IOWA STATE UNIVERSITY
Extension and Outreach

Iowa Farm Outlook

Department of Economics
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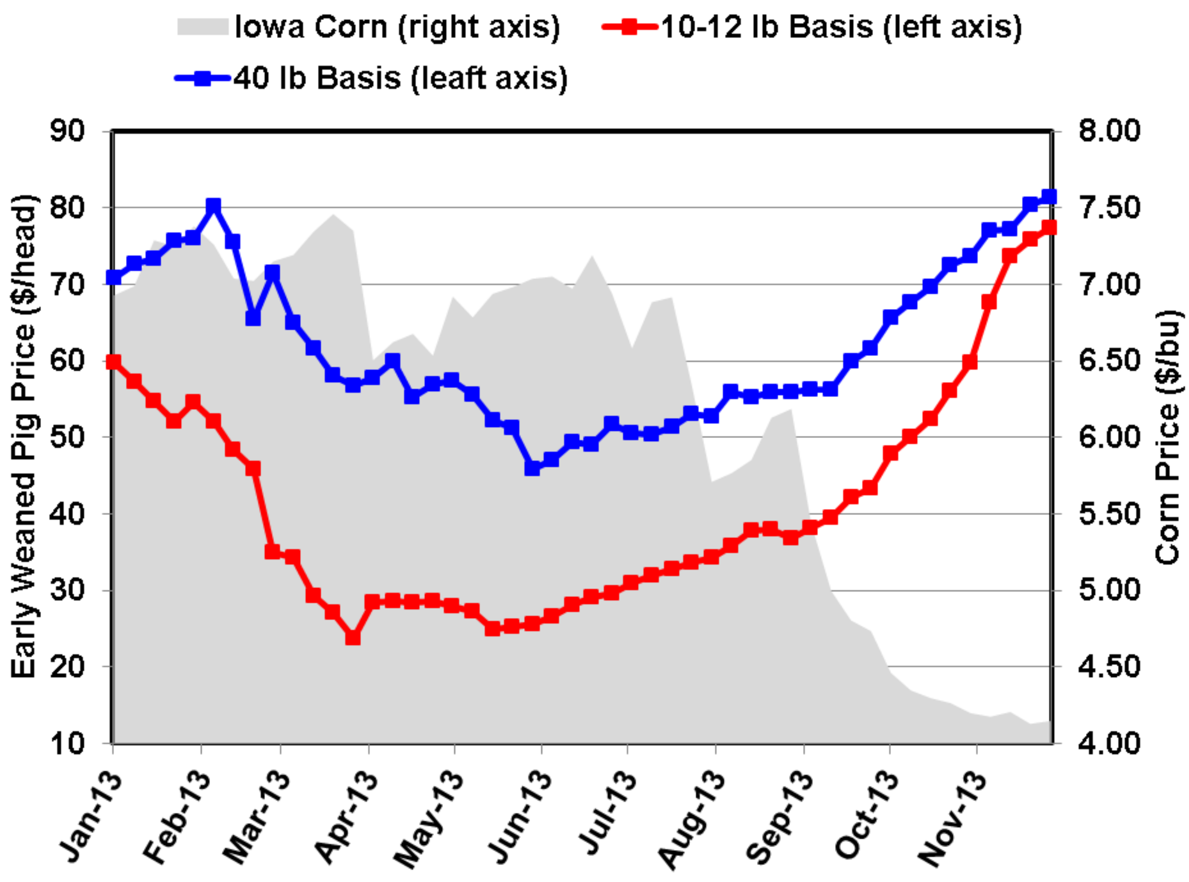
Early Weaned Pig Supplies and Prices

Lower feed prices and strong lean hog prices are driving the interest in finishing hogs. According to the Iowa State University Estimated Returns, wean to finish producers have made money the past five months. There is no doubt that improved margins, realized and forward, are having a big impact on feeder pig price levels and price relationships.

Cash corn prices in Iowa have decreased more than $3.00/bushel since late June. Early weaned pig prices have increased with prices for 10-12 pound pigs up over $48/head and 40 pound pigs up over $32/head over that same time period (figure 1). Lower feed costs are being reflected in early weaned pig markets in two ways — higher overall prices and a narrower spread between 10-12 pound and 40 pound pigs. Pounds always add up faster than dollars and affordable feeding costs on high performance hogs can cover high placement costs, introducing a relative premium on 10-12 pound pigs.

