

Market Comments

On page 2 we have again included the weekly production and price summary table. The year to date numbers for broilers and turkey have now been updated to reflect the latest USDA data.

USDA provided yesterday its **latest forecasts on grain and protein supplies for 2011/12 and the data generally was more negative than the August forecast**. On the grain front, USDA lowered its estimates of US corn yields this fall. The reduction was hardly surprising given the recent flurry of private analyst reports with lower yield estimates as well as the weekly USDA crop progress report showing deteriorating corn crop conditions. The lower yields are reverberating throughout the industry as this is the first time since 1995/96 that the annual corn yield is expected to be lower than the 10-year yield average. One of the arguments given in the last decade for boosting farm supplies is that technology will come to the rescue and resolve the tension behind rising global demand and limited natural resources. The argument was that developments in new cultivars would help boost yields and allow US farmers to continue to meet growing demand. It remains to be seen what science will provide down the road but, at the moment, the corn crop has hit a speed bump in term of yields and exacerbated an extremely tight supply situation. A recent Wall Street Journal article highlighted the challenges in this front by pointing out that western corn rootworms had “evolved to resist the natural pesticide made by Monsanto’s corn plant”.

The latest USDA corn yield estimate is now pegged at 148.1 bushels per acre, almost 5 bushels per acre lower than the August estimate and about 10 bushels per acre from the July estimate. The reduction in yield estimates removed more than 400 million bushels from an already very tight supply/demand balance sheet. The most recent USDA report allocates where the reduction in supply will likely occur. The biggest loser into next year will likely be the livestock and poultry industry, with feed use expected to decline some 300 million bushels from the previous year and 200 million bushels lower than the August estimate. Part of the reduction in feed use reflects higher DDG use in cattle and, to a lesser extend, pork and poultry. However, the reduction in feed use reflects lower animal units expected to

USDA/WASDE Corn Supply/Demand Estimates

	2010/11	2011/12		Change vs. July
	USDA Estimate	USDA August Est	USDA August Est	
million acres				
Planted	88.2	92.3	92.3	0.0
Harvested	81.4	84.4	84.4	0.0
bushels				
Yield	152.8	153.0	148.1	-4.9
million bushels				
Beginning stocks	1,708	940	920	-20
Production	12,447	12,914	12,497	-417
Imports	30	20	15	-5
Supply, total	14,185	13,874	13,432	
Feed and residual	5,000	4,900	4,700	-200
Ethanol for fuel	5,020	5,100	5,000	-100
Food, seed, other	1,410	1,410	1,410	0
Domestic use, total	11,430	11,410	11,110	-300
Exports	1,835	1,750	1,650	-100
Use, total	13,265	13,160	12,760	-400
Ending stocks	920	714	672	-42
Stocks/Use	6.9%	5.4%	5.3%	

come to market in the next 12 months. Forget about expanding the herds and boosting supplies to alleviate some of the price spikes. The latest USDA report indicates that meat protein price inflation will likely be the theme again next year. The USDA table also accounts for a 100 million bushel reduction in ethanol use. There is some argument that ethanol use could be lower should Congress phase out ethanol subsidies and supports. However, there is too much unknown in that front and there is no questioning that ethanol demand will also depend greatly on what happens with crude oil prices. Finally, USDA reduced corn exports by another 100 million bushels. China has emerged recently as a large buyer of corn in the global market and reducing exports by ~200 million bushels year over year given this demand will also be a significant challenge.

