CME Group

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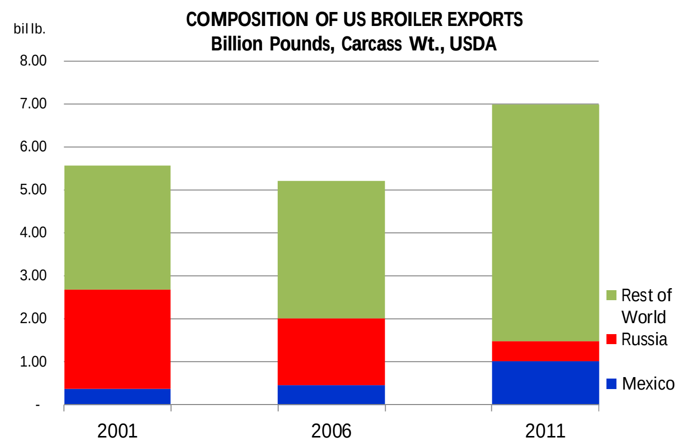
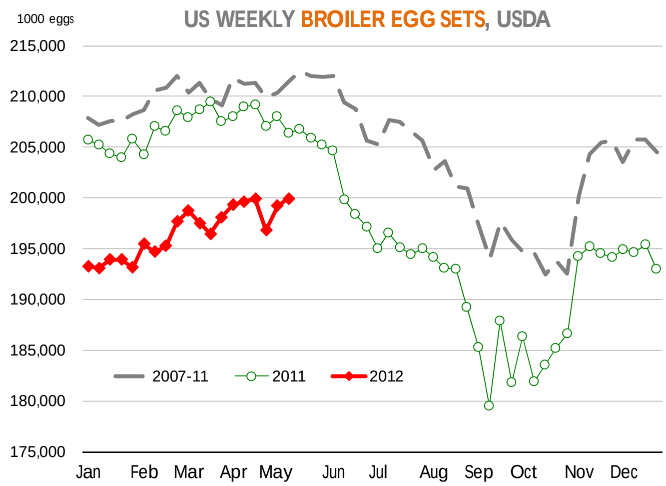
Market Comments

Mexico could imposed significant duties on US chicken leg quarters by August and this may have both short term and long term repercussions for US red meat and poultry prices. The issue was highlighted in recent days both because of an article from Dr. Hayes at Iowa State, pointing to the impact the decision could have on Mexican consumers, and the upcoming meetings in Mexico City regarding this issue. According to a preliminary decision by Mexican authorities in March, Mexico could impose tariffs of between 62.9% - 129.77% on US leg quarters, depending on the supplier and implied margin calculations. As for the volume impact, Dr. Hayes notes in his article that US companies shipped about 250,000 MT of leg quarters to Mexico in 2011. This was in addition to 328,000 MT of other poultry products. The study does not reference where this data came from but we suspect it is from Mexican import data. The USDA/FAS data shows exports of frozen US leg quarters to Mexico were 153,263 MT in 2011 with an additional 249,031 MT of fresh/chilled chicken cuts. It is likely that a portion of the chilled volume was leg quarters but we could not verify this based on available USDA numbers. Using the 250,000 MT figure from Dr. Hayes study, this would imply that the prohibitive tariffs on US chicken leg quarters in Mexico could reduce overall broiler meat shipments to this market by 55%, initially. Some of the lost leg quarter business will be replaced by shipping whole birds but even with this increase, it is possible that annual US broiler shipments to Mexico could decline by as much as 40% from 2011 levels. And as Mexican producers start increasing production in response to higher prices in the domestic market, US broiler shipments to Mexico may eventually be cut in half.

The top chart to the right puts these export discussions into perspective. US broiler exports to Mexico have been expanding in recent years, especially after Russia significantly curtailed the quota allocations for US poultry. So we can compare exports to US domestic production, we are presenting the export numbers on a carcass weight basis. In 2001, US producers exported 5.555 billion pounds of broiler meat, with Russia accounting for 41% of the total (2.3 billion pounds). By 2006, broiler shipments to Russia were down sharply, accounting for just 30% of the 5.2 billion pounds exported. Last year, US broiler exports were 6.990 billion pounds, with just 475 million pounds (7%) exported to Russia. US broiler exports to Mexico rose from around 456 million pounds in 2006 to about 1 billion pounds in 2011. Should US exports to Mexico return to 2006 levels, it would represent about 1% of estimated US broiler production for 2013. More importantly, this extra supply will come in the form of one singular product, leg quarters. Export markets take about 45% of all leg quarters produced in the US.





The long term ramifications of anti-dumping duties are significant. Other markets have sought, and in the case of South Africa implemented, anti-dumping tariffs on US leg quarters. The Mexican decision could set a precedent and other countries may impose similar tariffs unless challenged at WTO. In the short term, this could lead to lower prices for leg quarters in both domestic and export markets. Longer term, it could stunt the growth of the US broiler industry by further compressing producer margins.

