Industry analysts should be aware of, which is why the question is whether at some point in the fall of 2016 industry once again bumps against slaughter capacity constraints. The chart above shows weekly slaughter so far this year and projections for weekly slaughter in 2015 based on the September Hogs and Pigs inventory data. Steve Meyer has maintained a detailed database of hog slaughter plants and capacity for many years and his Spring 2014 survey pegged the weekly slaughter capacity at 2,438 million head per week. We got relatively close to that number in the fall of 2012 when weekly slaughter for a couple of weeks was a little over 2.4 million head. And then for a few weeks in November and December of last year weekly slaughter was around 2.35 million head. Based on current projections, we will likely have about 5% of spare capacity in the fourth quarter of 2015 but that forecast reflects estimates from the September Hogs and Pigs report. There is a good chance that the slaughter numbers for next fall may be revised higher to reflect the improvement in the pig crop (fewer PEDv and PRRs deaths) and a larger breeding herd as of December 1. In our view, the breeding herd number as of December 1 will be one of the key numbers to watch in the upcoming report.

Is it possible that we may run out of hog processing capacity similar to what happened in 1998? This is always a risk that hog producers need to be aware of, which is why the opening of a new hog processing plants by the Clemens Food Group is a welcome development. Clemens Food Group is based in Hatfield PA and currently operates a plant there with a daily processing capacity of 10,400 head. The new $255-million pork processing plant will be built in Coldwater, MI and a report from Feedstuffs says that it will process about 10,000 hogs per day. The plant is scheduled to become operational in the fall of 2022 and will add about 0.4% to US processing capacity. A brand new hog processing capacity is good news for hog producers locally as well as the pork industry overall.

 USDA will release the results of its hogs and pigs inventory survey on Tuesday, December 23, 2014 and tomorrow we will discuss what analysts expect the inventory survey to show. The pig crop data from this survey is used by industry to project supplies in the coming quarters. The breeding stock numbers, on the other hand, provide the best indication as to what kind of expansion (or contraction) in supplies should we expect in the coming years. On this last topic, there has been some conversation in the industry, and something we have mentioned in this report, about slaughter capacity in the next two years. The outbreak of PEDv in 2013-14 was a dramatic setback for US pork production, which has been steadily increasing in recent years. Excellent profits in 2014 and corn prices in the $4 range are expected to further bolster hog numbers in 2015 and 2016.

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Special CME Notice: Daily Price Limits for Feeder Cattle and Live Cattle contracts will be increased, effective Thursday, December 18. For full details please see the CME Special Executive Report on page 2. Feeder cattle futures were limit down again yesterday and they have declined the daily permissible limit for the last five trading sessions. The change in the daily permissible limit (when contracts close limit down) should help accelerate price discovery and is a welcome decision for market participants.

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Increased Daily Price Limits for Feeder Cattle Futures and Expansion Capability of Daily Price Limits for Feeder Cattle Futures and Live Cattle Futures

Earlier today, a Panel of the Chicago Mercantile Exchange Inc. (CME) Business Conduct Committee (Panel) took emergency action pursuant to CME Rule 402.C (Emergency Actions) which will be effective on Thursday, December 18, 2014. The emergency action:

1. Increases the daily price limit applicable to the CME Feeder Cattle (FC) futures contract (Rulebook Chapter 102) pursuant to Rule 10202.D. (Daily Price Limits) to $0.045 per pound from $0.030 per pound; and
2. Provides for expanded price limits in FC futures and CME Live Cattle (LC) futures contracts (CME Rulebook Chapter 101) in certain circumstances as set forth below.

With respect to the expanded limits in FC and LC futures, should one or more futures contract months within the first two listed contract months settle at limit, the daily price limits for all contract months will be expanded to $0.0675 per pound (FC) and $0.045 per pound (LC) on the next business day. If neither of the first two listed contract months settle at the expanded limit the next business day, daily price limits for all contract months will revert back to $0.045 per pound (FC) and $0.030 per pound (LC), respectively.

FC futures have been locked limit for five consecutive days as a result of various markets factors including potential declining demand. The emergency action taken by the Panel is necessary for promoting price discovery in FC and LC futures contracts and their associated products under current market conditions.

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