7-14-1994

Grain Price Outlook: 1994; Cattle and Hog Situation and Outlook

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SOUTH DAKOTA STATE UNIVERSITY
No. 339 July 14, 1994

GRAIN PRICE OUTLOOK - 1994

by

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Weather has been the dominant force in the grain markets during May and June. This will continue through corn pollination, soybean flowering and pod setting and small grain filling. Hot, dry conditions in the eastern corn belt led to price peaks in June, followed by large price declines as rains alleviated any crop moisture problems in the last weeks of June. Further, rains over the long July Fourth weekend led to very good crop conditions and yield prospects are excellent.

The Acreage and Stocks reports released by USDA on June 30, 1994 were mostly neutralizing except for the soybean reports which were bearish. Stocks of corn, soybeans and wheat were all above pre-report expectations and were termed bearish by the trade. Corn acreage and winter wheat acreage were both lower than expected and offset the stocks reports. However, soybean acreage was larger than expected and reinforced the bearish attitude of the stocks report.

After these reports were worked into the market, the weather forecasts immediately took center stage again. Hot, dry conditions became warm, wet forecasts and market prices plummeted before the Independence Day weekend. Rainfall over the weekend sparked price drops again on Tuesday, July 5. It appears price peaks for pre-harvest months are past and now the question is, "How large can this 1994 crop become?"

Grain traders use USDA Crop Progress and Condition Reports released every Monday to help estimate 1994 crop yields. Acreage is based on the June report and harvested acreage is based on historical averages. Figures 1-4 contain season long crop condition indices and yields for 1990-1993 and the current 1994 condition index for corn, soybeans, winter wheat, and spring wheat. The condition index is calculated by assigning values of 100 to 500 to USDA condition categories of very poor, poor, fair, good and excellent. USDA publishes the percentage of the U.S. crop in each condition category.

Corn

The June 15, 1994 corn condition index of 404 is the highest index of the past four years. This led the trade to consider a potential 1994 yield of at least trend, 122 bu/acre, or better. Corn balance sheet columns "trend" and "bumper" correspond to these conditions (Table 1). Note that in 1994-

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CATTLE AND HOG SITUATION AND OUTLOOK

by
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It is no secret that both hog and cattle prices are much lower than they were last year, than they were earlier this year, and than were expected. Whenever that happens, there always seems to be a search for someone or something to blame. Also, there is concern about whether or not prices will recover to more acceptable levels. This newsletter will be used to try to answer some of these concerns. The following table is used to provide comparisons.

CATTLE AND HOG PRICES

	Sp'93[1]	Sp'94[1]	Sum'94[1]	Fall'94[2]	'93 Ave[1]	'94 Ave[2]	'95 Ave[2]
SL. Steers	$85	$77	$62	$65	$76	$68	$68
4-500# Steers	115	105	95	90	105	92	85
7-800# Steers	87	81	75	75	83	78	75
SL. Hogs	48	49	43	40	45	43	40
40-50# Feeders	60	53	35	35	45	40	35

[1]Actual [2]Forecast

Fed Cattle - Situation

In April, 1993, fed cattle prices went as high as $85.00, a record. By the Summer of 1993, prices had dropped to the mid-$70's and by Fall they were about $70. A slow recovery led to prices in the mid-$70's in the Spring of 1994. Then the bottom fell out and prices dropped from mid-April to early July to the low $60's--a 20% drop in only six weeks.

The blame for the 1994 price decline has been assigned to several areas. Certainly, supply is one major factor. While slaughter numbers have been only slightly above year ago levels, average slaughter weights have been high enough for total beef production thus far in 1994 to be 5-6% above 1993.

Supplies of other meats, especially pork and poultry, also have been above year-ago levels. That means consumers have had plenty of choices in spending their protein dollars, often at prices very competitive to beef.