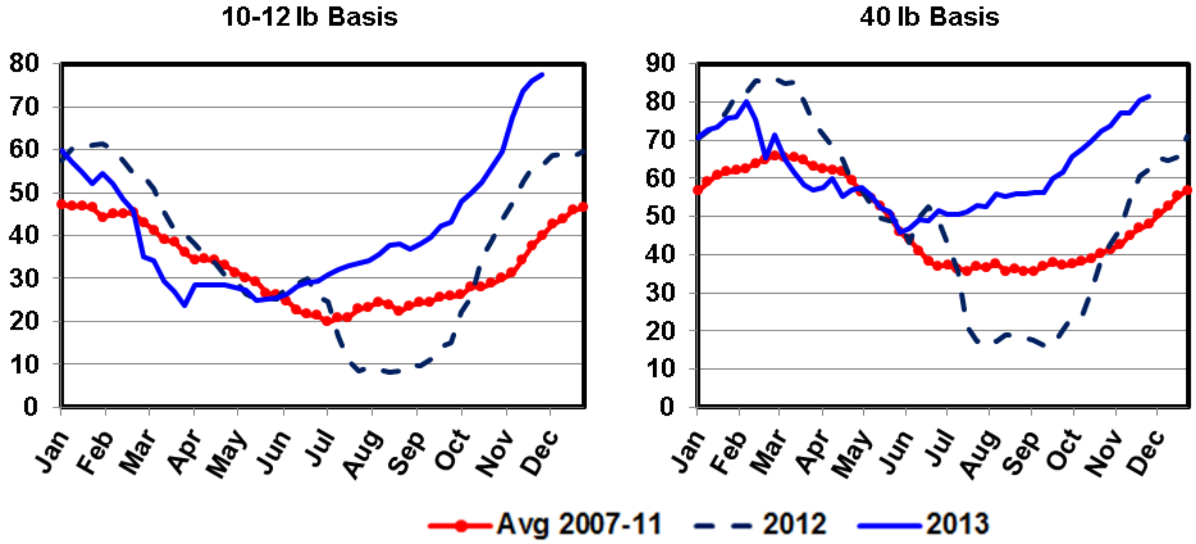
Figure 1. Early Weaned Pig Prices and Corn Prices, Weekly Cash Trade



Data Source: USDA/AMS, Compiled and analysis by Lee Schulz

Early weaned prices this fall are really high from any historical perspective (figure 2). Early weaned pigs 10-12 pound basis have been over $70/head the past three weeks; similarly, early weaned pigs 40 pound basis have been over $80/head the past two weeks. When feed costs fall, feeder animals have a greater value, but with such a deviation from historical levels, what gives?

