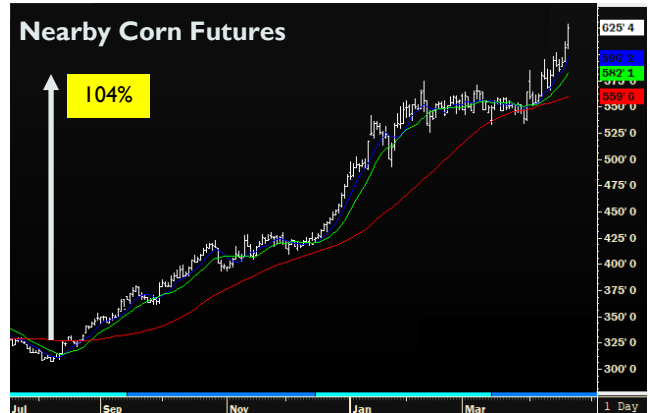


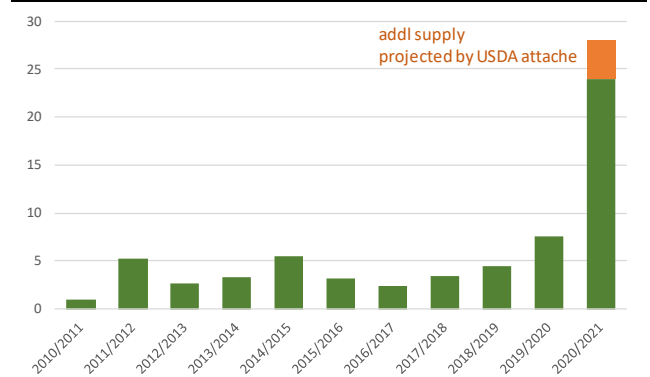
As corn and soybean farmers return to the fields and get ready to plant the new crop, **livestock producers are anxiously (and fearfully) watching grain futures climb to the highest levels in eight years.** Nearby corn futures settled on Wednesday at \$6.25/bu., 19 cents higher than the previous close and more than double where they were last summer. Soybean futures followed in lockstep, with the nearby May soybean contract just a hair below \$15 per bushel. Speculative fund buying was once again seen as a driver behind the most recent gains as market participants responded to reports that China was once again looking to buy more US corn. This follows on the heels of lower than expected planted acres intentions, ongoing uncertainty about the potential of second corn crop in Brazil and the risk of armed conflict in the Black Sea region. The situation in Brazil is of more immediate concern as Brazil accounts for 21% of exportable supply at 39 million MT compared to 68 million MT for the US. A Reuters wire story today noted that crop conditions in the second largest corn producing state in Brazil have declined sharply. The report notes that 62% of the corn crop in Parana (Brazil) is currently in good condition compared to 92% two weeks prior. This has been the second driest April in two decades and the fear is that the late planted crop and lack of moisture will significantly curtail yields. It is interesting to point out that recently Brazil suspended tariffs on corn and soybean imports, an acknowledgement of the tight supply situation and rampant inflation. Further adding fuel to the fire is ongoing speculation that China may import more corn than USDA is currently forecasting. A widely quoted report from the USDA attaché in China pegged Chinese corn imports at 28 million MT vs. 24 million MT in the latest USDA supply/demand table. Some market participants think that China supply deficit is even bigger and point to recent recommendations from the Chinese ag ministry to reduce corn use in livestock feed. While this is not seen as impacting demand much (if they could do it they would have already done so) but it is seen as an indication that supplies on the ground remain very tight.

The surge in corn and soybean prices is long term inflationary for meat prices by capping supply growth. In a normal year, gains in the value of the cutout and higher livestock prices would induce producers to expand. High feed costs tend to rise breakeven costs and remove some or all of that incentive. The Iowa State costing model of swine farrow/finish operations noted that in March producers made (on paper) close to \$30/head compared to losses or minimal gains in the previous three months. But expansion decisions are not made on one or even several profitable months. Rather they reflect longer term expectations. Producers should be solidly in the black through the summer with hog futures over \$100/cwt. But corn at +6 per bushel and soybean meal at +400 per ton puts breakevens in the mid 80s, a level that is not exactly comfortable. Lean hog prices for December are under \$78/cwt. There is also a lot of uncertainty about continued feed price inflation and the potential for domestic and export demand. For cattle producers, high feed costs and ample front end supplies have resulted in an uncomfortable squeeze, depressing fed cattle values in the near term as producers are forced to sell.

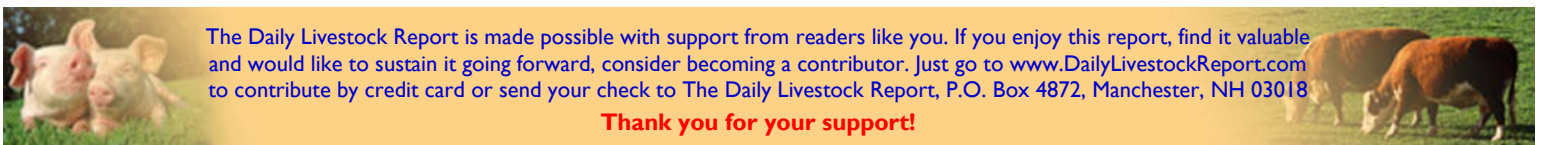
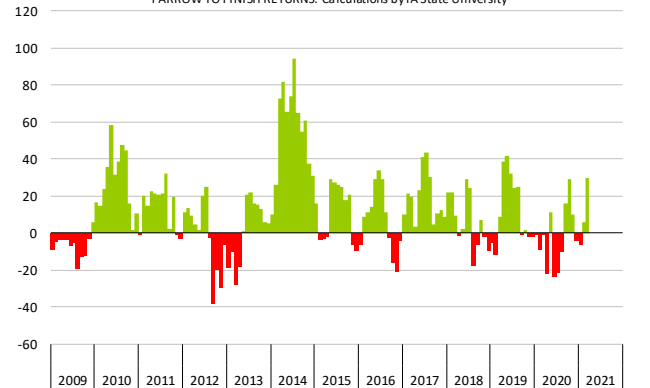


China Annual Corn Imports in Million MT

Source: USDA/FAS. Analysis by Steiner Consulting



HOG PRODUCER PROFITABILITY. Total Returns \$/head



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