Grain Reports Provide Feed Hedging Opportunity

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On March 30, USDA released two key grain reports in addition to its quarterly Hogs and Pigs Report. The long-awaited Prospective Plantings Report provided USDA's first survey-based estimate of producers' planting decisions in 2007. In response to high corn prices this winter, producers reported intentions to plant 90.454 million acres of corn, a 15.5% increase from last year's actual planted acreage of 78.327 million acres. While pre-release estimates varied widely between 86.3 to 90.76 million acres, the reported intentions were on the high end of that range and surpassed the average estimate by 2.39 million acres. As a result, corn futures locked limit lower throughout Friday's trade.

Much of the 12.127 million acre increase in corn plantings come from a reduction of 8.382 million acres of soybeans. USDA reported producer soybean planting intentions of 67.14 million acres, down 11.1% from last year. The remainder of the corn acreage increase resulted from reductions in cotton acres (down 3.127 million acres) and spring wheat (down 1.091 million acres).

While the soybean acreage intention being more than 2 million acres less than the average trade pre-release estimate and the lowest since 1996 should have translated to soybean higher prices, initial futures trade following the report was negative as well. Primarily, this was due to the bearish corn acreage intentions. However, USDA's Grains Stocks Report also revealed that 1.784 billion bushels were being held in on-farm and commercial storage as of March 1. This is 6.9% higher than last year and a record level for March 1. This puts pressure on old crop prices and cash basis levels.

The volatility of corn prices throughout the winter and the uncertainty of corn planting intentions ahead of the Prospective Plantings Report likely held breeding herd growth down in recent months. Friday's Hogs and Pigs report pegged the hog breeding herd at 6.081 million head, up 0.9% from last year. While that is slightly above the average pre-release trade estimates, it is likely lower than would have resulted if corn prices had been lower and less volatile. USDA also reported the market hog inventory at 55.022 million head, up 1.3% from March 1, 2006. Overall, total inventory was estimated at 61.103 million head, up 1.3%. Despite close to three years of consistent profits, hog producers did not expand as rapidly as they historically have in response to these profits. The moderate growth in recent months was likely due to corn price variability.

The Prospective Plantings Report provides pork producers with a couple opportunities. First, plans for herd expansion can be made with ideas that corn supply should be more available for livestock feed use. Interestingly, while the total corn acreage amounts are smaller in the southeast U.S., percentage increases in intended corn acreage approached 300% in several southeast states. Much of that corn is currently being planted in relatively good conditions. Further, even though the U.S. average soybean acreage intentions are for an 11% decrease, producers in several southeast states are planning to substantially *increase* soybean acreage. Additional corn and soybean meal supplies in the southeast U.S. as a result of these acreage increases would be supportive to increases in market and breeding hog inventories in those areas.

The second opportunity that hog producers have available following the release of this high corn planting intentions number is to lock in corn prices on weakness following the report. While 90.5 million acres is the largest corn acreage since 1944, high expected demand from ethanol could use this entire crop and keep stock-to-use ratios low for the 2007-08 corn marketing year. Consider, for example, that the 90.5 million planted acreage actually occurs and 90% of those acres are harvested in 2007. At a trendline yield of 154 bu/acre, total corn production is 12.56 billion bushels. Should either drought occur or the planting of marginal acres outside of the corn belt result in a low national yield of 147 bu/acre, corn production would fall under 12 billion bushels. Such a level would not support forecasted corn use next year (holding exports and feed use constant at current levels and assuming increasing ethanol demand). Therefore, the corn market will remain sensitive to weather throughout the growing season and could rally substantially if weather looks to significantly reduce yields.

While locking in corn prices at current levels is not attractive by historical standards, it could be profitable for pork producers. Breakevens in the low $60/cwt range (lean weight basis) are possible for producers with modern technology. Importantly, with lean hog futures prices in the mid-$60s to mid-$70s through the remainder of the year, profits could be locked in. To actually have these profits protected, though, protecting against possible corn price increases will be necessary.