Figure 2. Early Weaned Pig Prices, $/head, National, Weekly Cash Trade

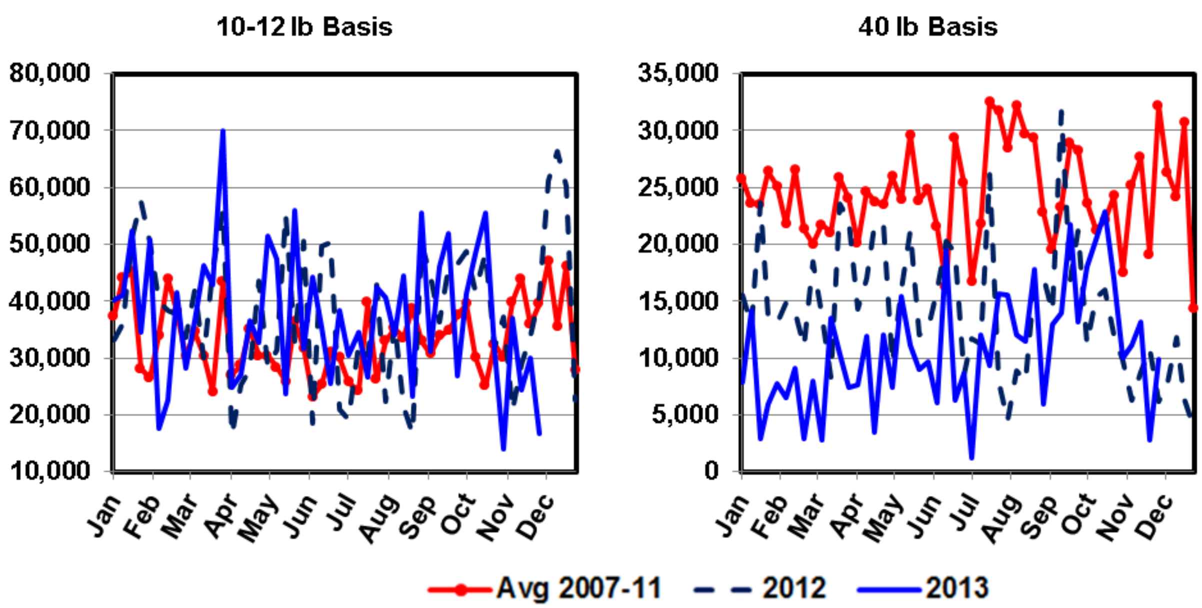


Data Source: USDA/AMS, Compiled and analysis by Lee Schulz

Lower feed costs and better margins are <u>NOT</u> the only factor pushing the market for pigs. Early weaned pig prices are reflecting underlying market signals as well as the direct impacts of Porcine Epidemic Diarrhea virus, or PEDv. According to the American Association of Swine Veterinarians, the number of diagnostic cases testing positive for PEDv continued to increase into November. The second week of November had about double the number of cases reported in May and June. Of the PEDv cases, the highest percent continues to be in the suckling and nursery farm type/age class. Despite reports from AASV, it is unclear how many pigs have indeed been infected and what is the survival rate; however, supply of early weaned pigs is considerably tighter than last year.

The number of early weaned pigs traded in the cash market each week has been below historical levels since mid-June (figure 3). Sales have been significantly below previous levels the last several weeks, typically a time of the year that sale volume is trending upward. Once lean hog and feed futures pointed to possible profits, there simply have not been as many early weaned pigs available, pushing prices even higher.