Demand has been described as "lackluster". Part of the problem has been the weather. Extreme heat in many of the major population centers in the U.S. has decreased the demand for all red meats. Traveling is less and BBQ's are fewer, both situations "not good" for red meat.

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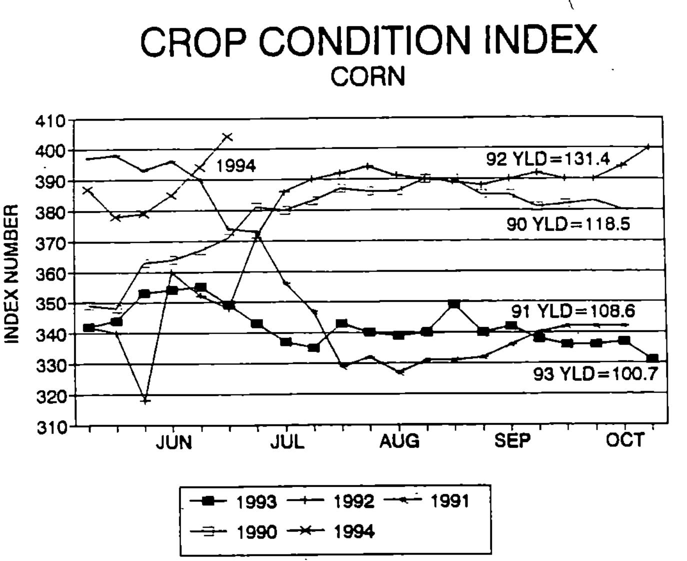
95 supply and surplus stocks are large and national average price estimates for the year are lower than in 1993-94 at $1.90 to $2.30 per bushel under the "trend" scenario. As conditions and expectations change, the price potential changes also. Once pollination is complete, price changes will be small. Given the current bumper crop potential, season average price in South Dakota could average under $2.00 per bushel. Don't panic, there is still a lot of the growing season left. This may be a good time for feeders to consider call options to lock in next year's feed prices. Expectations for large crops tend to bottom the market before harvest.

A large corn crop could lead to a wide basis at the local elevator. This market characteristic favors short term storage to take advantage of basis strengthening required to draw corn out of the bin after harvest pressure subsides.

Table 1. Corn Balance Sheet (million acres or bushels)

	93-94	94-95 Poor	94-95 Trend	94-95 Bumper
Planted Acres	73.3	78.8	78.8	78.8
Harvested Acres	63.0	70.9	71.9	72.1
Bushels per Acre	100.7	100	122	132
Production	6344	7090	8747	9517
Beginning stocks	2113	832	832	832
Demand	7650	7227	8300	8600
Ending Stocks	832	700	1285	1754
Price ($/bu)	2.50-2.60	3.00-3.50	2.10-2.50	1.90-2.30
SD Price ($/bu)	2.30-2.40	2.75-3.25	1.90-2.30	1.65-2.05

Figure 1



Soybeans

Soybean acreage planted for 1994 is 61.8 million acres, up 2.4 million acres from last year (Table 2). With normal harvested acreage and trend yield of 35 bushels per acre, production will increase by around 300 million bushels compared to the 1993 harvest. Under this supply scenario and with a slight increase in demand, surplus stocks will increase by over 100 million bushels to a relatively large amount by historical standards.

