

Daily Livestock Report

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Our discussion yesterday of the situation with Russia resulted in a few e-mails and phone calls asking how the situation might play out to be so negative for pork and hog prices. While not a dead-lock cinch to happen, our concerns and those of most of the trade center around the results of a similar Russian boycott in 2002. That episode actually began in March 2002 when Russia banned U.S. chicken and exports dropped from 111.75 million pounds in March to 14.4 million pounds (-87%) in April. After resuming imports again in mid-May 2002, the Russians again blocked imports in September of that year. That stoppage was short-lived and exports rebounded through the end of 2002. Shipments for all of 2002 were one-third lower than the 2.304 billion pounds shipped in 2001 — a level that has not been reached since!

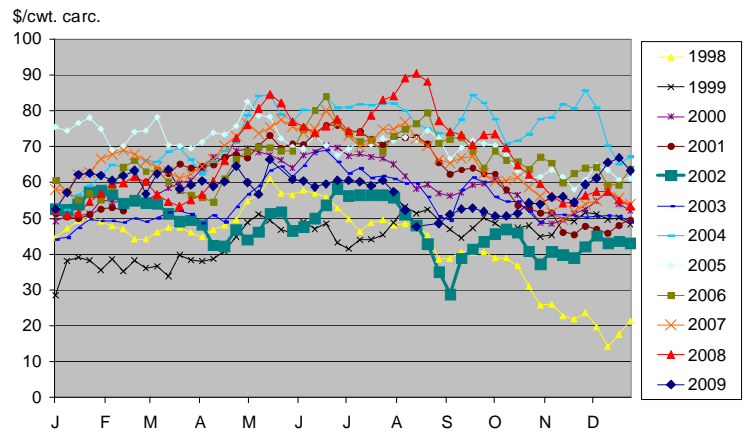
The secondary damage of the 2002 disruptions occurred in the pork industry. We apologize for the busyness of the chart at right but we think it demonstrates the impact of the 2002 chicken situation on the pork industry quite well. Of the 12 years of prices shown here, the worst three were 1998, 1999 and 2002 — the teal colored line that we have made bolder than the others. While the industry was heading for a cyclical low in the fall of 2002, there was little reason to think that a normal seasonal peak would occur that summer before prices bottomed in November and December. But it is obvious that the spring rally never materialized and the price declines of April and May were largely driven by stiff competition from chicken dark meat at retail and in processed meat formulations such as lunch meats and, most notably at that time of year, hot dogs. Hog prices struggled most of the summer before getting back to pre-embargo level in June and July. The crash in September was caused by both the second Russian embargo and the imposition by Japan of the “snapback” provision of their gate price scheme whereby the gate price increases whenever imports exceed a certain level of year-on-year increase. The same September plunge can be seen in the 2003 data which corresponds with the last time that the “snapback” has been triggered.

Our point is: These concerns are well-founded if the differences over chlorine levels are not resolved. There was talk in the trade that a resolution is near but nothing official has been announced by either the USDA or the Office of the U.S. Trade Representative.

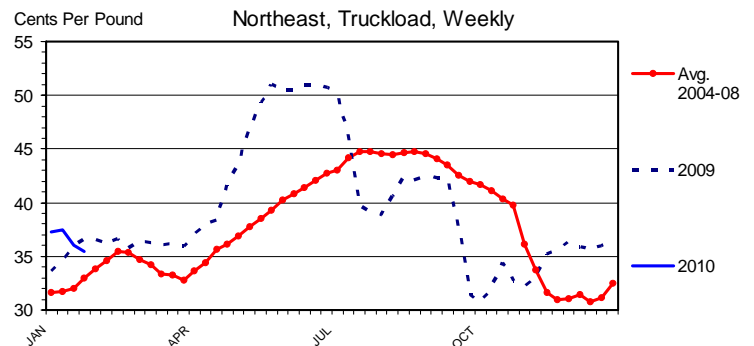
The hand-wringing has had a surprisingly small impact so far. As can be seen here, leg quarter prices have held up pretty well considering that Russia is well over twice as large a market for U.S. chicken as Mexico, our second largest customer. Last week’s quote of 35.44 cents per pound was only about 0.5 cents per pound lower than the previous week and a penny lower than last year while remaining over 2 cents higher than the 2004-2008 average. The drop pushed the 12-city composite broiler price from USDA below 80 cents per pound for the first time this year but last week’s price of 79.96 cents per pound is less than 2 cents below last year and remains over 8 cents per pound HIGHER than the 2004-2008 average. Bottom Line: Not much damage to date and an actual resolution would likely stop the damage we have seen right in its tracks.

The U.S. broiler industry reduced production in 2009 by 3.8% versus the level of 2008. That marks the first reduction in broiler output since 1975. The year-over-year declines in weekly production were largest in the first half of the year and got smaller and smaller near year’s end. In fact, production was higher than one year earlier the last 5 weeks of 2009 and has remained so for all but one week in 2010.

WEEKLY IA-MN HOG PRICES, 1998-2009



WHOLESALE CHICKEN LEG QUARTER PRICES
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