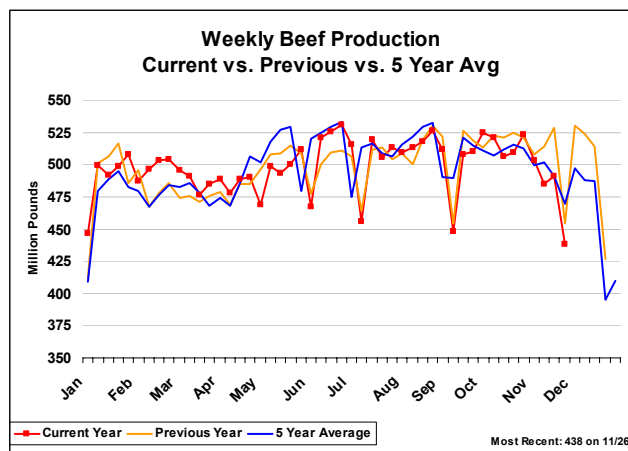


Livestock December, 2011

February cattle faced heavy selling pressures and weak cash markets for the week ending December 9th for its lowest close since June 15th. The market saw active long liquidation selling from fund traders to help drive the market lower. Demand remains a major concern with beef prices still at historically high levels. February cattle closed down 480 points for the week. Cash cattle traded at \$120.00 in the southern plains on December 9th, \$4-\$6 lower for the week. This, along with demand concerns due to bearish outside market forces, helped to drive February cattle as low as 116.85 on Monday, December 12th. February cattle typically trade at around a \$3.00 premium to the cash market at this time of the year, so the big discount is a surprise.

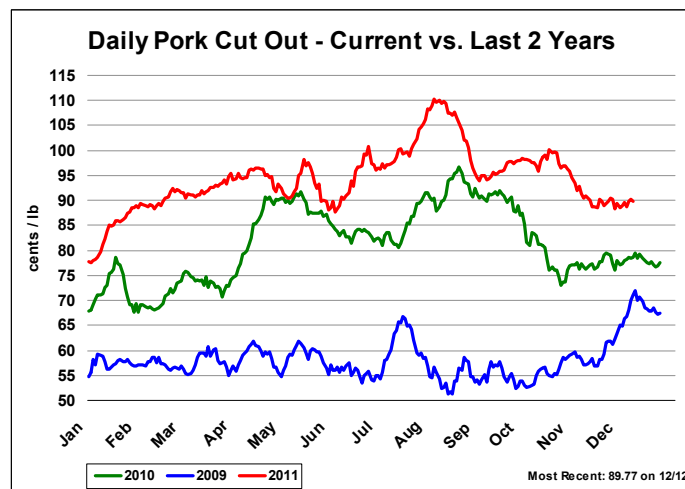


Beef production for the week ending December 10th was pegged at 502.4 million pounds, which is down 4.2% from last year. Boxed beef cutout values were at \$185.14, which was down from \$191.01 the prior week and was the lowest the beef market has been since October 24th.

The Commitments of Traders reports as of December 6th showed non-commercial traders were still net long a hefty 78,798 contracts, a decrease of 5,285 for the week. The selling trend is seen as a short-term negative force, and the net long still shows an overbought condition.

Bearish outside market forces that have traders nervous about demand have helped to spark the long liquidation selling from fund traders to pressure the market, despite what is considered a positive tilt to outside market forces. The market is pricing in a significant drop in cash cattle into the first quarter. This is a period of time when supply will continue to dwindle. There is also a shift to a smaller production base, which looks to enhance a normal up seasonal for this time frame.

U.S. beef export sales for the week ending December 1st came in at 15,700 metric tonnes, compared with the prior 4-week average of 11,025. Cumulative sales for 2011 have reached 825,500 metric tonnes, up 28.4% from last year's pace. Per capita available supply for 2012 is expected to drop to a multi-decade low of 54.1 pounds, down from 57.4 pounds in 2011 and 59.6 pounds in 2010.



A long liquidation selling trend drove the hog market sharply lower from a November 30th high of 92.37 for February hogs to a low of 85.70 on December 12th. Outside market forces have been negative for much of December, as Euro zone economic fears persist. The market's production peak for the year is due anytime now, and traders will need to absorb declining supply into the 1st quarter. However, record average weights and hefty short-term supply remain negative forces for the cash market. As the market is probing for a low, we find it interesting that pork production for the week ending December 10th was 484.7 million pounds, up 4.0% from last year. However, pork cutout values for the same week shifted from \$88.61 to \$90.24. This was seen as a positive development, as the market may have finally absorbed "peak" production and prices could react positively if supply tightens into the 1st quarter. The USDA sees a drop in production of 380 million pounds from the 4th quarter to the 1st quarter of 2012, which would be one of the largest adjustments lower on record and similar to the past two years. February hogs last year traded near 74.00 in early December and pushed to a contract high of 87.60 by the end of January. October pork exports came in at 482.4 million pounds, which is the second highest monthly total on record and up 42.25% from last year. Monthly exports in October represented 23.7% of total production. The Commitments of Traders reports as of December 6th showed non-commercial traders were net long 68,839 contracts, an increase of 3,491 for the week. The buying trend is seen as a short-term positive force.

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