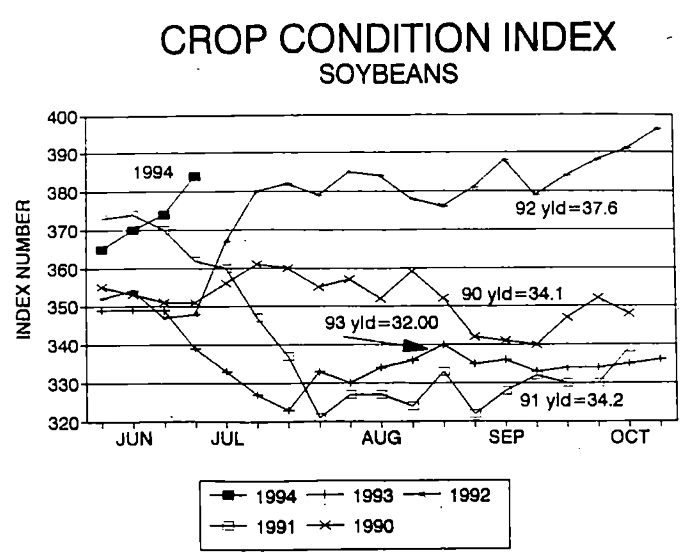
The current soybean crop condition index, if maintained, leads the trade to estimate 1994 yield at 35 to 37 bushels per acre. Trend yield is at the lower end of this yield range and thus the actual 1994 yield is very possible to exceed the supply scenario discussed above. Most likely, the national average soybean price will be in the range of $4.90 to $6.10 (see columns trend and bumper in Table 2). South Dakota prices will average 20 to 25 cents per bushel less. A season average price in the low $5.00 per bushel area is very likely given current conditions.

Storage of soybeans for short term basis improvement should be considered in the marketing plan when local harvest is heavy. After basis moves to normal levels, storage in the bin could be transferred to a call option by selling cash beans and buying a call. These two alternatives usually return about the same profit, but the call eliminates downside price risk.

Table 2. Soybean Balance Sheet (millions of acres or bushels)

	93-94	94-95 Poor	94-95 Trend	94-95 Bumper
Planted Acres	59.4	61.8	61.8	61.8
Harvested Acres	56.4	59.6	60.1	60.6
Bushels per Acre	32.0	28.0	35.0	38.0
Production	1809	1669	2104	2303
Beginning stocks	292	160	160	160
Demand	1946	1714	2000	2158
Ending Stocks	160	120	269	310
Price ($/bu)	6.45	7.00-8.00	5.35-6.35	5.15-6.15
SD Price ($/bu)	6.20	6.70-7.70	5.10-6.10	4.90-5.90

Figure 2



Wheat

Winter wheat yields are good this year but not at bumper levels. This is consistent with yield projections one could draw from Figure 3. Spring wheat condition indices are quite high for 1994 (Figure 4) and a projected yield of between trend and bumper could be expected given current conditions.

A trend yield for 1994 wheat would lead to supply conditions in the wheat market similar to the 1993-94 marketing year (Table 3). Price potential from $2.80 to $3.40 per bushel exists depending on international wheat demand and supply conditions and the supply of competing crops such as corn in the U.S. With a large U.S. corn crop, pressure on feed demand for wheat could push the season average price slightly lower than last year at around $3.10 per bushel.