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PRODUCTION & PRICE SUMMARY

Week Ending 5/12/2012

	Item	Units	Current Week	Last Week	Pct. Change	Last Year	Pct. Change	YTD	Y/Y % Change	Last 52 Weeks	Pct. Change
			12-May-12	5-May-12		14-May-11					
	Total Red Meat & Poultry	**mil lbs., cwe**	**1,704**	**1,699**	0.29%	**1,703**	0.10%	**30,997**	-2.5%	**87,974**	-1.3%
	FI Slaughter	Thou. Head	639	623	2.57%	650	-1.72%	11,567	-4.9%	32,955	-2.1%
C	FI Cow Slaughter **	Thou. Head	111	115	-3.03%	121	-8.28%	2,053	-2.9%	6,650	3.1%
A	Avg. Live Weight	Lbs.	1276	1279	-0.23%	1256	1.59%	1,298	1.4%	1,287	0.2%
T	Avg. Dressed Weight	Lbs.	777	780	-0.38%	761	2.10%	784	1.8%	778	0.4%
T	Beef Production	Million Lbs.	495.6	484.8	2.23%	493.2	0.49%	9,051	-3.1%	25,554	-1.7%
L	Live Fed Steer Price	$ per cwt	120.88	120.61	0.22%	113.16	6.82%				
E	Dressed Fed Steer Price	$ per cwt	192.16	192.96	-0.41%	183.12	4.94%				
	OKC Feeder Steer, 600-700	$ per cwt	N/A	N/A	N/A	137.50	N/A				
&	Choice Beef Cutout	$ per cwt	190.37	190.66	-0.15%	176.54	7.83%				
	Hide/Offal	$ per cwt, live wt	13.78	13.78	0.00%	13.56	1.62%				
B	Rib, Choice	$ per cwt	269.44	269.91	-0.17%	262.58	2.61%				
E	Round, Choice	$ per cwt	162.52	161.56	0.59%	154.06	5.49%				
E	Chuck, Choice	$ per cwt	158.29	158.08	0.13%	145.24	8.99%				
F	Trimmings, 50%	$ per cwt	70.19	83.47	-15.91%	102.10	-31.25%				
	Trimmings, 90%	$ per cwt	227.97	226.38	0.70%	198.35	14.93%				
	FI Slaughter	Thou. Head	2,089	2,069	0.97%	1,981	5.48%	40,397	1.5%	110,553	1.6%
	FI Sow Slaughter **	Thou. Head	57.8	56.0	3.25%	57.0	1.40%	947	-1.4%	3,014	2.8%
H	Avg. Dressed Weight	Lbs.	209.0	209.0	0.00%	207.0	0.97%	209	0.3%	206	0.1%
O	Pork Production	Million Lbs.	436.5	432.2	0.99%	409.1	6.70%	8,432	1.8%	22,752	1.8%
G	Iowa-S. Minn. Direct	Wtd. Avg.	77.14	77.33	-0.25%	90.62	-14.88%				
S	Natl. Base Carcass Price	Wtd. Avg.	79.56	80.94	-1.70%	87.98	-9.57%				
	Natl. Net Carcass Price	Wtd. Avg.	81.74	83.18	-1.73%	90.83	-10.01%				
	Pork Cutout	185 Lbs.	79.23	78.22	1.29%	93.08	-14.88%				
	Hams	$ per cwt	66.13	64.68	2.24%	75.29	-12.17%				
	Loins	$ per cwt	98.82	97.27	1.59%	107.57	-8.13%				
	Bellies	$ per cwt	85.38	84.04	1.59%	122.93	-30.55%				
C	Young Chicken Slaughter *	Million Head	151.7	152.8	-0.70%	159.1	-4.61%	2,706	-5.6%	7,926	-4.8%
H	Avg. Weight	Lbs.	5.79	5.85	-1.03%	5.79	0.00%	5.74	0.5%	5.74	1.4%
I	Chicken Production	Million Lbs.	878.4	893.8	-1.72%	920.9	-4.61%	15,528	-5.1%	45,525	-3.4%
C	Eggs Set	Million	199.2	196.8	1.21%	208.0	-4.22%	3,536	-5.1%	10,120	-5.6%
K	Chicks Placed	Million Head	166.1	166.9	-0.46%	172.5	-3.69%	2,939	-3.9%	8,436	-4.5%
E	12-City Broiler Price	Composite	89.89	86.87	3.48%	82.34	9.17%				
N	Georgia Dock Broiler Price	2.5-3 Lbs.	93.45	92.45	1.08%	85.61	9.16%				
	Northeast Breast, B/S	$/cwt	144.76	136.58	5.99%	132.01	9.66%				
	Northeast Legs	$/cwt	69.58	75.73	-8.12%	69	0.84%				
T	Young Turkey Slaughter *	Million Head	4.527	4.588	-1.33%	4.497	0.67%	77.654	0.0%	230.857	-0.4%
U	Avg. Live Weight	Lbs.	31.30	30.5	2.62%	30.45	2.79%	30.09	-1.0%	29.98	1.8%
R	Turkey Production, Live Wt.	Million Lbs.	141.7	139.9	1.26%	136.9	3.48%	2,336	-1.0%	6,905	1.4%
K	Eastern Region Hen Price	8-16 Lbs.	108.50	108.50	0.00%	100.25	8.23%				
G	Corn, Omaha	$ per Bushel	6.17	6.37	-3.14%	6.76	-8.73%				
R	DDGs, Minnesota	$ per Ton	208.50	207.50	0.48%	192.50	8.31%				
A	Wheat, Kansas City	$ per Bushel	5.74	5.95	-3.53%	8.00	-28.25%				
I	Soybeans, S. Iowa	$ per Bushel	14.62	14.80	-1.22%	13.53	8.06%				
N	Soybn Meal, 48% Decatur	$ per Ton	421.60	421.90	-0.07%	341.30	23.53%				

* Chicken & turkey slaughter & production are 1 week earlier than the date at the top of this sheet.

** Cow and sow slaughter reflect levels from two weeks ago due to reporting lag.