Figure 3. Early Weaned Pig Sales, Number of Head, National, Weekly Cash Trade



Data Source: USDA/AMS, Compiled and analysis by Lee Schulz

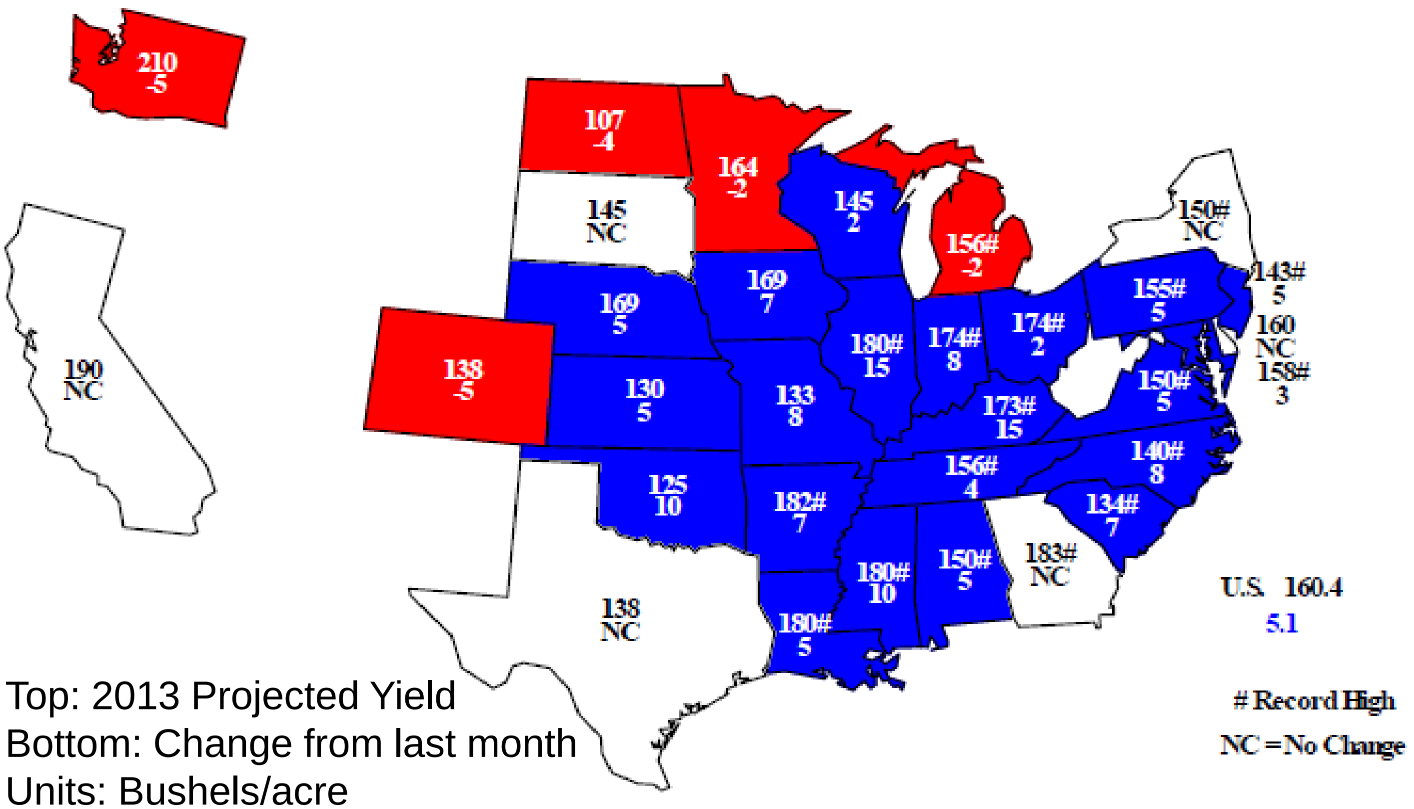
In addition, there are almost certainly empty finishing spaces looking for pigs. The hog industry generally pays for contract barns even if pigs are not in them, creating an incentive to fill them since the costs are sunk. If no pigs go into the barns payments are still made. Buying pigs to fill these barns makes sense for many of the large producers. Even at a loss. This in itself is creating demand for pigs.