Figure 3

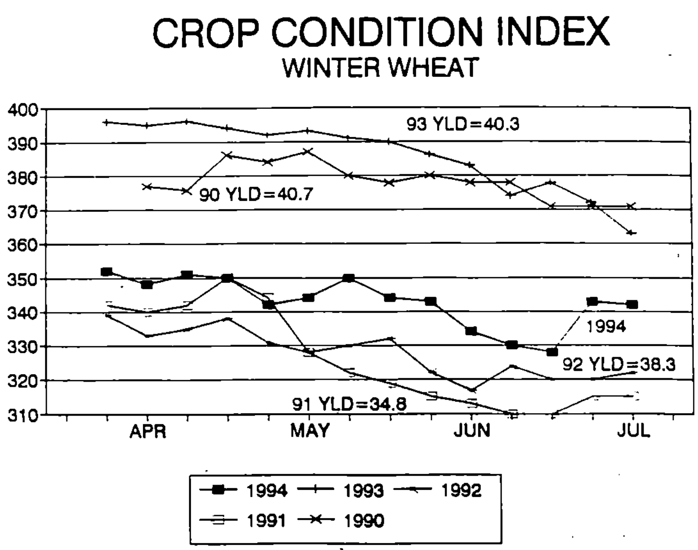
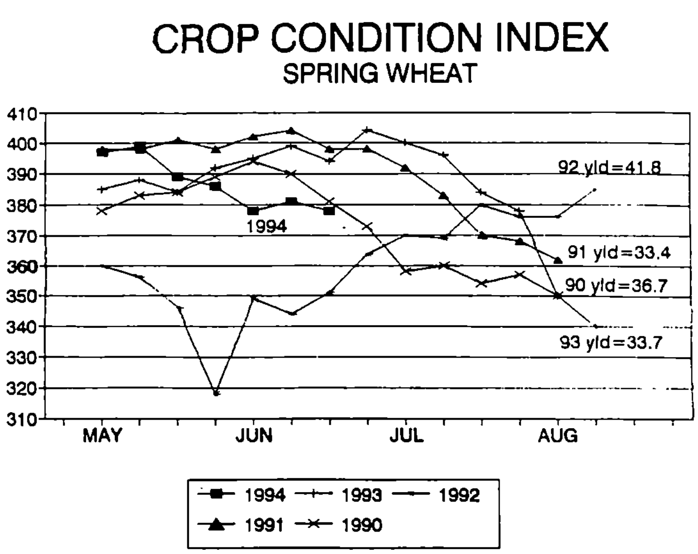


Figure 4



The South Dakota average price will be near the national average price because winter wheat already harvested has been high in protein. Consequently, high quality SD wheat will not be paid a large protein premium.

Table 3. Wheat Balance Sheet (million acres or bushels)

	93-94	94-95 Poor	94-95 Trend	94-95 Bumper
lanted Acres	59.4	61.8	61.8	61.8
Harvested Acres	62.6	60.0	61.0	62.0
Bushels per Acre	38.3	30.0	38.3	40.0
Production	2402	1800	2336	2480
Beginning stocks	529	549	549	549
Demand	2482	2100	2400	2450
Ending Stocks	549	369	565	659
Price ($/bu)	3.20	3.80-4.20	2.80-3.40	2.65-3.25
SD Price ($/bu)	3.30	3.80-4.20	2.80-3.40	2.70-3.30

Most areas of the state have plentiful storage capacity for the 1994 crop. This will most likely lead to higher than average on-farm storage and a potential return to storing wheat. The cost of putting wheat in storage is around eight cents per bushel. After that, costs accumulate at 2 to 3 cents per bushel per month on the farm. This assumes quality is constant. Over the past three years, a positive return to storage was realized with the best selling/profit opportunities in November and January. Keep informed about the final word on protein levels in both winter and spring wheat. If the protein content of winter wheat averages as high as some early reports indicate, basis weakening after harvest is quite likely as demand for high protein spring wheat declines.

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(Murra ... Cont'd from p.1)

Some people have blamed foreign trade for low cattle prices. Actually, during the first three months of 1994, beef imports were below 1993 levels and beef exports were above 1993 levels. The situation really hasn't changed much since then, so this seems to be one area which can escape blame.

The packing industry also has received its share of negative comments. Given that the industry is much more concentrated than in the recent past, there is greater ability to affect price. And, given that packing plants are in business to earn a profit, there is incentive "to buy low and sell high." However, it is extremely unlikely that the packers are the major cause of lower cattle prices. They did, however, probably play some role.

Even the futures market has been blamed for the price decline for fed cattle. While futures prices did drop along with cash prices, they generally have remained above cash prices. Also, with the possibility for delivery of the product against the futures contract, it is the cash market which drives the current futures market, not the other way around.

In total, all elements probably bear some of the blame for the sharp drop in cattle prices. Increased supplies probably should bear most of the blame.

Fed Cattle - Outlook

The near-term cattle outlook continues to be fairly pessimistic. There really isn't anything in the mill that will break the current negative situation. While surprises could happen, the low $60's seem most likely this Summer (maybe the mid $60's with a little luck).

