

Daily Livestock Report

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It has so far been a jolly New Year for U.S. hog producers! After a year, 2008, when near record-high hog prices yielded little in the way of profits and another year, 2009, when it seemed Murphy's Law ("Whatever can go wrong, will.") prevailed at nearly every turn, the past month has been quite kind to pig raisers. The chart at right shows historical estimated costs from Iowa State University as well as historical monthly Iowa-Minnesota hog prices. The projected costs for 2010 use today's closing CME Group Corn and Soybean Meal futures prices in a regression equation based on the historical ISU cost estimates. Projected hog prices use today's closing CME Group Lean Hogs futures prices and a historic Iowa hog basis.

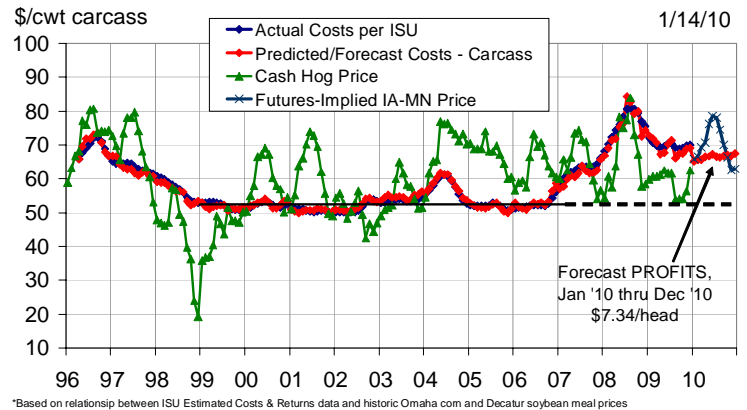
The combination of lower feed costs and the latest leg upward (it began at Christmas) in the LH rally that began back in August have pushed projected average margins for 2010 to the positive side by \$7.34 per head. On December 8, the same model projected a loss of nearly \$2/head for 2010.

At today's futures prices, profits will commence this month for producers buying cash feed ingredients and selling cash hogs. Anyone who has pre-priced any of those items may or may not see profits as projected in the chart. At present, only October, November and December are projected as loss months with per-head margins near \$25/head this summer.

And much of this improvement comes after a December Hogs and Pigs report that was, if anything, somewhat bearish. Some important factors that may be affecting the profit outlook are for hog producers are:

- A good number of market participants may simply not believe the December report. The report's key numbers were virtually all slightly higher than was expected but probably not by enough to cause a \$3-\$5 rally in LH futures. Most USDA reports are treated with some respect at least until they are clearly proven wrong. It appears that this one may be being ignored by the market in general. Or perhaps there are just more important factors.
- Hot exports and a U.S. dollar that is once again weakening. The November export data was impressive and anecdotal evidence suggests that the pace of shipments kept up in December. USDA's forecast for 2010 export growth is 10%, suggesting that additional exports could take nearly 2% out of domestic pork supplies. Virtually every monetary fundamental says the dollar will weaken, further supporting exports. [An aside: While the monetary fundamentals do say the dollar will weaken, one fact is causing great heartburn over that prospect: Virtually EVERYONE THINKS IT IS TRUE. Our experience is that when everyone agrees, look out! Maybe this time will be different. Uh-huh.]
- A renewed interest in commodities as a hedge against inflation. This plus some "rebalancing" of commodities funds toward livestock have likely placed some upward pressure on LH futures. The big question is whether this renewed interest will remain strong through 2010.
- Some are expecting a rebound in domestic demand. But that almost has to be predicated on further economic recovery, especially with the chicken industry facing a serious challenge, whether justified or not, from Russia over chicken processing with chlorinated water. Domestic pork demand will be hard pressed to grow much with boneless/skinless chicken breasts at \$1.20/lb. and the Choice beef cutout near \$1.40/lb. Consumer-level pork demand held together well in 2009 considering the obstacles that were thrown in its path but November was the softest month of 2009 relative to one year earlier. If exports were indeed strong in December, tomorrow's retail price data from USDA will have to show a healthy rebound in December for us to conclude that pork demand is again growing versus year-ago levels.
- Whether USDA's latest estimate for U.S. corn and soybean crops are, in fact, true. Futures markets appeared to trade the report as presented on Tuesday and both corn and soybean meal futures prices were slightly lower today but the promise of a "re-survey" of key states doesn't exactly exude confidence on the part of USDA's statisticians. We understand their reasoning as there are many unusual factors affecting the size of this year's crop. Oil prices and the U.S. dollar (which are key demand factors for corn) suggest long-term strength even as corn prices soften.

ACTUAL & PREDICTED HOG PRODUCTION COSTS* AND PRICES



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