

Daily Livestock Report

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Market Comments

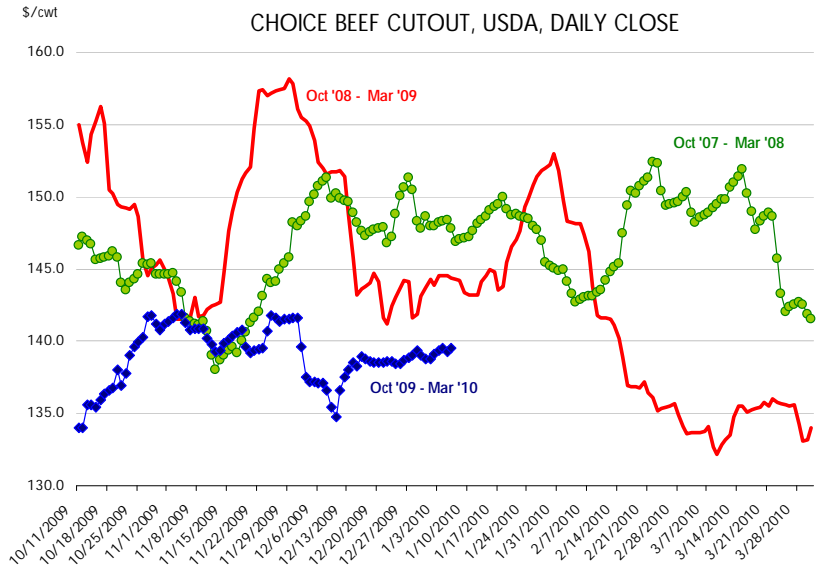
Much of the focus in cattle markets remains on weather conditions and the potential impact they will have on beef supplies in the first quarter. Blizzard conditions and extreme cold temperatures take their toll on animals and underpin a more bullish outlook for cattle markets in the short term. But in recent months, the supply situation in the cattle and beef complex has taken a back seat to the demand component. We estimate that steer and heifer slaughter in the second half of 2009 was about 2% lower than a year ago and some 4% lower than the average steer and heifer slaughter for the Jul - Dec period in the last five years. During the same time frame, the choice beef cutout was on average 10% lower than the previous year and 4% lower than the five year average. Things were not much better for select beef cuts as the select cutout during Jul - Dec was on average 9.7% lower than a year ago and 1.9% lower than the five year average.

Lower supplies and lower prices do not paint the picture of a positive demand situation and we have noted repeatedly the negative impact of various factors on beef demand. Below we list a few of them and you can probably come up with a few more. It's a short list but one that is intended to highlight some of the issues to watch going forward.

- **Unemployment:** It's an important factor but also one that is difficult to quantify. High unemployment numbers tend to negatively impact foodservice sales but also cause consumers to trade down at the retail case. At the beginning of 2009, it was not clear how high unemployment would get but the government was still holding to its hope for a 9% peak. Unemployment currently stands at 10% and it is likely one of the main reasons why beef sales languished for much of 2009. Where you expect unemployment to be in 2010 likely will color your view of the beef market this year. Most economists believe unemployment has already peaked but they are split in how quickly we come back from these levels, with some expecting 10% unemployment through the end of this year, which would clearly continue to negatively impact the beef market.

- **Housing/Equity markets:** One can look at these as proxies for the consumer wealth effect. How consumers feel about their personal finances, including how wealthy they feel, will determine their willingness to spend at the foodservice and retail.

- **Competing meats:** Prices for competing meats are key demand factors as they drive much of the feature activity in the retail case. Judging from the activity in the CME futures, hog prices are expected to be notably higher in 2010 and chicken prices are also expected to improve. If that is the case, it will tend to support beef prices going forward.



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