



Fat Pigs Means Pork Bust as Record Herd Ends Rally: Commodities

By Elizabeth Campbell - May 1, 2012

The heaviest and most numerous U.S. pig population on record and rebounding Chinese output are creating a surplus that is poised to halt a four-year rally in prices.

U.S. farmers will raise 117.1 million [pigs](#) this year, the most in at least a half century, as world pork output gains 2.7 percent to an all-time high of 104.4 million metric tons, U.S. Department of Agriculture estimates show. China may produce 690 million hogs, the most since at least 1976. Prices may drop 10 percent to 77.75 cents a pound in [Chicago](#) by Dec. 31, according to the median of 10 analyst estimates compiled by Bloomberg.

Futures doubled in the past 30 months, and surging pork costs drove Chinese food-price inflation to 14.8 percent in July, more than twice the average over the past decade, data from the state-owned China Economic Information Network show. U.S. retail bacon reached a record \$4.84 a pound in June, a 34 percent gain in two years. Farmers responded by producing more, and carcass weights reached a 10-year high in April, generating a surplus of meat that will swell global stockpiles to the largest in five years, the USDA estimates.

"There's plenty of pork," said John Nalivka, a former USDA economist and the president of Sterling Marketing Inc., an agricultural economic research and advisory company in [Vale](#), [Oregon](#). "We're not running out of hogs."

Below High

Prices advanced 1.9 percent this year to 85.925 cents on the Chicago Mercantile Exchange as of 12:20 p.m., still 18 percent below the 25-year high of \$1.0435 reached in April 2011. The Standard & Poor's GSCI Agriculture Index of eight commodities fell 0.2 percent, while the MSCI All-Country World Index of equities jumped 10 percent. Treasuries returned 0.2 percent, a Bank of America Corp. index

shows.

[Hedge funds](#) and other speculators turned bearish on prices in the week ended April 24, for the first time since September 2009, U.S. Commodity Futures Trading Commission data show. They hold a net-short position of 772 futures and options, down from a net-long position of 80,349 in October, the data show.

Global pork production will exceed demand by 577,000 tons this year, the most since 1983, bringing stockpiles at the end of the season to 815,000 tons, USDA [estimates](#) show. The department raised its forecast for Chinese output by 320,000 tons to 51.6 million tons on April 17, implying a 4.2 percent increase year-on-year, after a 3.1 percent decline in 2011.

China Shipments

While Chinese pork imports will drop 14 percent to 650,000 tons this year, shipments will still be the third-highest on record, USDA data show. The decline in U.S. cargoes to the Asian nation that drove February exports to a seven-month low will most likely be temporary, said Brett Stuart, the co-founder of Global AgriTrends, a Denver-based meat research company.

The U.S. will sell 822 million pounds (373,000 tons) to [China](#) this year, compared with 816 million pounds in 2011, when shipments doubled, Global AgriTrends estimates. China imported 146,475 tons of pork in the first quarter, more than twice the amount a year earlier, customs data show.

The country will consume almost 52 million tons of pork this year, the most since at least 1975, USDA data show. Demand has been increasing by about 1 million tons a year over the past decade, equal to an extra 11 million hogs, "a very big challenge" to meet without imports, Stuart said.

Beef Alternative

U.S. demand may also accelerate as supplies of other meats decline. Beef production will drop 4.4 percent this year after a southern drought shrank the herd to its smallest since 1952, and chicken output will decline 1.8 percent, the USDA estimates. Retail ground-beef prices reached \$3.016 a pound in March, the highest since at least 1984, and chicken breasts rose to \$2.385 a pound, the most since November 2010, Bureau of Labor Statistics data show.

The U.S. reported its first case of [mad cow disease](#) in six years on April 24, after a dairy cow in [California](#) was found with the brain-wasting disease. It was the nation's fourth instance of bovine spongiform encephalopathy and the first since 2006. No meat entered the human food chain, the USDA said.

Cattle futures fell the most allowed by the CME before rallying for the next three days. [Canada](#), [Mexico](#), [Japan](#) and [South Korea](#), the four biggest buyers of U.S. beef, said they won't halt purchases, indicating no slump in beef sales or a surge in demand for alternative meats. The respondents in the Bloomberg survey on hog prices made few changes to their estimates after the BSE case was announced.

Hog Herd

The U.S. hog herd may get bigger next year as feed costs decline. Corn dropped 2.6 percent in Chicago this year on prospects for U.S. farmers planting the most acres since 1937. December futures, reflecting expectations for supply after the U.S. harvest, are trading at an 18 percent discount to grain for May delivery. Global production will jump 4.2 percent to a record 900 million tons in the next crop year, the London-based International Grains Council predicted April 2.

"It looks like feed costs are going to decline a great deal in the fourth quarter," said [Ron Plain](#), a livestock economist at the [University of Missouri](#) in Columbia who has studied the industry for three decades. "Farmers are likely to respond to that by increasing the sow herd late this year to give us more hogs in 2013, and therefore lower prices."

U.S. hog farmers will be profitable for a third consecutive year in 2012, encouraging them to expand, said [Mark Greenwood](#), who oversees \$1.4 billion in loans and leases to the industry as a vice president at AgStar Financial Services Inc. in Mankato, [Minnesota](#). The average producer will earn about \$8 to \$12 per hog this year, compared with \$15 to \$20 last year, he said.

Deli Meats

Commodity costs are "flattening out," and pork prices "are starting to come down," [Marcel Smits](#), the chief executive officer of [Sara Lee Corp. \(SLE\)](#), told analysts on a conference call Feb. 2. The [Downers Grove](#), Illinois-based company makes Ball Park frankfurters and deli meats.

The average U.S. hog [carcass](#) reached 212.56 pounds (96.4 kilograms) on April 12, the most in USDA data going back a decade. Animals are getting heavier after first-quarter temperatures were the highest on record, according to the [National Oceanic and Atmospheric Administration](#). If animals use less energy to keep warm, they put on more weight.

The USDA is looking for more pork out of the domestic herd because of “increased sow productivity,” the government said on April 17. The average number of pigs saved per litter in the three months ended Feb. 29 was 9.97, a record for the quarter, government data show.

Slowing Demand

The gains are coming at a time when the USDA is forecasting domestic consumption of 8.48 million tons, the second-lowest level in the past decade. Wholesale-pork prices fell to 76.53 cents a pound on April 18, the lowest since December 2010, and 31 percent below the record of \$1.1019 reached in August, USDA data show. Retail-bacon prices dropped 5 percent from last year’s record, government data show.

“Domestic demand has been underwhelming,” said Karl Skold, the president of Westside Economics, an Omaha, Nebraska- based food consultant, and a former head of commodity procurement at [ConAgra Foods Inc. \(CAG\)](#) “We’ll see a little bit more supply in the fourth quarter, and we’re not going to have quite as rosy demand as the current futures suggest.”