

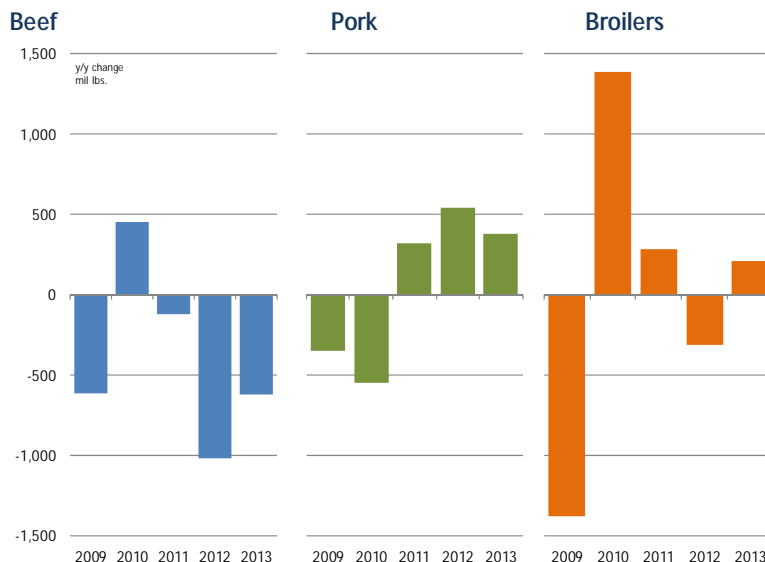
## Market Comments

Spreading drought conditions prompted a number of changes to the latest USDA estimates of corn, soybean and wheat production. But even as USDA reduced corn feed use by some 650 million bushels (12%), the changes to forecasted beef, pork and poultry output were more muted. This is in part because the earlier June meat forecasts were not as aggressive as the grain estimates (e.g. 166 bu/acre). USDA made modest adjustments to its forecasts for beef production in 2012 and 2013 and the overall trend continues to be towards steady reductions in both beef output and per capita disappearance. Broiler and pork production is expected to increase, albeit at a slower pace than earlier expected. Below is a recap of the latest USDA projections:

**Beef:** USDA currently projects total US beef production for 2012 at 25.274 billion pounds, 1.018 billion pounds or 3.9% lower than the previous year. This projection is about 90 million pounds higher than the June number, in part due to more cows now forced to slaughter from deteriorating pasture conditions. The forecast is for 2013 beef production to be 24.656 billion pounds, 618 million pounds or 2.4% lower than in 2012. USDA made only modest changes to US beef trade forecasts. The latest estimate is for beef exports in 2012 to be 2.588 billion pounds, some 200 million pounds or 7.2% lower than a year ago. Beef export data through May showed exports were down 10% from a year ago and USDA does not expect a major recovery in US beef exports in the second half of the year. High prices, a stronger US dollar and slower global economic growth is seen keeping US beef exports in check. Currently USDA is forecasting US beef exports in 2013 to increase by 2.4% but it will largely depend on how the broader global economy progresses, particularly in emerging markets. A stronger US dollar has been an impediment so far this year and it will remain a key driver going forward. Per capita beef disappearance has been on a downtrend for more than a decade and the latest balance table continues to show further erosion in beef supply availability in the domestic market. Per capita consumption in 2012 is forecast at 56.1 lb/person, down 2.1% from the previous year. Per capita beef disappearance is expected to decline another 2.9% from a year ago. Since 2007, just before the bottom fell out of the housing market, US per capita beef disappearance is down 17%. And with ongoing liquidation of the beef cow herd, it will be very difficult to increase beef production any time soon.

## Year/Year Change in Beef, Pork and Broiler Production

Based on Jul 2012 WASDE Est., Million Pounds, CWE



**Pork & Broilers:** As corn futures are flirting with \$8 per bushel and projections of hog breakevens surge higher, USDA expects US pork supplies to increase both in 2012 and 2013. Total pork production for 2012 is forecast at 23.315 million pounds, some 540 million pounds or 2.4% higher than a year ago. The forecast was slightly lower than the June estimate. USDA now is forecasting pork production for 2013 to be 23.697 billion pounds, 1.6% higher than a year ago. USDA shaved almost half a percentage point from its previous forecast but will likely wait until the feed supply picture becomes clearer before being more aggressive in projecting pork supplies for next year. Pork exports remain the big story as they now account for about 22% of US pork production. The forecast is for pork exports in 2012 to be 5.404 billion pounds, 4.1% higher than a year ago. Exports are expected to be less than 1% higher in 2013. As for broiler production, this remains the biggest wild card given the dramatic increase in both corn and soybean meal prices. USDA did not change its estimate for broiler production in 2012, pegging it at 36.495 billion pounds, 0.8% lower than a year ago. However, USDA reduced expected broiler output for 2013 by almost 400 million pounds, now forecasting just a 0.6% increase from 2012.

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