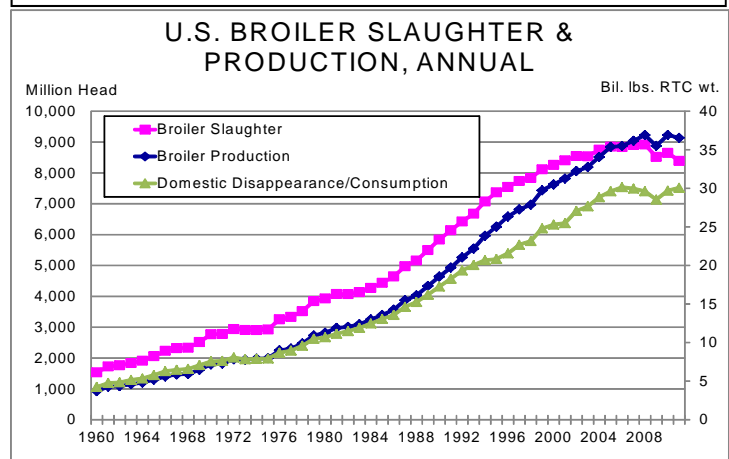
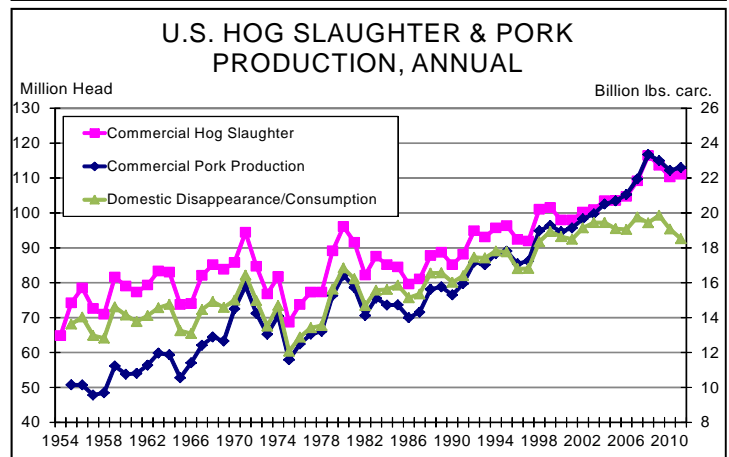
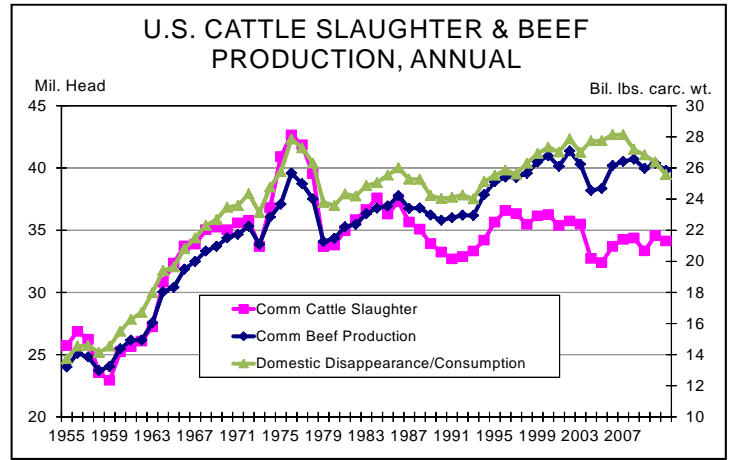


2011 will go down in the history books as a year of continued adjustments for the U.S. beef, pork and broiler sectors. All three were still adjusting to higher feed costs in an effort to restore long-run profitability. The differing biological characteristics of the three species, of course, were impacting those adjustment processes. The vaunted flexibility that the chicken's short reproductive cycle provides to the broiler industry proved to be both a blessing (can react quickly) and a curse (quick reactions leave you open to unexpected reversals). The curse of a long reproductive cycle prevented the beef industry from going for the "head fake" of lower corn prices in 2009 and early 2010. Mother Nature, of course, made sure that the beef industry did not launch itself into a premature expansion by severely impacting grazing conditions in some major beef cattle regions. Meanwhile, the pork industry appears, for the moment, to have made a painful reduction and, perhaps, learned its lesson from quick output reversals of the past that led to severe price pressure..

The charts at right show annual data for slaughter and production for the three major species. The overall trends and patterns are, we think, very telling. Among the lessons are:

- Each species has relied upon heavier slaughter weights to increase output.. The practice began with hogs in the '60s when some major improvements in leanness and, consequently, feed efficiency, began. Cattle followed in the '70s and chickens joined the trend to higher weights in the '80s. This trend is not over — at least for cattle and hogs. Feedlots, hog buildings and packing plants are all denominated in HEAD. Products are still sold by the POUND. Increasing POUNDS PER HEAD is an obvious and easy way to increase revenue per unit of physical plant. The only limit will be the size of cuts but new processing techniques will, we believe, solve most problems that arise there. The chicken sector may be different because its weight increases are driven by, in essence, a separate boneless/skinless breast business — which has NOT performed well of late.
- There was, for many, many years, no such thing as a chicken cycle. The primary reason, of course, is that chicken demand increased steadily and, due to that reproductive cycle, companies could respond quickly. The growth pattern has obviously been slowing, though, and some cyclical characteristics are appearing in the annual data. Will they continue?
- There was, for many, many years, a pronounced hog cycle that has virtually disappeared. Take away the 2007-2008 output surge driven by circovirus vaccines and hog slaughter and pork production have steadily risen since output finally settled after the 1998-1999 bloodletting in the production sector.
- Even the cattle cycle (historically 8-10 years in length) has waned. Has it fallen by the wayside, too? Or has it just lengthened and flattened? The slaughter and production dip of 2004-2005 was caused primarily by fewer Canadian cattle in the wake of their first BSE case in 2003. Take away that reduction and cattle slaughter and beef prod have declined in a very steady manner since 1996 and 2002, respectively.



Announcing Weekly Live Cattle Options Now Trading



The Daily Livestock Report is published by Steve Meyer and Len Steiner. 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 © 2012 CME Group. All rights reserved.