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WEEKLY OUTLOOK

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HOG PRICES WILL REMAIN STRONG THIS SUMMER

The June *Hogs and Pigs* report suggests that hog supplies will remain below year-ago levels throughout the summer, but that signs of expansion are creeping into producers' intentions. On June 1, the national breeding herd stood at 7.2 million head, 2 percent below last year's level. Farrowing intentions are unchanged for the summer, but 2 percent higher for the fall quarter, providing the start of an expansionary period.

The inventory of market hogs indicated a 2 to 3 percent reduction in summer hog supplies. Contributing to the size of the market herd are record high weaning rates, which nationally stood at 7.95 pigs per litter for the spring quarter. It appears that the USDA inventory count is somewhat too high. Supplies may be down about 3.5 percent this summer. By the fourth quarter of 1990 supplies may actually be slightly larger than last year. By spring of 1991, pork supplies will likely be up nearly 4 percent, and may continue to grow into late 1991 and early 1992.

Prices during the second quarter of 1990 averaged near $60 per hundredweight at terminal markets. High pricing resulted from supplies being down nearly 7 percent, retail prices reaching record high levels, narrow processor and marketing margins, and from continued improvement in pork trade.

Spring prices in the high $60 range may well have established the highs for the year, as well as the highs for this hog cycle. Historically, the odds have favored a late summer high, and this is still a possibility this year, especially if a few weeks of hot weather restrict hog marketings. Hog supplies, however, will not be as short for the rest of the summer as in the spring, and the high $60 range has been the peak price in previous cycles.

While producers indicate a modest level of expansion this fall, keep in mind that the magnitude of expansion may be larger than currently measured by USDA. One indication of this is the expanding farrowing intentions experience for this summer quarter. For example, in the March report, summer farrowing intentions were down 3 percent. Summer intentions in the June report, however, were unchanged from last year. Secondly, a model of changes in farrowings indicates that the expansion will be larger than currently indicated by the USDA. This model suggests that farrowings could actually be up 1 or 2 percent this summer, up 6 to 8 percent for the fall, and up 8 percent or more by winter. Assuming a reasonably normal corn and bean crop in 1990, expansion may be near the levels indicated by the model.

The September report is now likely to show the true magnitude of the expansion. It has the potential to be a bearish report as the breeding herd could be up 4 to 6 percent. The trade will probably not be looking for such a large breeding herd.

Prices in the high $50s and lower $60s are expected for late July and August. After Labor Day, however, expect a sharply bearish tone in cash hog prices. Current estimates are for terminal prices near $57 in the July-September quarter. Prices will be the lowest at the end of the quarter. For the last quarter of 1990, expect to see prices trading in the very high $40s and lower $50s. Roughly the same range can be anticipated for winter, with the low $50s anticipated for spring 1991. These forecasts result in an average terminal price over the next year of about $52/cwt.

Based on the expectation of herd expansion, prices could be in the high $40 by summer 1991 and the low $40s by fall 1991. Keep in mind that prices forecast for more than the year in the future may be high inaccurate.

Producers will want to market as many hogs this summer as possible. Selling some hogs at lighter weights in late August could be considered. Forward contracting opportunities may improve before the end of the summer. Selling of October and December futures should be considered if they approach the mid-$50 range. Those who want fall price protection should have it in place by the end of August. In general the futures market is already anticipating more herd expansion and has sharp discounts for deferred contracts, providing little incentive to forward contract.

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