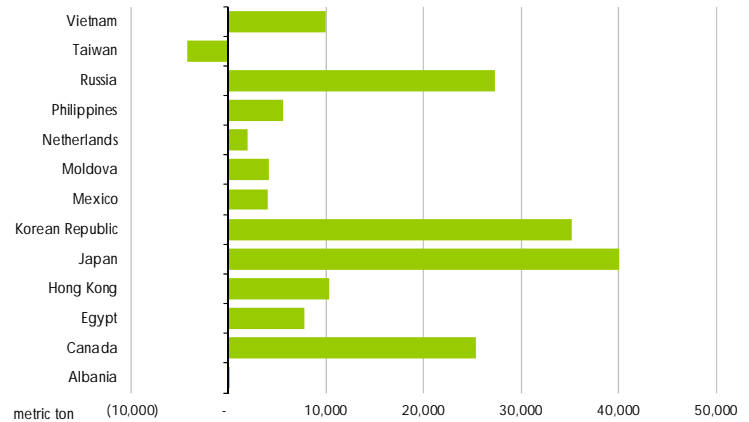


Market Comments

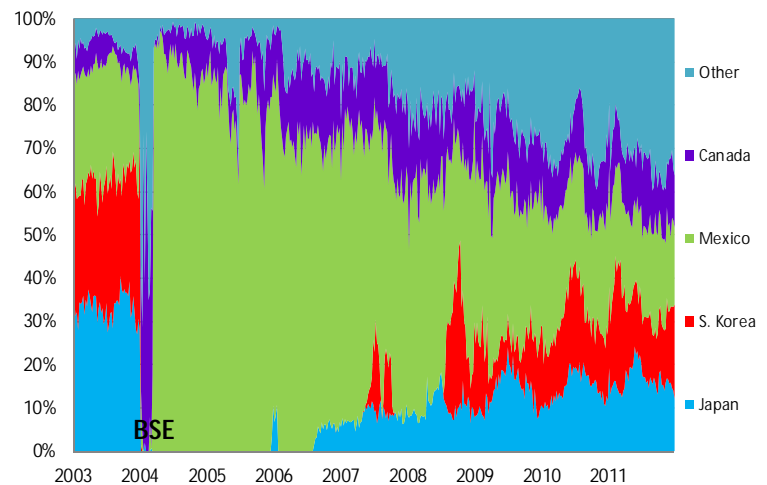
As we start the new year, the future of US meat exports is top of the mind for many in the industry. In 2011, we saw significant price appreciation for a number of beef, pork and chicken items, driven in part by strong exports to both traditional and new markets. Will exports hold up? If yes, what will sustain ever expanding shipments? And if not, what will be the main risks for a reversal? Today we will focus on beef exports and touch on pork and poultry on Monday once the monthly export data is released.

The top chart to the right shows the growth in US beef exports in 2011. The data is based on weekly shipments, product weight basis, through the end of the year. For the year, exports of US beef muscle cuts (this does not include cooked beef and offal) rose 27% compared to the previous year. Four countries, Korea, Japan, Canada and Russia, accounted for about 75% of the overall growth in US beef exports. We think the growth in shipments to these markets is far from reaching a saturation point. In the case of S. Korea, the free trade agreement as well as limited growth in their domestic production will sustain demand for US beef. Australia is still the top supplier of imported beef in the S. Korean market but herd rebuilding in Australia will limit product availability and will likely provide opportunities for further expansion of US beef exports. Also, current US beef exports to Korea still remain well below the volumes that were shipped prior to the outbreak of BSE in North America (see bottom chart). Japan constitutes an even more important growth market for US beef. At the moment, the key factor impeding growth is the requirement that US ship only beef from cattle that were 21 month or younger at slaughter. There are plenty of rumors that this requirement may be changed to 30 month or younger in 2012, and if that happens, it will provide opportunities for even higher beef exports to Japan. As with Korea, Australia remains a top supplier of imported beef to Japan but supplies from there will be constrained due to herd rebuilding. The key risk to US beef exports remains a sharp appreciation in the US currency. Keep in mind, that even as the US dollar has gained ground recently, it still remains relatively weak, particularly vs. currencies of our top beef markets. The only scenario we see for a sharp appreciation in the US currency is if the Euro breaks up, leading to an inflow of capital into US dollar denominated assets. The preponderance of evidence at this point is that the Euro zone will be able to muddle through and further improvements in global economic growth will spur demand for US beef. Finally, it is important to keep in

YTD CHANGE IN US BEEF MUSCLE CUT EXPORTS BY COUNTRY
BASED ON WEEKLY BEEF EXPORTS FOR PERIOD Jan 1 - Dec 29, 2011 vs. JAN 2 - Dec 30, 2010



SHARE OF US WEEKLY BEEF EXPORTS BY MAJOR MARKET



mind the global beef supply picture. Key world beef exporters, Brazil, Australia, Argentina, Canada, are in herd rebuilding mode. While this will pave the way for higher beef supplies in 2013 - 2016, the coming year will likely continue to see limited global beef supply availability. Beef demand in emerging countries will likely continue to increase and, in the short term, the US remains a favored, and relatively competitive, beef supply source.

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