

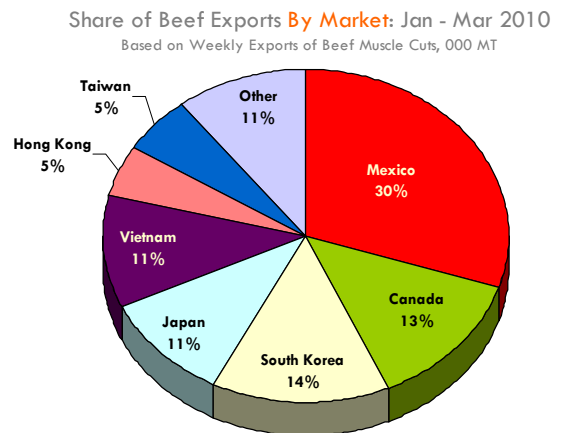
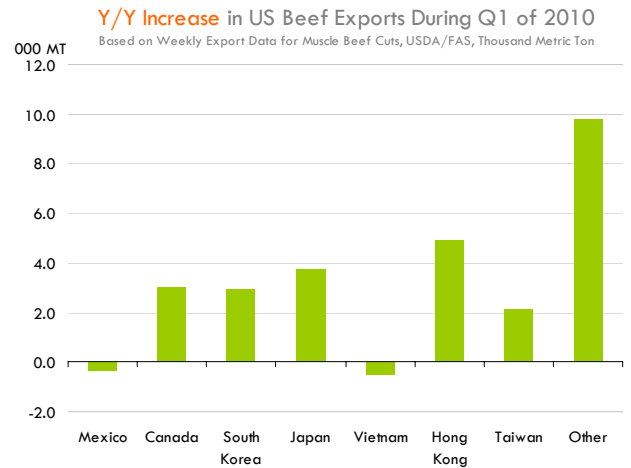
# Daily Livestock Report

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## Market Comments

**Live cattle futures have mounted a significant rally since last fall but whether that rally carries over into the summer will be in part dependent on US beef demand.** As Dale Durchholz at Agrivisor pointed out to us, there is a significant number of long positions by speculative funds in the live cattle complex at this time, the largest since 2006. So far, those positions have been built in response to very tight cattle supplies and the expectation that packers will have to pay higher money for cattle AND be able to pass on those costs to buyers that are short bought going into the spring. But if beef demand this summer continues to languish, retailers and foodservice operators will likely decline to pay the higher asking prices. If that happens we could see the recent rally in live cattle futures fizzle relatively quickly (as specs rush for the door) while feedlots market much more aggressively given they have been able to hedge at significant premiums for the summer months.

One component of beef demand are export sales and so far the US beef export market seems to be doing quite well, mostly because of strong sales to smaller markets. Mexico is currently the largest export market for the US beef industry, accounting for about 30% of beef shipments through the first three months of 2010. Shipments of beef muscle cuts to Mexico through March 25 were reported to be 39,000 MT, 357 MT or 0.9% lower than the same period a year ago. Beef exports to Canada in this period were 17,200 MT, some 3000 MT or 21% higher than a year ago. Exports to South Korea and Japan also appear to be on the mend, up 19% and 37% vs. year ago, respectively. Australia remains the top beef supplier to these two markets but US packers have benefited from relatively tight beef supplies in Australia at this time. Australian cattle slaughter was especially low in late January and February due to flooding which created significant transportation problems. As a result, Australian beef shipments to Japan and South Korea are down, creating an opening for US beef sales. Whether US beef packers are able to build on that remains to be seen. We think Australian slaughter will remain below year ago levels this year as producers there take advantage of the improved moisture conditions to rebuild. As the top chart shows, while smaller US beef markets ('other') account for just 11% of the market share so far this year, they have contributed about 40% of the growth. This should be viewed as positive, since further growth in traditional markets, especially Mexico, will further bolster demand going into the summer. It also shows that US beef has become more competitive.



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