Futures Market Analysis And Recommendations

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CAMP HILL - It has now been over two months since the Chernobyl nuclear accident and the bullish sentiment which engulfed the grain markets at that time have disappeared as quickly as they arose. Indeed, new crop wheat prices have completely retraced to their pre-disaster levels and new crop corn continues to carve out new contract lows. Tuesday of this week December corn Futures established yet a new life of contract low at 1.80 (this is 98% of Government Support loan price, when you consider Gramm-Rudmann cut backs).

So it's safe to say that the radiation fall-out has come and gone with no sustained appreciable market impact? In reviewing the livestock markets we also find that a similar market pattern related to the Chernobyl accident. Indeed, in cattle, after the initial rally, the market reversed and proceeded to also make new contract lows as did the grains. This was do mostly to fundamental factors associated with back-logging heavy weight cattle and the psychological negative effect of the dairy herd buyout program. If this was the case in cattle there must have been some other fundamental factor which kept the hog futures from repeating the same pattern. Some will argue that hogs sustained their momentum due to seasonal factors and although this may have some validity, the underlining driving force was of the pork product demand.

Given the proximity of the Scandinavian Countries to the Chernobyl nuclear site the Japanese were forced to find a new pork-product market. Their entry into our market was and is not a transatory or insignificant event. Few market analysis recognize this potential during the late May and early June markets and instead discounted the up turn in cash price due to the expectation of diminished kills. The drop in the hog runs was a definite factor, but even before this occurrence the ratio of pork-product, (particular loins), to live hog price had climbed to exceedingly high levels. Using this ratio barometer alone, a futures trader would have bought the June Hog Futures at fifty (50) dollars. Several days prior to the USDA Hogs and Pigs Report, June hog futures expired at fifty-nine (59) dollars and cash was already over sixty (60) dollars. Given the cautious nature of the Japanese people it is unlikely that they will soon leave the market. Just two weeks ago the United Kingdom banned slaughtering of sheep in Wales that were found to have unacceptable levels of radiation, other bans are still in effect. Even if all traces of radiation were to disappear and the situation in Western Europe returned completely to normal it may be very unlikely for the orientals to leave what they have now found to be a very attractive market. It is true that the Japanese yen had been in an uptrend for some time, the yen's value has increased over twenty-five percent relative to the dollar since the first of the year and if we don't let this pork-product price get too far out of proportion, the United States will still remain a very competitive market for Japan's imports. Maybe it is true that the disaster at Chernobyl had no direct long lasting impact on our agricultural markets but more than likely it was the catalysis for dramaticly increasing our pork export market.

Given the recent release of the USDA Hogs and Pig Report and the concurrent drop off in hog slaughter, (perhaps in reverse order), has added fuel to the fire as it pertains to the recent advance in hog cash and futures prices. However, the same ratio, pork-product to live hog price, that indicated by deliverable futures (June futures in early June) has since turned radically and last week indicated a near term top in cash hog prices. Given the extreme discounts of October and December Futures to the current cash market and the projected slaughter levels, the recent report suggests that a further substantial gain in these back months is very probably. The magnitude of which could rally both October and December futures above fifty-five (55) dollars per hundred weight.

Some economists argue that the report of the diminished breeding herd (91 per cent of a year ago) is perhaps the sole reason for this pick up in potential (futures) price but the same senerio has been given over the last several USDA Hog Reports. More than likely it's the historical low spring pig crop and low farrowing intentions combined with a thirty percent increase in Japan's imports of pork-product. Some of the trade are even trying to discredit the magnitude of the decreased numbers in the report as well as the recent reversion of the March USDA Hogs and Pigs Report, but given the recent slaughter levels this argument is not valid. The numbers are real and this new demand is real, therefore, the dynamics of the hog market should continue through fall and early winter.

A three phase approach to the market should guarantee the producer record high margin; 1) look to forward price August Hogs in the vicinity of fifty-eight (58) dollars per hundred weight; the cash market has seemed to have topped and relative to the USDA report we have some increased runs to look at through the July-August period. 2.) Forward price sale of hogs from late winter through summer of 1987,; any price exceeding fifty (50) dollars for this period will guarantee handsome margins as long as feed needs are priced or procured for this period as well. 3.) Start a scaled up selling program by forward pricing a percentage of September through December production in the mid fifties area and continued scaling up until you have fifty percent or production covered and if the market approaches sixty dollars sell another twenty-five (25) percent. As indicated in the text of this column this period should be the most dynamic as far price advance.

No-Till Field Day in Lancaster Co.

LANCASTER – The Lancaster County Conservation District along with Brubaker Agronomic Consulting Service will be holding a field day at the Jacob S. King farm on Friday, July 11 at 10 a.m. The farm is located at Prospect Road just off the Strasburg Pike right outside Strasburg Borough.

The emphasis will be placed on proper no-till management for corn production. Mike Brubaker will be sharing some of his observations about conventional and no-till corn. Gerald Heistand will talk about no-till corn planters citing some of the problems he has experienced in working with the planter rental program.

In addition, a Soil Conservation Service representative will talk about soil conservation and nutrient management. Bob Gregory from the District will be on hand to explain the Chesapeake Bay Cost-share Program, and answer any questions. After a lunch at the farm, a tour will be available for those interested in seeing some no-till plots at other locations.

For more information contact Brubaker Agronomic Consulting Service at 627-0065 or the Conservation District at 299-5361. Reservations will be appreciated but are not required.