

Marketing

# Slow expansion buoys hog prices

## Hog Outlook

By JOHN OTTE

**H**OG producers are in one of the most profitable periods in history, says John Lawrence, Iowa State University economist.

"Historically, solid profits have enticed producers to expand at a 5% to 8% annual pace," says Dan Bluntzer, Frontier Risk Management, Robston, Texas. "One reason for continuing profitability is producers are restraining expansion."

"Everyone's favorite reason for slow growth — high feed prices — is a logical one," says Ron Plain, University of Missouri economist. "The cost of corn is double that of a year ago. High feed costs will likely push cost of production over \$50 per cwt. of live weight in 2007. Yet, history provides few examples when hog producers have cut production in anticipation of red ink. Hopefully, this herd slowdown is real and will result in second-half 2007 farrowings dropping below year-earlier levels."

### Cost/price squeeze

With production costs near \$50, current price expectations make losses seem likely. Plain expects the following prices

### Key Points

- Restraining pork supply growth brought extended profits for producers.
- Hog prices in 2007 may be similar to last year's average prices.
- Production costs rising near \$50 could bring losses, especially in late 2007.

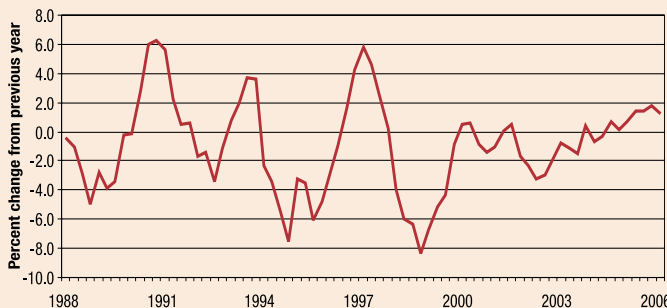
for live hogs in 2007:

- first quarter: \$44 to \$47
- second quarter: \$47 to \$50
- third quarter: \$44 to \$47
- fourth quarter: \$40 to \$43

Meanwhile, USDA projects a modest 1% first-quarter rise in pork production may give way to 5% to 6% hikes in 2007's second and third quarters. Those gains outpace U.S. population growth. Continuing strong exports should soak up some extra pork. That should help limit supply-side pressure on hog prices and profits.

"Outside forces are impacting U.S. pork production. Canada's strong dollar and packing and processing issues are bringing liquidation in Canada," says Bluntzer. "Higher corn prices are impacting beef and poultry here. The beef industry will try to hold cattle outside of feedlots as long as possible. That could create a beef supply hole next spring. That's all constructive for U.S. pork."

Wide swings in U.S. hog breeding herd no longer occur



SOURCE: USDA NATIONAL AGRICULTURAL STATISTICS SERVICE

## Bull call spreads protect corn costs

**P**RODUCERS can't back up before the rally and buy cheaper corn. But Victor Aideyan, risk manager at Farms.com, believes producers can limit exposure to further corn price hikes.

"We're using bull call spreads that are at the money on the long call side and 60 to 80 cents out of the money on the short call side," he says. "The call we sell reduces our costs on the money call we buy."

"Strike prices on the long calls range from \$3.50 to \$3.80. Strikes on the short calls range from \$4 to \$4.80. This protects us from the next 50 to 60 cents higher in corn. We have bull call spread in place for a year's worth of hog production or more."

"If a big acreage shift from soybeans to corn brings a corn-price pullback, we'll go back and book more physical corn at that lower price," adds Aideyan. "It's an outside chance. But we'll watch for it."

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