

Market Comments

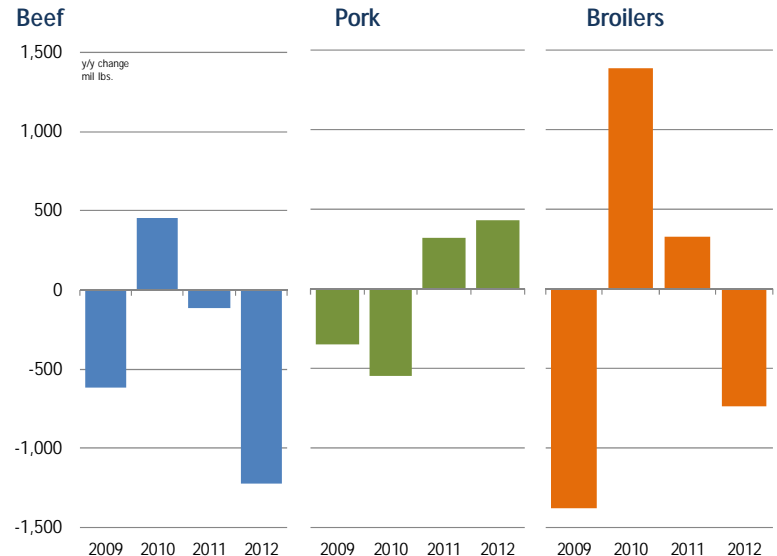
The latest WASDE forecasts for US beef, pork and poultry supplies in 2012 were little changed from December. There continues to be broad expectation that US meat protein supplies will be tighter in 2012, underpinning firm protein prices, particularly given forecasts of strong exports for all three main species. The decline in meat protein supplies (see chart) is due to smaller beef and broiler production. Pork production is expected to increase for the second consecutive year but the pace of the increase has so far been relatively modest.

Total beef production for 2012 is now forecast at 25.075 billion pounds, slightly higher than the forecast put forward in December but still some 1.22 billion pounds or 4.6% lower than in 2011. If this forecast for beef production materializes, it would represent the smaller output number since 2005. Grain prices have pulled back recently but this will do little to increase beef production this year. Indeed, it may have the effect of shortening supplies even more as lower grain prices make it more profitable to hold back heifers and expand. As producers bring fewer heifers to market, the supply of feeder cattle available to feedlots will decline, reducing total beef production. USDA will publish its results of the January cattle inventory survey on January 27 and our expectation is that beef cows held back for replacement will still be lower than in 2011 as producers in key areas struggled with drought conditions. An improvement in weather conditions (still a big question mark), lower grain prices and record out front cattle futures should encourage beef cow retention in 2012.

Pork supplies are expected to advance higher in 2012 but despite record high prices last summer, producers remain cautious. **Total pork production for 2012 is now forecast at 23.209 billion pounds, 431 million pounds or 1.9% higher than a year ago.** This forecast is modestly higher than what was presented in December but, in our view, the key for the pork market in 2012 remain exports. Of the +23 billion pounds that are expected to come to market in 2012, about 5.1 billion pounds or 22% are expected to go to exports. Only 5 years ago, pork exports accounted for 14% of total production. In 2011, pork exports were largely driven by strong demand in Asian markets. In some cases (S. Korea), the pickup in demand was accelerated by short term factors, such as the outbreak of

Year/Year Change in Beef, Pork and Broiler Production

Based on Jan 2012 WASDE Est., Million Pounds, CWE and RTC



FMD. Tight supplies and higher pork prices in China caused that market to catapult to second place, after Japan, in the second half of the year. Will China remain in this second place spot for 2012? It is hard to say. China has the largest sow herd in the world and a large share of production comes from backyard operations. Should feed prices pull back, Chinese producers have shown they can quickly ramp up production. On the other hand, rapid modernization and the resulting growth in demand coupled with population shifts to urban areas could sustain future growth. Needless to say, this is the big wild card for US pork supplies and prices in 2012.

Broiler supplies for 2012 (ready-to-cook production) are forecast at 36.109 billion pounds, 735 million pounds or 2% lower than a year ago. Corn prices may have pulled back from the record levels last summer but they remain in the \$5.5 - \$6.0 range, well above historical levels. At this point the expectation is for lower production in Q1 and Q2 and then flat to slightly higher production in Q4. Broiler exports are forecast to rise by less than 1% but still remain at all time record highs.

Announcing Weekly Live Cattle Options
Now Trading



The Daily Livestock Report is published by Steve Meyer and Len Steiner. To subscribe/unsubscribe visit www.dailylivestockreport.com.

Disclaimer: The *Daily Livestock Report* is intended solely for information purposes and is not to be construed, under any circumstances, by implication or otherwise, as an offer to sell or a solicitation to buy or trade any commodities or securities whatsoever. Information is obtained from sources believed to be reliable, but is in no way guaranteed. No guarantee of any kind is implied or possible where projections of future conditions are attempted. Futures trading is not suitable for all investors, and involves the risk of loss. Past results are no indication of future performance. Futures are a leveraged investment, and because only a percentage of a contract's value is required to trade, it is possible to lose more than the amount of money initially deposited for a futures position. Therefore, traders should only use funds that they can afford to lose without affecting their lifestyle. And only a portion of those funds should be devoted to any one trade because a trader cannot expect to profit on every trade.