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Falling corn prices benefit hog farmers

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Sharp drops in corn and soybean prices have chopped about \$2 billion from the cash value out of Iowa's grain crop in the last week, but hog producers are looking at a better year with lower feed costs and higher pork prices.

Terry Francl, economist for the American Farm Bureau Federation, said corn and soybean prices have returned to their levels of late 2009, which means a lost chance to reverse what the U.S. Department of Agriculture has anticipated to be a 34 percent decline in farm income this year.

"Farmers are still in pretty good shape," Francl said. "But this price drop has cost farmers some momentum."

Farmers who were active sellers a little more than week ago have retreated as the futures price of corn has fallen from \$4.25 per bushel to \$3.69 Tuesday.

Soybeans have dropped by more than \$1 per bushel to \$9.63. Both declines were attributed to a U.S. Department of Agriculture report of a larger-than-expected harvest after the wet, difficult conditions last fall.

"The dam really broke, and farmers were selling a couple of weeks ago when corn futures were around \$4.25," said Roger Fray, grain manager for West Central Coop in Ralston.

"Now, the farmers are sitting it out and the calls are coming in from the hog producers and ethanol plants," he said. "They like the lower prices."

Hog futures contracts on the Chicago Board of Trade reached \$70 per hundredweight for February and \$80 per hundredweight for June, compared with the \$50-per-hundredweight price in September.

On a cash value basis, Iowa's hogs have gained in collective value from less than \$3 billion to more than \$4 billion in the last three months. Hogs in recent years typically have brought between \$4 billion and \$5 billion in cash to Iowa's economy, about one-fifth the value of all farm receipts.

"Those poor hog producers have had such a hard time, it's good to see them finally see better prices," said Moe Russell of Panora, a commodities consultant.

Corn farmers generally need about \$4 per bushel to profit. "All we can do now is wait to see if the lower prices bring back some demand," said Don Elsbernd of Postville, president of the Iowa Corn Growers Association.

Analyst Arlan Suderman of Farm Futures said in the markets, psychology is trumping economics. "Demand is strengthening, but not yet to levels sufficient to turn market sentiment," Suderman said.

Farmer Mike Brelsford of Perry said, "We might see an uptick in demand as we get closer to planting season and corn is bidding for more acres."

Brelsford said widespread worries about the quality of last fall's crop, which came out of fields with moisture levels well above the 15 percent required by ethanol producer and processors.

"By midsummer, folks who have good quality corn may find good demand in the cash markets," Brelsford said. "There's where the next rally might come."

For now, the little surge in corn prices above \$4 per bushel has passed. A week ago, the Agriculture Department surprised the industry with a final harvest report of record 13.2 billion bushels of corn - 2.4 billion in Iowa - and 3.4 billion bushels of soybeans.

That represented gains of 2 percent for corn over 2008 and 13 percent for soybeans.

The impact of last week's report knocked 55 cents per bushel out of the price of corn, which took a cumulative \$1.4 billion off the cash value of Iowa's recently harvested crop. Iowa's corn crop typically yields between \$8 billion and \$11 billion in cash receipts.

The Iowa soybean crop is worth about a half-billion dollars less in cash value than it did shortly after Jan. 1, when soybeans brought almost \$10.50 per bushel. Soybean futures closed Tuesday on the Chicago Board of Trade at \$9.63 per bushel.

Traders had expected smaller numbers because of the wet and slow harvest.

"Corn had been a bit overpriced because of the wet weather," said Ron Groskreutz, grain originator at Heartland Coop.

Soybeans are living in the shadow of what appears to be a big South American crop. In 2009, American soybean farmers had much of the world's export business to themselves after drought cut heavily into the Brazilian crop, an advantage not expected this year.

"Traders remain afraid of the potential impact of record production in South America," Suderman said. "Market bears currently have the upper hand, with bearish chart signals and market sentiment working in their favor. There's no sign that the bears are ready to relinquish control of the market until proven wrong."

Additional Facts

Why it matters

Agriculture has served to cushion the rest of economy during down times. In Iowa, farm cash receipts generally total between \$20 billion and \$25 billion of the state's \$130 billion gross domestic product. Economists estimate that 30 to 40 percent of Iowa's manufacturing is agriculture-related, and that one job in six in Iowa is connected to agriculture.
