stocked up on soybeans this summer, anticipating possible delays as the labeling program was implemented. If verified, the net effect of these rumors would be to provide slight short-term support to corn prices, while adding slight downward pressure on the soybean market. Satellite imagery photos of vegetative condition in China vs. a year ago are available at the above web site by clicking on “Global Weather Service,” followed by “Agriculture, China, and Vegetation Index” in that order. Current maps indicate crop conditions in much of China’s corn/soybean area are considerably better than they were last year, although current USDA crop estimates show another year of production near last year’s drought-reduced level.

Mad Cow Disease in Japan

Recent confirmation of “Mad Cow Disease” in Japan has caused a 20 percent drop in prices of non-North American wholesale beef prices there, as consumers have attempted to shift consumption from beef to pork, poultry, and seafood, or to U.S. and Canadian beef. In response, the Japanese government has announced a temporary ban on imports of meat and bone meal. Currently, no action has been taken to ban feeding of meat and bone meal (MBM) there, but that action may soon occur. The feed industry reportedly has stopped using MBM. Japanese annual imports of meat and bone meal are believed to be equivalent to the meal from about 13 million bushels of soybeans. Depending on how long the ban continues, this action could be mildly supportive to soybean prices after harvest. ***A complete ban on use of MBM in Japan would be expected to increase the annual demand for vegetable-based protein meal by the equivalent of the meal from about 25 million bushels of soybeans. That would enough to absorb about 1/3 of the currently forecast increase over last year in U.S. soybean production.***

Natural Gas Prices and Nitrogen Fertilizer

Natural gas is the main raw material for producing nitrogen fertilizer. Last spring’s nitrogen supplies were tight and prices were high because of high prices for natural gas in the winter. This year, futures prices for February 2002 delivery of natural gas have declined about 50 percent since last May. May 2001 prices were sharply below those of last winter. Thus, the futures market is offering the fertilizer industry an opportunity to lock in much lower prices for its main raw material than it paid last year. High and uncertain supplies of nitrogen were cited last spring as factors in this year’s decreased corn plantings, along with relatively more attractive returns from raising soybeans. Lower nitrogen prices and a higher new-crop corn price relative to soybeans might encourage some increase in U.S. 2002 corn plantings.

Brazilian Currency Weakness

Brazil’s Real has declined about 31 percent against the dollar since January 4 of this year. The weak currency increases costs for imported farm supplies, but also increases the local currency that farmers receive per bushel of soybeans. It also makes Brazilian soybeans more competitive in international markets, relative to U.S. soybeans. Some South American analysts believe the weak Real, and last spring’s congestion and long waiting lines as ports attempted to handle corn and beans simultaneously, will cause the major shift we noted earlier from corn to soybeans. With good weather, that would push Brazil’s 2002 harvest up by about 145 to 175 million bushels from last spring, helping to offset

this year's disappointing U.S. soybean yields. If the forecast increase in Brazil's crop materializes, it would temper the post-harvest increase in U.S. soybean prices. Early reports indicate Argentina's soybean plantings may be about steady this fall, after several years of very rapid increases.

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