UNIVERSITY OF ILLINOIS EXTENSION

WEEKLY OUTLOOK

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HOG OUTLOOK BRIGHTENS

Several market factors have come up positive for the pork industry and prices have responded in an upward manner. If these forces remain positive, higher prices can be expected in the lean hog futures markets, especially into 2006.

Maybe the biggest positive news for the industry came August 12th with the USDA's August *Crop Production* report. That report suggested that the nation's corn crop would be above 10 billion bushels, providing sufficient stocks with no need to ration usage. Soybean production was viewed as barely sufficient to meet upcoming usage with only modestly higher prices than for last year's crop. Final yields will still be important for meal prices. The reduction in prices from mid-July highs to today is over $.50 per bushel for corn and about $55 per ton for soybean meal. The impact on anticipated costs of production is $4 to $5 per live hundredweight lower. Costs now look to be around $40 per live hundredweight with prices over the next year averaging in the $45 to $47 range.

Pork supplies have remained moderate this summer as well. After the USDA's June *Hogs and Pigs* report, which showed no expansion, some felt more hogs would actually show up in the slaughter mix after a year of very good profits. That has not been the case as June, July, and August slaughter have been up only modestly and very close to the inventory numbers in the June report.

Demand strength, after seemingly hitting a snag in mid-summer, has now rebounded. Exports remain strong and are up 24 percent so far this year. Pork exports this year represent 13 percent of domestic production. Part of the continued strength in exports is related to U.S. beef export restrictions. At this time, there seems to be no resolution in sight with the Japanese on BSE testing, suggesting that pork's strong export pace will continue.

Expectations are for live prices to average about $44 in the fourth quarter. Some improvement is expected in the winter quarter, with an average around $47. Spring quarter prices may move back to near $50, on average. Prices are expected to moderate $3 to $4 next summer based upon anticipation of greater expansion showing up in the USDA's September 30th *Hogs and Pigs* report.

The combination of lower anticipated feed prices and stronger late-summer hog prices has provided a more positive long-term outlook. This may finally set in motion a U.S. expansion. However, even with expansion getting underway this fall and winter, the additional market supplies are not expected to show up until the fall of 2006. This means that next year should be profitable for producers.

Lean hog futures appear to be reasonably priced for the October, December, and February contracts, providing reasonable forward pricing opportunities at this time. However, contracts for April, May, June, July, and August 2006 seem to be anticipating a larger build-up in hog supplies. To have those larger supplies next spring and summer, more pigs will have to be born this fall and winter. At this point, the indication is that farrowings will be only slightly larger.

There are several marketing steps that follow from this logic. The first is to forward price some hogs for the September through February time period. The next is to remain open, or buy put options, for hogs that will go to market after next February. On the feed side, corn looks to be cheap this harvest, especially in the western Corn Belt. This favors owning and storing as much corn as possible at harvest. Upward movement in meal prices seems more likely than for corn prices. However, if the South American crop returns to near normal, meal prices may be lower after February. Therefore, consider booking meal late this summer for delivery through February and then watch the development of the South American crop this winter.

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