Lee Schulz

Big Crops and Big Exports

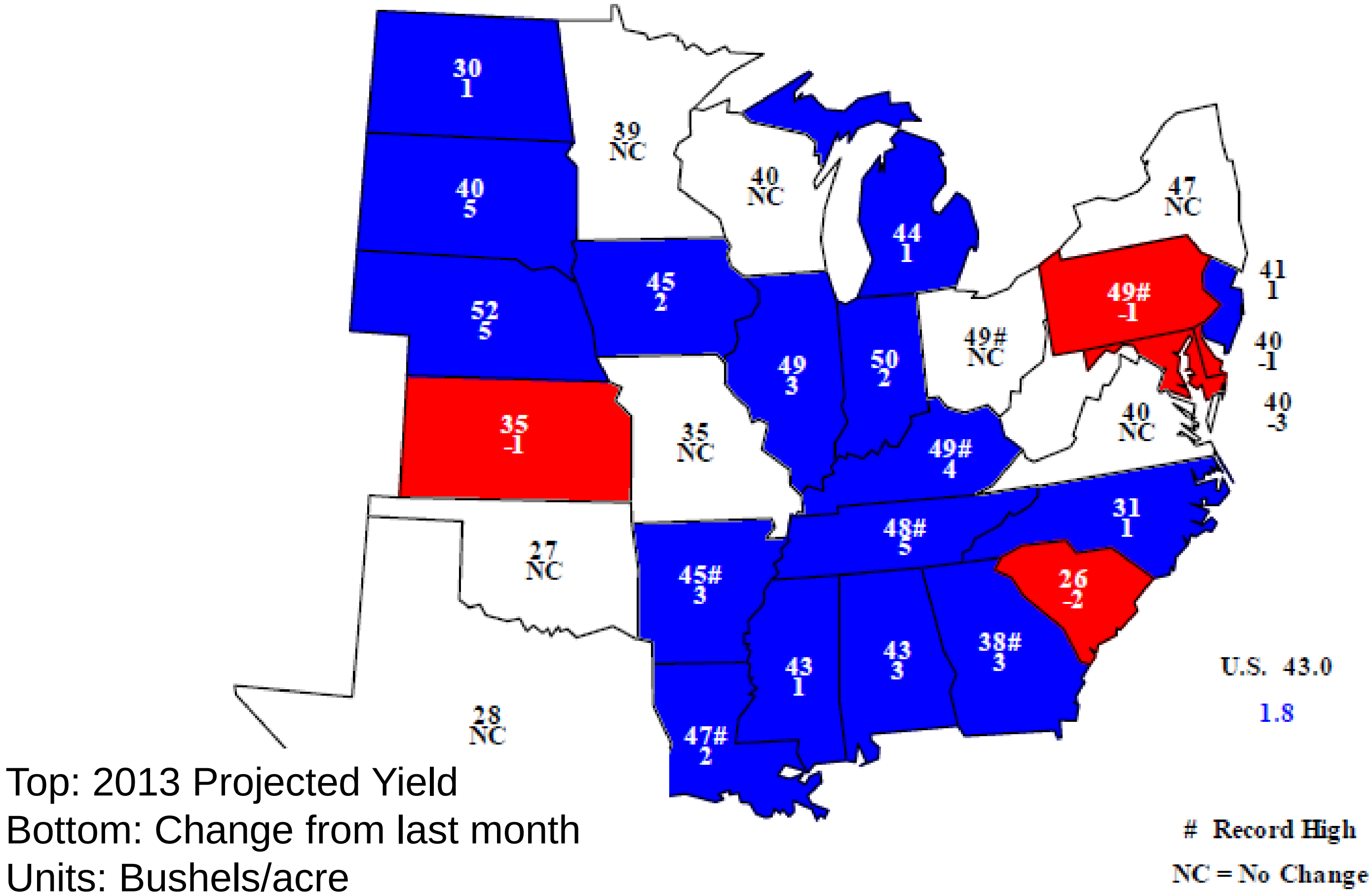
The November USDA reports brought big estimates for the 2013 corn and soybean crops, but also showed that demand for those crops is on the upswing. There were a lot of changes in the corn balance sheet. Planted acreage was reduced to 95.3 million acres, finally reflecting the prevented planting that occurred this past spring. The national corn yield was estimated at 160.4 bushels per acre, the highest since 2009. That resulted in corn production at 13.99 billion bushels, a record by roughly 900 million bushels. Much of this record production came from the states to the south and east of Iowa. Figure 1 shows the state-level corn yield estimates from USDA. The states in blue are where USDA has recently raised their yield estimates; states in red are where USDA has lowered the yield estimates. While Iowa's yield is projected at a respectable 169 bushels per acre, many states were able to achieve record yields this year. Each state with a "#" symbol beside the yield number is projected to reach a new record. There are 18 records on the map.

Figure 1. 2013 Estimated Corn Yields (Source: USDA-NASS).



While the corn crop set a record, the soybean crop wasn't too shabby either. With 76.5 million acres in soybeans, the potential was there for a record crop. But the late planting season put soybeans behind and the crop was good, but not great. With a national average yield of 43 bushels per acre, soybean production is expected to reach 3.25 billion bushels. That's up 200 million bushels from last year. And like it was with corn, the southeast part of the country led the production surge. Six states are projected to set record soybean yields this year, including Arkansas, Georgia, Kentucky, Louisiana, and Tennessee.

Figure 2. 2013 Estimated Soybean Yields (Source: USDA-NASS).



So crop supplies are definitely higher this year and that has driven down prices and allowed crop demands to recover. For corn, the demand recovery is spread across all of the major sectors. USDA projects feed and residual use to jump to 5.2 billion bushels this marketing year. But a good amount of this recovery is in the residual category as livestock numbers are very low. While the hog and poultry industries have begun to expand, the cattle industry is still shrinking. So direct feed usage will improve, but probably not as quickly as the crop markets would hope. Ethanol plants have reentered the corn market over the past several weeks and corn usage for ethanol is projected to reach 4.9 billion bushels. That's roughly 250 million bushels more than last year, but 100 million bushels below the usage for the 2011 corn crop. Corn sweetener demand is also expected to increase, adding another 50 million bushels. But the biggest percentage move is in the export market. USDA's projections show a near doubling of the export market and that number may turn out to be too light. As Figure 3 shows, corn exports started the marketing year paralleling the pace from the 2011 crop. But over the past four weeks, 2013 exports have leaped ahead of 2011. With current export bookings in place, roughly 1 billion bushels of the 2013 U.S. corn crop have already been sold to foreign markets. Mexico and China are the leading buyers thus far.

