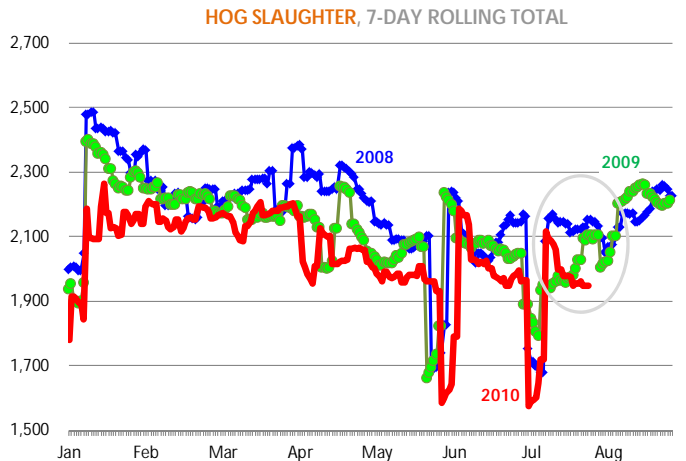
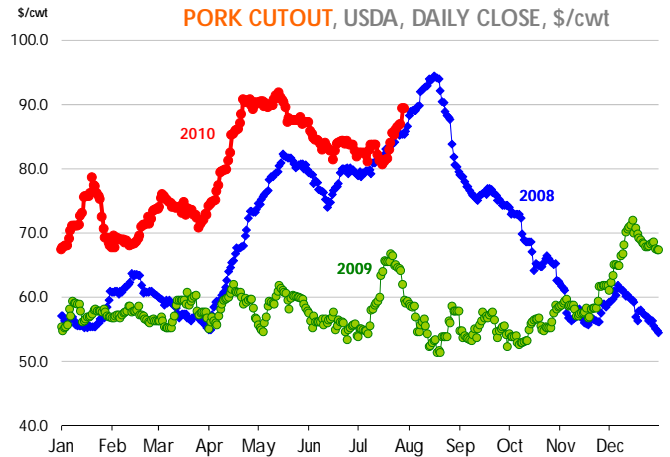


Daily Livestock Report

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Market Comments

Lean hog futures rose sharply on Thursday on strong gains in cutout values and optimism that a combination of tighter supplies and resurgent demand will sustain hog prices for the remainder of the year. The nearby August contract gained as much as 147 points while the October and December futures hit all time contract highs. The charts to the right provide some indication as to what is underpinning the upward move in hog futures. The pork cutout on Thursday closed at \$89.4 /cwt., \$3.87/cwt or 5% higher than the week before and \$30.3/cwt or 51% higher than during the same time a year ago. The increase in cutout and hog prices is seasonal but it has been further amplified by a much tighter supply situation. The spike in prices is reminiscent of 2008 when cutout and prices for individual pork items hit all time record highs. Daily prices since mid July have followed almost exactly the same path as a year ago (see chart) and the market seems to think that the highs for pork prices may still be ahead of us. The seasonal increase in prices is being supported by tighter hog supplies. The chart below shows a running seven day total of US daily hog slaughter. On Thursday, the running seven day total stood at 1.949 million head, 7.3% lower than the comparable time frame a year ago. We currently estimate hog slaughter on Friday will be around 400,000 head and Saturday at some 50,000 head. If those estimates are correct, that would produce a final hog slaughter level for the week of 2.015 million, 4.2% lower than a year ago. Even more critical for the market, however, is what happens with hog slaughter and hog weights in August. As the bottom chart shows, hog slaughter in 2008 and 2009 rose by more than 100,000 head per week between the end of July and the end of August. Our current expectation is for slaughter to continue to track 2.5% to 3% below year ago levels for the next few weeks but a larger shortfall will clearly impact a market that already seems to be stretched. The latest cold storage data showed very tight supplies of bellies (-54% vs. 2009), trimmings (-48.6% vs. 2009) and a number of other items. Belly prices have escalated sharply in recent days as end users appear to have underestimated the market and likely liquidated inventories too early. Belly demand tends to taper off at the end of August however. As we move into the fall, hams will become an even more important component and will need to carry a larger portion of the carcass. Ham prices are currently trading at some very lofty levels and it remains to be seen how retailers and foodservice operators respond to the even higher ham prices required to sustain the hog and carcass prices the board indicates.



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