CME Group

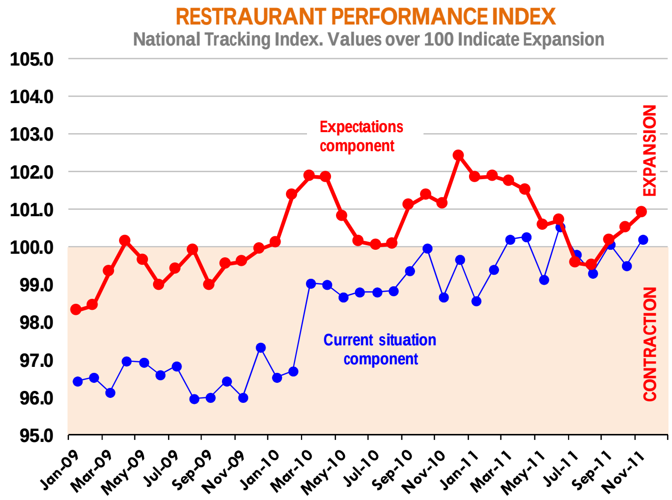
Daily Livestock Report

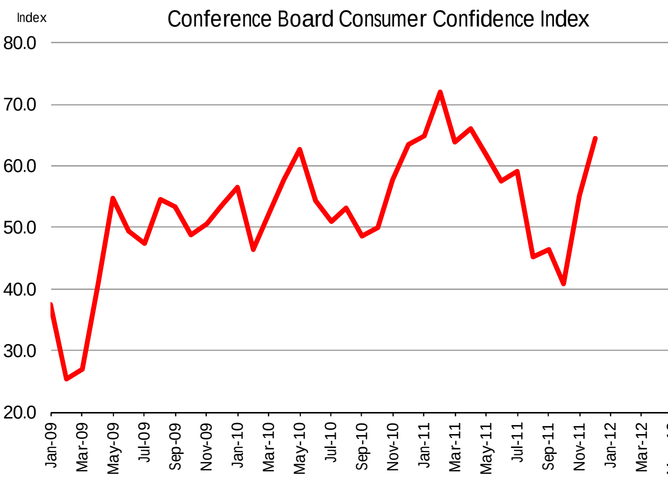
Vol. 10, No. 13 / January 19, 2012

Market Comments

Recent editions of this report have focused on two themes: lower meat protein supplies, largely due to smaller beef and broiler output; and uncertain export demand, particularly for pork. On both fronts a consensus appears to be forming,. It appears market participants generally accept that beef supplies will decline in 2012, pork will rise modestly and chicken output will stay down at least through spring. On the export front, the expectation is for relatively flat growth, with only modest gains in some cases over the record levels established in 2012. Where there appears to be real disagreement, in our view, is with regard to domestic demand. Those that hold a **more bullish view of the market** argue that steady improvement in the broader economy will sustain higher meat protein prices in 2012. Consensus GDP growth forecasts for 2012 are at 2.4% compared to 1.8% growth in 2011. Improvements in employment numbers, housing metrics, equity valuations and generally higher economic activity imply better demand at both retail and foodservice. The charts to the right illustrate both the weakness that developed in the second half of 2011 and more recent data points showing signs of improvement. The restaurant performance index, published at the end of December but covering the previous month, showed that both the current situation and expectations components of the index are now above contraction thresholds. Restaurant operators noted improvements in both same store sales and foot traffic. For the next three weeks restaurant companies will report their quarterly results and the expectation is for better results than in the previous quarter. Another positive indicator is the recovery in consumer sentiment, which has made a U-turn and will likely test post-recession highs in January.

Those that hold a more bearish view of the market focus on lingering negatives from the recession, particularly on the employment front and consumer finances. According to U of Missouri economics, pork retail demand was down 4.8%, chicken was down 8% and only beef managed to eek out a 1.2% growth. While unemployment has pulled back, much of the decline has been due to people abandoning the workforce rather than finding jobs. A substantial number of people now depend on unemployment benefits and, as those benefits run out, consumer finances will struggle. Housing markets also remain a concern, impeding consumer mobility. Another looming threat is the ongoing uncertainty in Europe and the possibility of a slowdown in emerging markets. The Euro situation may have disappeared from the headlines but it will remain a threat until a credible solution is found. Love them or hate them, financial markets are the glue that keeps capitalism together. The unraveling of the Euro in 2012 could certainly lead to a global recession and negatively impact consumer protein demand.





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