

Daily Livestock Report

Vol. 8, No. 145 / July 28, 2010

Market Comments

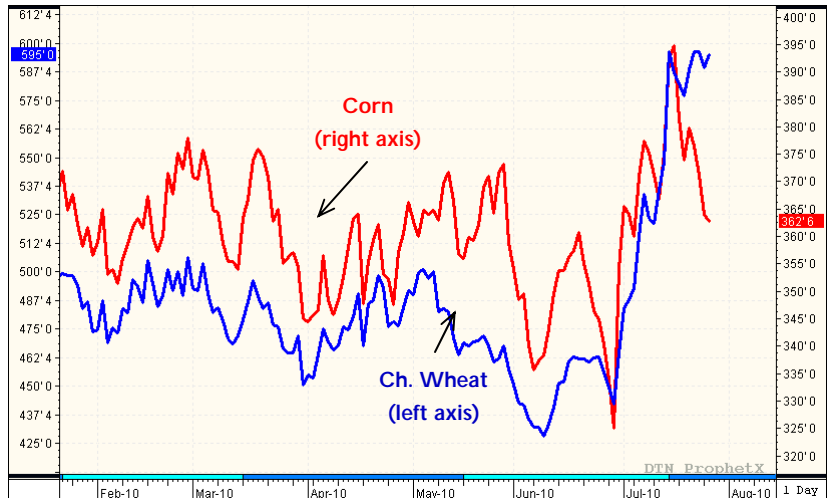
Livestock futures were for the most part higher on Tuesday but the market remains somewhat uncertain about the outlook for meat prices this fall and winter.

Grain prices have staged a notable recovery from the June lows, helped in part by reports of smaller planted corn acres, conflicting weather patterns (hot but very wet) and reports of crop problems in other parts of the world (Russia). The drought problems in Russia and surrounding countries are particularly important. It now appears that the wheat crop shortfall in the region will be much more significant than previously thought and this has repercussions for feed prices across the world. Russia and the other ex-Soviet countries (FSU-12 in the USDA reports) accounted for about 17% of world wheat production in 2009/10 and 27% of world wheat trade. The July USDA estimate indicated wheat production in the area to be about 100 million MT, about 12% lower than the previous year. But this estimate

was made before the July drought pressures came in full focus and by some estimates the crop shortfall in the region could be much bigger. For many, the memories of 2008 are still fresh. Wheat futures hit all time record highs at the time, with the Chicago contract trading above \$12/bushel in March 2008. We are today in a different place in terms of global wheat stocks compared to that year and we have yet to find an analyst that expects those kind of prices. The wheat crop squeeze of 2008 did not happen overnight but developed over a few months as crop production prospects in Australia and other countries continued to deteriorate.

The crop issues in Russia could have additional repercussions. In the short term, the extreme drought conditions (some say the worst in 150 years) could have a devastating impact on the livestock sector in the country. Short feed supplies and stress on animals and pastures could lead to a significant decline in animal and poultry numbers in the country. While the Russian government and producer groups have been pushing hard to rebuild the domestic protein sector, recent weather events could set those plans back by a few years, especially for beef. Russia already is one of the largest beef, pork and poultry importers in the world and the drought will only further exacerbate Russian protein demand. Longer term, however, the Russian drought situation underscores the impact of extreme weather events in globalized grain and protein markets. Feed and meat production will need to keep up with the increase in both human population, urbanization and standard of living. Consider this: In 1950, there were only two megacities in the entire world (a megacity is defined as a city with 10 million or more inhabitants). There are currently about 25 megacities. By 2050, the number of megacities is expected to reach 400, many of them in Asia and Africa. It is a factoid worth pondering when trying to assess the long term outlook for agricultural commodity prices.

Wheat and Corn Nearby Futures Since January 2010



Get free real-time CME Globex quotes at www.cmegroup.com/elivestockquotes.

**DRIVING FORCES BEHIND
THE AG CREDIT MARKET**

MISS THE WEBINAR? VIEW OUR ARCHIVE ▶

The Daily Livestock Report is published by **Steve Meyer** and **Len Steiner**. Please forward to others that may benefit from this information. 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.

CME Group is the trademark of CME Group, Inc. The Globe logo, Globex® and CME® are trademarks of Chicago Mercantile Exchange, Inc. CBOT® is the trademark of the Board of Trade of the City of Chicago. NYMEX, New York Mercantile Exchange, and ClearPort are trademarks of New York Mercantile Exchange, Inc. COMEX is a trademark of Commodity Exchange, Inc. Copyright © 2009 CME Group. All rights reserved.