

Daily Livestock Report

Vol. 8, No. 30/ February 16, 2010

Barring any serious and widespread production challenges, a necessary condition for reducing pork output is a smaller breeding herd. Necessary — but not sufficient, especially in these days of remarkable productivity increases. Canada's breeding herd has been declining since March 2005 while the U.S. herd has been shrinking since October 2007. But the total decline has thus far not been large enough to make a large dent in combined U.S.-Canadian hog slaughter. At least not a large enough dent to push hog prices to consistently profitable levels given a 20-30% increase in costs. And recent weeks have seen U.S. sow slaughter levels fall sharply — at the first hint of a profitable year in 2010.

The top chart at right shows this drop to just 54,700 head during the week that ended on January 29. That is the lowest non-holiday week total since August 2007 and the lowest non-holiday, non-summer vacation week since 2005. And it happened shortly after lower corn and soybean meal futures and a four-month rally in lean hogs futures had taken hog producers' profit prospects to their highest level since 2007. Sow purchase data from USDA's mandatory price reporting system (AMS report LM-HG230) indicate that this decline will very likely grow when slaughter data for the last two weeks become available. The purchase data appear in the middle chart.

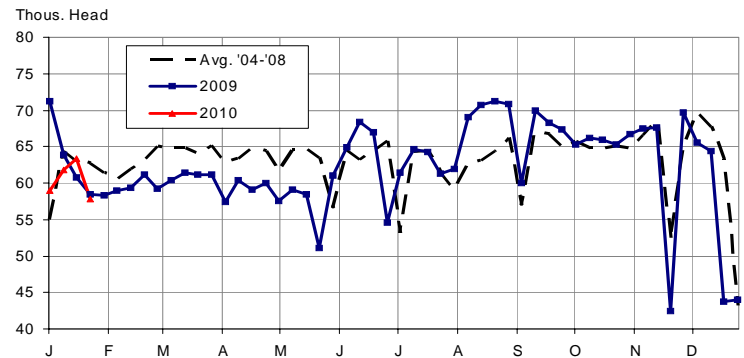
Through September/October, the combined herd had declined 7.1% from its most recent peak of 7.752 million head in October 2007. Canada's herd has fallen by 190,000 head (12%) while the U.S. herd fell by 383,000 head (6.1%). An additional 25,000 U.S. breeding animals were removed from September 1 through December 1. Canada's January 1 inventory will be published on Tuesday.

The amount of reduction in the U.S.-Canadian breeding herd needed to return to sector to profitability has been a topic of debate for the past two years. Early estimates were that the herd needed to be reduced 10 to 15% from its fall 2007 peak. Some analysts believe smaller reductions are necessary if exports regain a substantial portion of their 2008 performance. But no one of whom we are aware counted on total productivity growth (litters per sow plus pigs per litter plus weight per pig plus pigs slaughtered per pigs born) of over 5% for most of 2009.

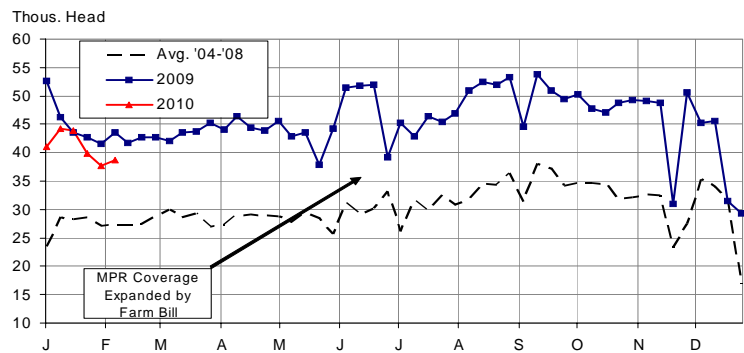
The weight portion of that productivity increase was, of course, primarily due to an exceptionally cool summer but that same summer weather will contribute to productivity growth in 2010 as well. USDA's December Hogs and Pigs Report indicated Sep-Nov farrowings and Dec-Feb farrowing intentions within 2% of year-ago levels even though the December 1 breeding herd was 3.5% smaller. Higher productivity may well mean that the breeding herd reduction must be larger than was once anticipated.

CME Group feed ingredient and hog futures markets are indicating that the reductions to-date may be sufficient to return the industry to profitability. Only time will tell but fundamental factors suggest that further reductions may be necessary if producers are to see some much needed profits beyond the summer of 2010.

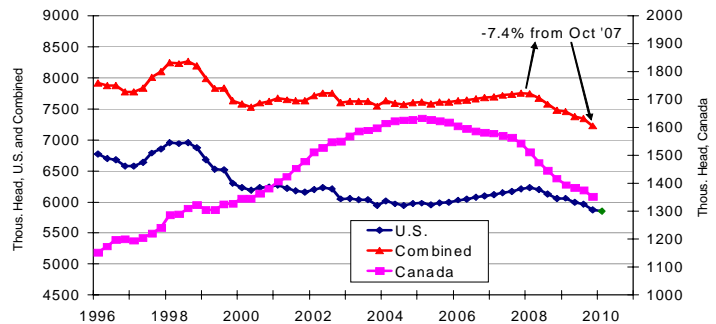
FI SOW SLAUGHTER, U.S.



TOTAL SOW PURCHASES, MPR DATA



SWINE BREEDING HERDS: U.S., CANADA & COMBINED



Get free real-time CME Globex quotes at www.cmegroup.com/elivestockquotes.

**DRIVING FORCES BEHIND
THE AG CREDIT MARKET**

MISS THE WEBINAR? VIEW OUR ARCHIVE ▶

The Daily Livestock Report is published by Steve Meyer and Len Steiner. Please forward to others that may benefit from this information. 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 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 © 2009 CME Group. All rights reserved.