Soybean demand is rising as well. While domestic crush demand is projected to be steady with last year, export demand is expected to increase by 130 million bushels. As Figure 4 shows, the early soybean export bookings indicate a very strong demand for U.S. soybeans from the rest of the world. Already over 1.3 billion bushels are marked for export this year. So the U.S. has already reached the overall export level from last year and we're only 12 weeks into the marketing year. China, of course, leads the way, but soybean exports are also higher for the European Union, Mexico, Japan, Indonesia, and Taiwan.

Figure 3. Corn Exports (Source: USDA-FAS).

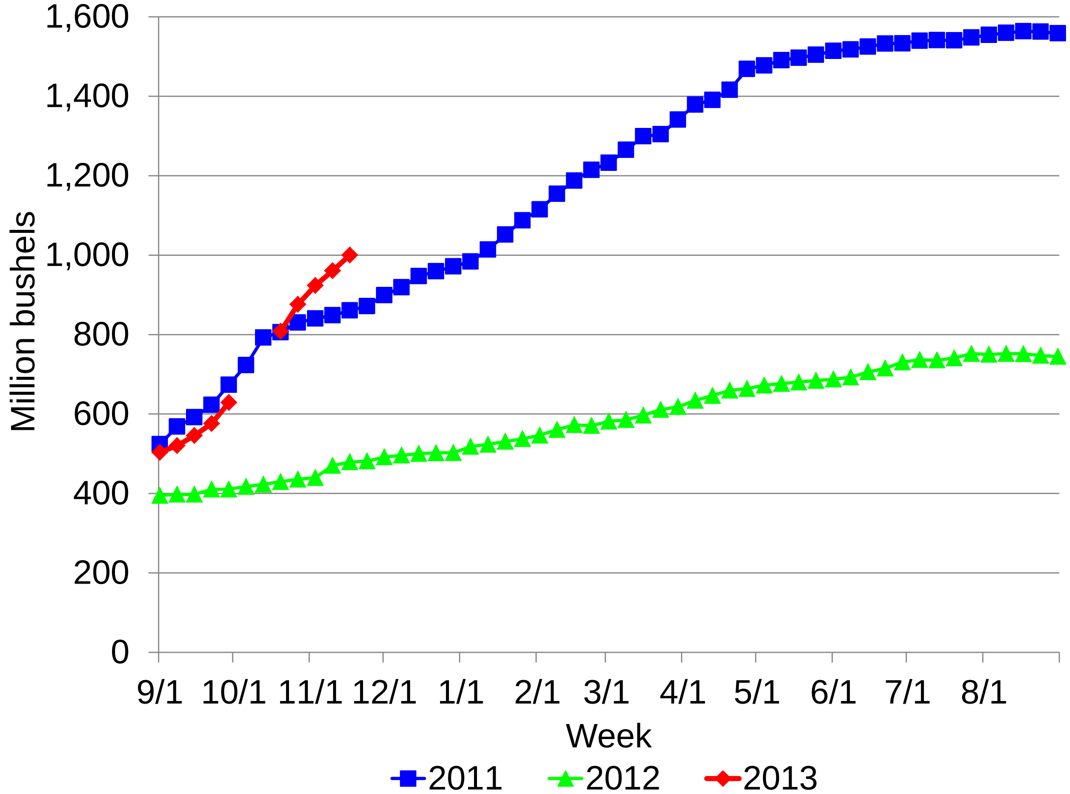
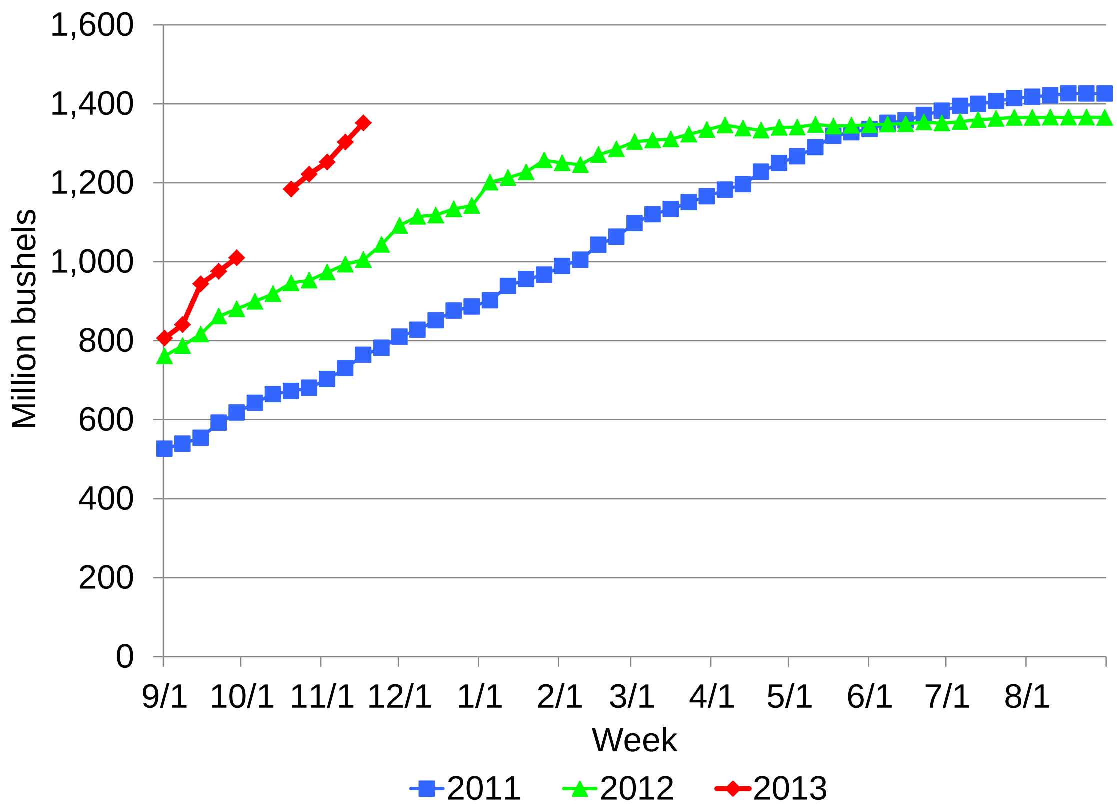