The Fall outlook is a little more optimistic. Lower placements of feeder cattle into feedlots should help. Even then, it is unlikely that above $70 levels will be reached, at least for long periods. Even the upper $60's would be a 15% increase from early July levels.

The outlook for 1995 also is not particularly optimistic. Supplies of all meats should be sufficient to put a lid on prices. A yearly average of $70 for slaughter steers seems probable. That means prices easily could range between $65 and $75, with highs in the Spring and lows in the Summer.

Feeder cattle prices also are predicted to be lower in 1994 and 1995 than they were in 1993. The lower fed market is the major reason. That is negative enough to offset the positive impact from potentially lower grain prices. General price ranges for 400-500 pound calves probably will be in the mid-to-upper $80's with a chance for the lower $90's. Yearlings at 700-800 pounds likely will be priced in the $70's. A major improvement in fed cattle prices and/or sharply lower grain prices would improve the feeder cattle situation.

Hogs - Situation

Early in 1993 slaughter hog prices were in the upper $40's. After a drop to the mid-$40's in the early Spring, prices recovered to the upper $40's and held that level until late in the year, when prices dropped to the lower $40's. A fairly rapid recovery in early 1994 brought prices to the upper $40's and created optimism for $50 plus hogs for the Summer.

Optimism failed to materialize and prices plummeted to the lower $40's in the Spring and didn't recover, at least by early July. As was true for cattle, several factors have been blamed for the less than expected level of performance.

High on the list is the supply of pork. Here, however, the impact isn't so much a big increase over last year but rather the increase over what was expected. Slaughter levels during the Spring were above those expected given the March 1 Hog and Pig report.

Another negative factor for the pork industry has been demand. Demand for beef was described as lackluster. The same could be said for pork. Hot weather in the U.S. has hurt. Also, foreign trade has not lived up to its expectations. Both imports and exports have been above 1993 levels. However, the net impact (imports minus exports) has been negative (a larger unfavorable balance than in early 1993).

Other factors noted earlier about the cattle situation may apply for pork. Again, however, the big negative impact has been supply--too much.

Hogs - Outlook

The near-term hog outlook continues to be fairly pessimistic (just as it is for cattle). While the pork industry could surprise everyone, prices below $45 seem more likely than above $45 for the rest of the Summer.

The Fall outlook isn't any better. In fact, it would not be surprising to see a "3" as the first number in slaughter hog prices this Fall. The 3 percent increase in inventories and the 5 percent increase in farrowing intentions noted in the June 1 Hog and Pig report were not good news. Expansion, probably by the "big guys", appears to be underway in many areas. Even the scare of "under-$40" may not be enough to stop expansion, at least given the lower price scenario now being painted for grain.

When one looks at the changes in the hog industry (fewer but larger producers, more integration and expansion), it is difficult to be optimistic for 1995. The large supplies of all meats should be enough to hold slaughter hog prices closer to $40 than to $50. And, as is true for late 1994, the $30's are not out-of-reach.

Feeder pig prices are highly dependent upon the slaughter hog market (not optimistic) and grain prices (pessimistic for grain but optimistic for feeder pigs). With current expectations, feeder pig prices likely will be below year-earlier levels, whether that be late 1994 or most of 1995.

Final Comment

The prices obtained for hogs and cattle in the first half of 1994 were well below those desired (and expected) by producers. In terms of profit, however, the situation probably was worse for the fed cattle producers than for the hog producers. Cattle feeders are reporting per head losses of between $100 and $200. Hog producers probably are closer to breakeven levels.

Lower grain prices for the rest of 1994 and at least early 1995 should help lower breakeven levels for hog and cattle feeders. Also, lower feeder cattle and feeder pig prices will help those producers lower breakevens. Even then, the rest of 1994 and a good share of 1995 are not expected to be very positive for the hog and cattle producer.

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475 copies of this newsletter were produced at a cost of less than $100