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PRODUCTION & PRICE SUMMARY

Week Ending **9/10/2011**

Item	Units	Last Week	Prior Week	Pct. Change	Last Year	Pct. Change	2011 YTD	Y/Y % Change
		10-Sep-11	3-Sep-11		11-Sep-10			
C FI Slaughter	Thou. Head	577	661	-12.71%	585	-1.28%	23,325	-0.1%
C FI Cow Slaughter **	Thou. Head	137	133	2.59%	122	12.03%	4,211	2.8%
A Avg. Live Weight	Lbs.	1276	1272	0.31%	1291	-1.16%	1,274	0.0%
T Avg. Dressed Weight	Lbs.	775	775	0.00%	782	-0.90%	771	0.4%
T Beef Production	Million Lbs.	445.5	510.5	-12.73%	454.2	-1.92%	17,927	0.4%
L Live Fed Steer Price	\$ per cwt	116.74	113.37	2.97%	96.91	20.46%		
E Dressed Fed Steer Price	\$ per cwt	186.79	180.51	3.48%	152.91	22.16%		
E OKC Feeder Steer Price	619-700 Lbs.	N/A	140.66	N/A	116.14	N/A		
E Beef Cutout Value	619-900 Ch.	180.25	183.22	-1.62%	160.84	12.07%		
E Hide/Offal	\$/cwt	13.48	13.43	0.37%	10.92	23.44%		
H FI Slaughter	Thou. Head	2,004	2,129	-5.87%	1,924	4.16%	73,575	-0.4%
H FI Sow Slaughter **	Thou. Head	62.5	57.8	8.00%	58.2	7.34%	1,931	0.4%
O Avg. Dressed Weight	Lbs.	199.0	198.0	0.51%	202.0	-1.49%	205	1.2%
O Pork Production	Million Lbs.	398.4	422.4	-5.68%	387.6	2.79%	15,086	0.8%
S Iowa-S. Minn. Direct	Wtd. Avg.	82.99	85.67	-3.13%	81.27	2.12%		
S Natl. Base Carcass Price	Wtd. Avg.	85.48	91.58	-6.66%	78.59	8.77%		
S Natl. Net Carcass Price	Wtd. Avg.	88.13	94.40	-6.64%	81.28	8.43%		
S Pork Cutout	185 Lbs.	94.50	97.02	-2.60%	90.38	4.56%		
C Young Chicken Slaughter *	Million Head	161.4	157.2	2.67%	172.1	-6.21%	5,580	-1.1%
H Avg. Weight	Lbs.	5.64	5.63	0.18%	5.55	1.62%	5.72	2.9%
I Chicken Production	Million Lbs.	910.4	885.2	2.85%	955.1	-4.69%	31,897	1.7%
C Eggs Set	Million	189.7	192.4	-1.41%	203.9	-6.96%	7,106	-2.1%
K Chicks Placed	Million Head	162.0	163.5	-0.92%	170.1	-4.75%	5,912	-1.0%
E 12-City Broiler Price	Composite	76.00	77.97	-2.53%	85.08	-10.67%		
N Georgia Dock Broiler Price	2.5-3 Lbs.	87.17	86.87	0.35%	87.41	-0.27%		
T Young Turkey Slaughter *	Million Head	4.417	4.456	-0.88%	4.345	1.66%	154,288	0.9%
U Avg. Live Weight	Lbs.	28.56	28.02	1.93%	28.49	0.25%	29.88	1.4%
R Turkey Production, Live Wt.	Million Lbs.	126.1	124.9	1.04%	123.8	1.91%	4,610	2.2%
K Eastern Region Hen Price	8-16 Lbs.	106.82	107.40	-0.54%	99.79	7.04%		
G Corn, Omaha	\$ per Bushel	7.17	7.48	-4.14%	4.24	69.10%		
R DDGs, Minnesota	\$ per Ton	190.00	187.50	1.33%	114.00	66.67%		
A Wheat, Kansas City	\$ per Bushel	7.78	8.25	-5.70%	6.67	16.64%		
I Soybeans, S. Iowa	\$ per Bushel	14.21	14.37	-1.11%	10.54	34.82%		
N Soybn Meal, 48% Decatur	\$ per Ton	353.20	368.60	-4.18%	327.00	8.01%		

* Chicken & turkey slaughter & production are 1 week earlier than the date at the top of this sheet.

** Cow and sow slaughter reflect levels from two weeks ago due to reporting lag.