Figure 4. Soybean Exports (Source: USDA-FAS).



The boost in crop demand has helped stabilize the markets in the face of large crop supplies. For corn, prices have stayed within a fairly narrow band since the USDA reports. The prices on the futures market point to season-average prices in the $4.00 to $4.20 per bushel range. That's below USDA's current price midpoint of $4.50 per bushel and below estimated production costs. But the futures market is providing some carry in the spring prices, offering some hope for higher prices ahead. For soybeans, prices have rallied a bit after the reports. Before the reports, the prices on the futures market pointed to a season-average price around $12 per bushel. Now that estimate stands at nearly $12.50 per bushel. USDA's price midpoint is $12.15 per bushel, so the market is a little more bullish than USDA at this point. Current futures are offering a little carry through the holidays, but as the South American soybean crop comes in, soybean prices are set to decline again. The soybean market currently has a $1.75 difference between the Jan. 2014 and Jan. 2015 futures prices, so the price drop is expected to be swift and steep.

Figure 5. Projected Season-average Prices.

With corn prices below production costs, positive margins will only come during rallies. Soybean margins are still positive, but they are also expected to disappear as we enter spring. While the outlook for the 2014 crops will depend greatly on crop acreage next spring, the stage is already set for a tough marketing year. Current futures show prices remaining below production costs for both crops. Cost and margin management will be critical over the coming year. During the last three years, U.S. crop agriculture has experienced record farm incomes. The savings from those incomes could come in handy as we deal with lower prices, higher costs, and the possibly of negative margins.

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