

# Daily Livestock Report

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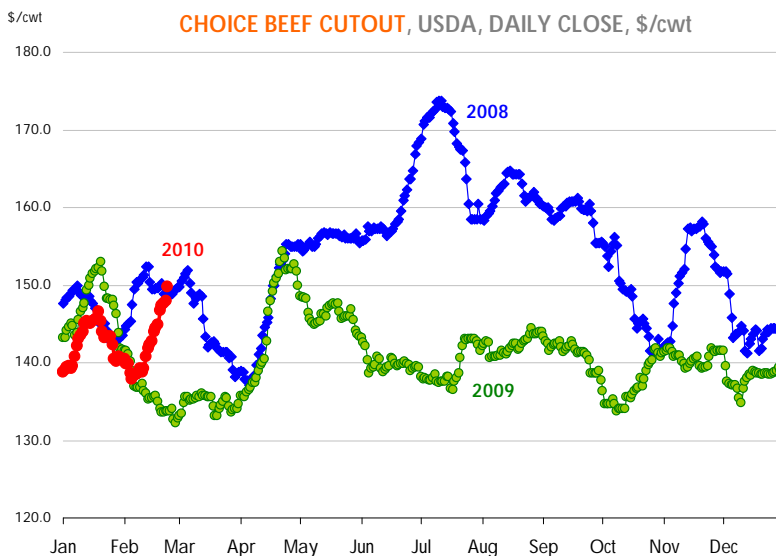
## Market Comments

**CME livestock futures were generally lower on Tuesday, with most of the damage coming on the spring and summer contracts.**

Live cattle futures declined as much as 80 points (Apr), feeder cattle were down as much as 95 points (Sep), while lean hogs dropped as much as 85 points (Apr). The pullback was partly in response to outside market influences and reports showing continuing unease about the pace of the economic recovery in the US as well as the challenging environment for both US consumers and businesses going forward. As we mentioned in yesterday's edition, demand remains key and it will trump supply issues in the short term. The latest Conference Board report on consumer confidence showed that the index declined from 56.5 to 46 points in February, erasing the gains made since last summer. Some argue that the pullback in the confidence index is temporary, reflecting the impact of severe winter storms across the country, noting that similar declines in the confidence index can be found in the aftermath of such storms.

We are not so sure although one should recognize the negative impact of weather on consumers and businesses that already are in economic distress. But US consumers remain concerned about the employment outlook as well as the performance of housing and equity markets. Equity markets have stalled since the beginning of the year while one in four homeowners is currently underwater on their mortgages. US consumer balance sheets remain in a precarious situation and any events that negatively impact them (be this weather, declines in the market, possibility of higher interest rates, etc) will tend to undermine consumer confidence. It is also important to note that the political gridlock and uncertainty about the direction of the country also play a role as to how consumers feel about the future.

While uneasiness about future demand negatively impacted cattle futures, **beef prices in the near term have shown a notable improvement** and they are currently above 2009 and 2008 levels. USDA quoted the choice beef cutout on Tuesday at \$149.78, \$1.8/cwt higher than the previous day and now up \$16/cwt or 12% compared to year ago levels. The select cutout gained even more as it closed at \$148.99, \$2.7/cwt higher than the previous day and select cutout values are also up \$16.3/cwt or 12% compared to year ago levels. Part of the reason for the improvement may be due to restocking after significant winter storms caused disruptions in the Eastern US. Also, there is a modest seasonal tendency for cutout values to improve into mid March as retailers prepare for the Easter business. Retailers tend to increase their meat features after the end of Lent and this year is more consistent with the seasonal. It remains to be seen, however, whether the current gains are sustained. As the chart above shows, cutout values in 2008 and 2009 were very similar in April but then summer business sent them on divergent paths. One item to watch is the performance of competing meats, especially chicken.



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