

Daily Livestock Report

Vol. 8, No. 45/ March 9, 2010

Has the long-anticipated rally in meat prices begun? We think that is a reasonable question given the developments in wholesale markets over the past four weeks. And it is reasonable to look at wholesale markets for the first signs of a rally since a) it is the market that is between two “margin” players — packers and retailers — in the beef and pork sectors and b) it is the level where several pieces of research have suggested that the bulk of price discovery occurs. The wholesale cutout value charts for Choice and Select grade beef appear on this page while the pork cutout value, 12-city composite broiler and Eastern hen turkey charts appear on the following page. All except the broiler chart show rather impressive gains in recent weeks.

You have read in these pages many times that supplies are being reduced due to higher costs. Those supply reductions are, no doubt, a factor in these price rallies. Beef production is down 1.3% year-to-date. Pork production is down 6.9% and turkey production is down 4.1%. Only chicken production is higher so far in 2010 — by 2.8% relative to 2009. It is no surprise, therefore, that chicken prices are closer to year-ago levels than any of the others. The recent year-on-year increase in chicken prices is due to a counter-seasonal decline last year and a more-or-less normal seasonal pattern so far in 2010.

Note that all of the year-to-date production figures are based on daily data and are compiled by USDA’s Agricultural Marketing Service. The weekly estimates can be found at http://www.ams.usda.gov/mnreports/sj_ls712.txt (beef and pork) and http://www.ams.usda.gov/mnreports/nw_py017.txt (chicken and turkey).

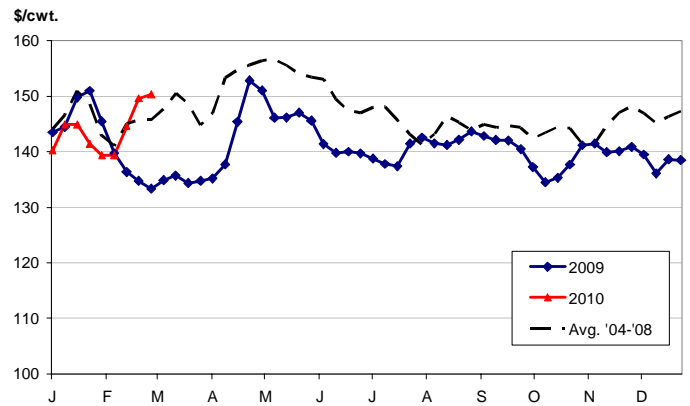
The increase in beef prices is closely tied, we think, to weather challenges during late January and February which have held slaughter levels down and caused steer and heifer weights to drop in a normal seasonal manner — far different than last year when weights were extremely high and steer weights stayed constant while heifer weights increased during January and February. The cutouts for both beef grades now exceed year-ago levels by over \$15/cwt and the Select cutout has moved to a level significantly higher than its ‘04-’08 average, likely reflecting continuing lower Select grade percentages. The Choice cutout being nearer the ‘04-’08 average is a symptom of higher Choice percentages and, very likely, some continuing difficulties with restaurant performance.

The pork cutout has gained value each of the past two weeks in spite of steadily growing weekly slaughter totals that, over the past three weeks have been roughly equal to the levels expected from the December 1 market pig inventories. Market weight are still running about 2 lbs. lower than last year but we think demand — or expectations of demand — have become more and more important. The announcement of an agreement with Russia and Canada’s agreement with China (which means a U.S. agreement must be done soon, right? We hope so!) are both supporting current cutout values and CME Lean Hogs futures prices.

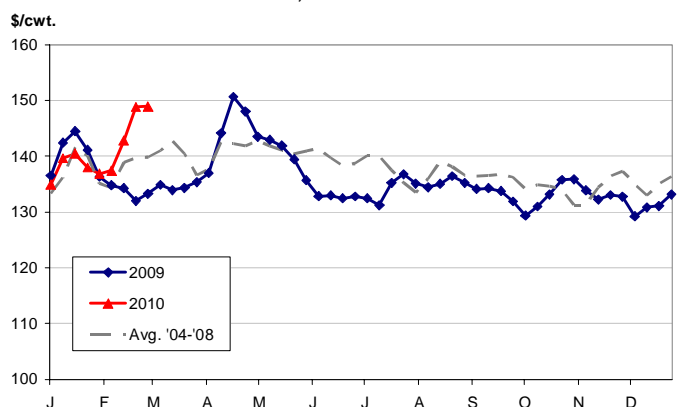
The most remarkable thing about the chicken price chart is that it has remained so steady in the face of the Russian import stoppage. As we pointed out yesterday, the market must believe that a solution is imminent or we would have seen leg quarters falling, likely dragging down the composite. That has not happened and prices are holding up rather well especially considering higher production levels.

