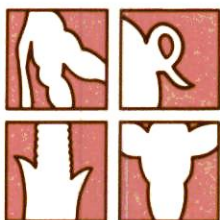




Cooperative
Extension Service
University of Illinois
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WEEKLY OUTLOOK

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WILL HIGH HOG PRICES LAST?

Following the release of the USDA's *Hogs and Pigs* report on September 29, most analysts expected that prices during the last quarter of 1989 would average in the high \$30 or low \$40 per hundredweight range. Price expectations were near the actual price of last year as the report indicated that pork production would be about equal to production during the fourth quarter of 1988.

So far, hog prices have been substantially higher than the expected price. The average price of barrows and gilts at Omaha during October was \$46.90 per hundredweight, nearly 20 percent higher than the average price in October of last year. While pork production was a bit smaller than expected in October, particularly in the last half of the month, the price strength was mostly demand driven. Unexpected purchases of pork loins by Japan, plans by McDonald's to sell 80 million pork sandwiches, and the announcement that pork bellies would be included in the aid package to Poland triggered the price rally. Pork belly sales to Yugoslavia and rumors that the USSR might be interested in pork bellies added to price strength.

While most of the demand news centered around pork bellies, the loin market contributed most of the cash price strength in October. Wholesale loin prices were almost 32 percent higher than prices during October last year. Ham prices were 11 percent higher than last year, and pork belly prices were only 5 percent higher. The weighted average wholesale price of these three cuts was nearly 20 percent higher than a year ago.

Loin prices peaked in mid-October and declined by 23 percent by the first week of November. Prices were only about 8 percent higher than a year ago. Ham prices moved higher during the month and remained steady in early November. Ham prices were about 11 percent higher than a year ago. Belly prices continued to move higher in early November. The wholesale price stood at 48 cents per pound on November 3, up 37 percent from the price on the same day one month earlier. February pork belly futures approached 60 cents per pound in early November, up about 11 cents since early October and about 14 cents higher than a year ago.

The strength in the cash hog market pulled futures prices higher in October. December futures reached a high of \$48.40, about \$8.00 above the September lows.

February futures reached a high of \$48.05, about \$6.00 over the September lows. Both contracts were trading above \$47 on November 6. Futures prices reluctantly followed cash prices higher, trading at a discount until late in October. Once the cash price peaked and moved lower, however, the futures market stayed strong, trading at a premium to cash prices.

The market did not believe the bull market on the way up but now appears to believe that high prices are here to stay. Forecasts of \$50 hogs in December are beginning to surface, but we remain skeptical. With large pork supplies and moderating loin prices, the burden will be on the pork belly market to support hog prices. Even with large export sales, pork belly supplies are large and the futures market is \$10 above the cash market. Current hog prices will likely stimulate expansion. Poultry supplies are large and broiler prices are slightly lower than at this time last year.

Cash hog prices will likely move lower through November with a drop under \$40 possible. Seasonal recovery may be less than current bullish projections. The futures market is offering a good opportunity to price hogs that will be ready for market between now and February.



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Prices and Outlook

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