

# Daily Livestock Report

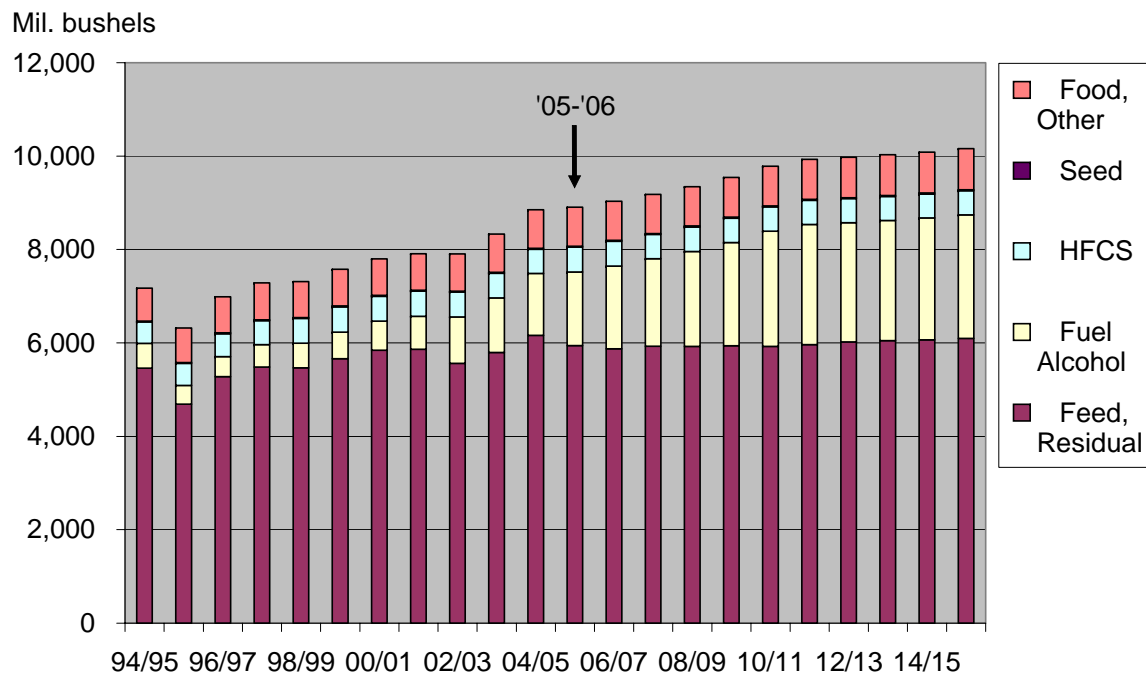


Livestock market information provided by Steve Meyer and Len Steiner.

E-Livestock Volume:	4/26	4/24	4/19
LE (E-Live Cattle):	265	185	303
GF (E-Feeder Cattle):	0	0	0
HE (E-Lean Hogs):	169	408	125

**The run-up in corn prices since this spring's USDA Prospective Plantings report may be a precursor to the corn market in general for the next few years as federal and state mandates for renewable fuel usage kick in and draw more corn to energy production.** It doesn't appear that many people in either Washington or various state capitals are considering the impact these policies may have on U.S. livestock producers, processors and, ultimately, consumers. The graph at left shows historical and predicted corn usage from the 2006 baseline projection of the Food and Agricultural Policy Research Institute (FAPRI) at the University of Missouri. This baseline assumes a continuation of the policies of the latest farm bill and the current 7.7 billion gallon renewable fuels mandate. The FAPRI baseline predicts that the usage of corn for fuel ethanol will reach 2.65 billion bushels by 2015 and that corn availability for feed will be constant at 6 billion bushels. The ethanol producing process does put about 17 pounds of dried distillers grains with solubles (DDGS) back into the feed supply for each bushel of corn processed. There are limitations on how much DDGS can be used in livestock feed, especially for hogs and poultry. The quality of DDGS varies greatly across suppliers and significantly even from the same supplier over time. It often does not flow well in trucks, bins and feed lines. The fermentation process removes the starch from corn and thus concentrates virtually every other fraction (oil, minerals, protein, etc.) by a factor of three. That can be good (higher oil content means higher energy) and bad (higher corn oil content can cause soft fat in pork carcasses thus making bellies harder to use for bacon). These variations may shift the competitive landscape among the species, generally favoring the beef and dairy sectors. FAPRI's forecasts result in corn prices in season-average price received by farmers of \$2.20 to \$2.35 per bushel over this time horizon compared to prices of \$2.05 or less in 5 of the last 7 years. And FAPRI's ethanol usage and price forecasts may be a bit conservative. Additional ethanol production capacity, growing livestock numbers and lower corn acres (should fertilizer and other input prices remain high due to high oil prices) would all point to even higher corn prices, especially if DDGS cannot be made more consistent and physically more attractive for hogs and poultry. Every forecast we have seen either assumes that weather will be "average" over the planning horizon or uses Monte Carlo estimations over the distribution of historic weather conditions. Both of those methods mask the one- or two-year effect of a severe drought such as the ones of 1983 or 1988 (the last severe drought suffered by the U.S.). And then there is the "up the ante" factor of proposals to increase the federal renewable fuels mandate to 12 or even 15 billion gallons. Those ideas have been thrown around by Senator Richard Lugar (R-IN) and Congressman Jim Nussle (R-IA and a candidate for Iowa's governorship) and others. Livestock industry participants, including those who trade CME livestock products have a vested interest in the policy debates and the continued development of this new usage for corn.

## U.S. CORN USAGE -- FAPRI



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