Comparing current prices to historic levels for each species also confirms another expectation: The poultry species can have a much quicker impact on prices! While both beef and pork prices remain just above their averages for ‘04-’08, chicken and turkey prices are 18% and 11% higher, respectively. Both species were able to make significant cutbacks in 2009 while pork just got started and beef was basically still thinking about it.

CUTOUT VALUE, 600-900# CHOICE BEEF



CUTOUT VALUE, 600-900# SELECT BEEF



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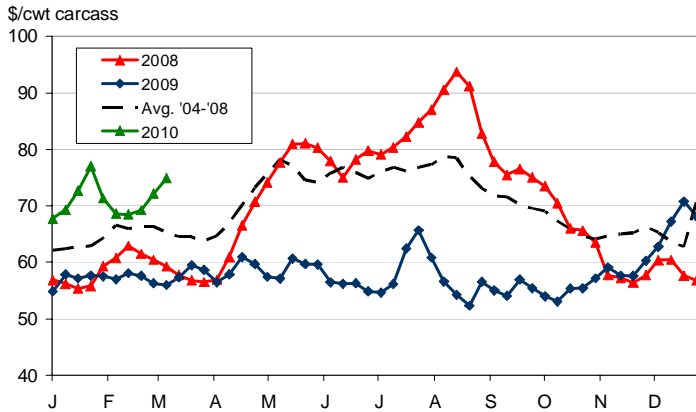
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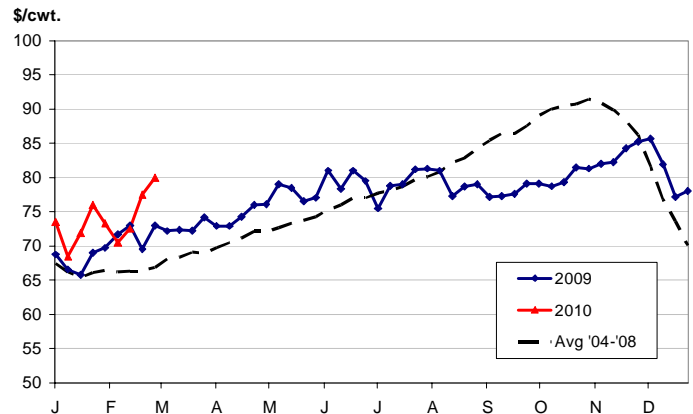
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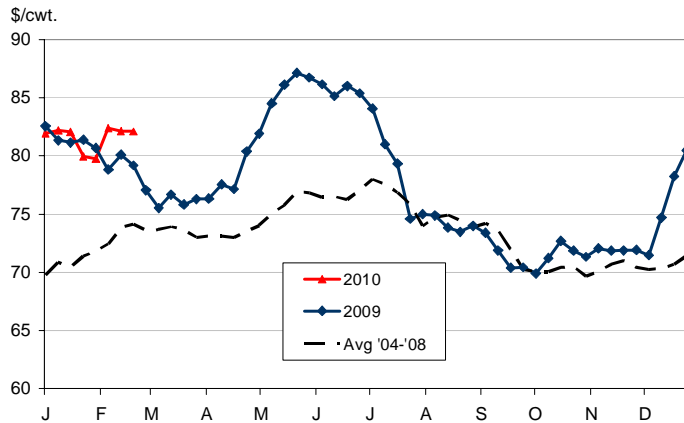
51-52% LEAN, PORK CUTOUT VALUE



EAST REGION TURKEY HENS, 8-16 LBS.



12-CITY WHOLESALE BROILER PRICE



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