

Daily Livestock Report

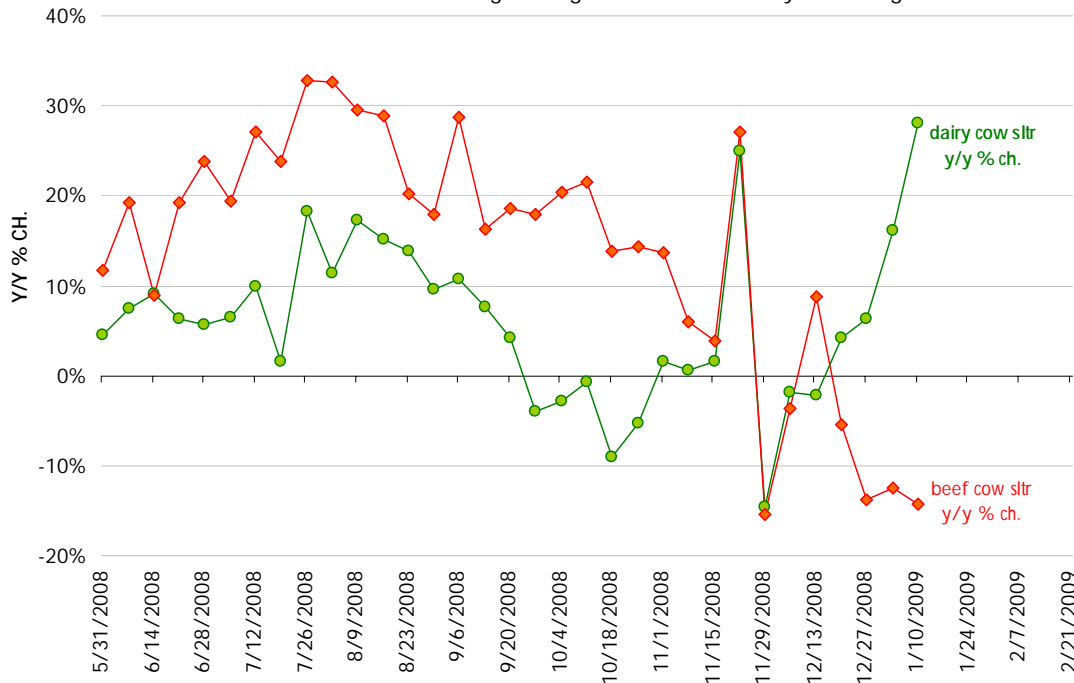
| <u>E-Livestock Volume</u> | <u>26-Jan</u> | <u>23-Jan</u> | <u>19-Jan</u> |
|---------------------------|---------------|---------------|---------------|
| LE (E-Live Cattle): | 5,533 | 11,383 | Holiday |
| GF (E-Feeder Cattle): | 601 | 735 | Holiday |
| HE (E-Lean Hogs): | 10,544 | 10,121 | Holiday |

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Market Comments

The dynamics in US cow slaughter rates appears to have been somewhat skewed in recent weeks, in large part due to the collapse in milk and dairy product prices. Cheese prices in January have been on average \$1.0739/lb., some 41% lower than the \$1.8257/lb average of January 2008 and even lower when compared to the \$2+ levels registered last spring and summer. The decline in milk and cheese prices has been a result of the significant decline in both domestic demand (especially from the foodservice industry) but also softer export sales due to a stronger US dollar and a slowing global economy. Following the collapse of dairy values, US dairy operators have responded by quickly accelerating the pace of dairy cow liquidation. While dairy cow slaughter growth slowed down in September and October, it has quickly shot higher so far this year. For the week ending January 10, dairy cow slaughter was 71,768 head, 28% higher than a year ago. This is the highest weekly dairy slaughter level in almost 20 years. As for beef slaughter, it continues to lag well behind last year's levels. For the week ending October 10, US beef cow slaughter was 64,364 head, 14% lower than a year ago. Indeed, as the chart to the left shows, US beef cow slaughter has been on a downtrend since November. It remains to be seen whether the current slowdown in beef cow slaughter is sustained going forward. The general bias among market watchers is that the US beef cow herd will likely remain in a liquidation mode. However, as the herd gets smaller and smaller, it becomes increasingly difficult to simply cull the less productive animals. At some point, producers will have to go out of business en masse (that already has taken place in some areas) in order to maintain the pace of liquidation we observed in 2007 and 2008. So far, the increase in dairy cow slaughter has been more than offset by the decrease in beef cow slaughter. As a result, US cow meat supplies are not especially burdensome and this has helped support the market for lean grinding beef.

US Cow Slaughter Rates Diverge on Changing Marketplace Dynamics
Year over Year Percentage Change in US Beef and Dairy Cow Slaughter



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