

Market Comments

The USDA report issued on Friday contained a number of big revisions to the projections for both corn supply and use for next year. The USDA **estimate for corn yields** was below the average of analyst expectations and some **22.6 bushels per acre or 15% lower than the July estimate**. This was one of the largest one month revisions in yields and indicative of the sharp deterioration in corn crop conditions during late June and for much of July. While some analysts caution that the final crop may be even worse than the current USDA estimates indicate, current yields may end up being relatively close to the final numbers that will be tabulated at the end of the year. One item that may end up changing is the estimate of corn acres which will not be harvested. USDA lowered the number of harvested acres by 1.5 million acres but that was on the high side of pre-report estimates. The current projected ratio of harvested to planted acres is 90.7%, compared to 91.4% a year ago. In 1988, the year often compared to the current drought ravaged corn, the ratio of harvested to planted acres was 86% while in 1983 (another major drought year) the ratio was 85.5%. The ratio of harvested to planted acres has been trending higher in the last 20 years. Yet, some analysts expect the final number of harvested acres to be smaller than the current estimate. A ratio of 88%, 2 percentage points higher than in 1988 to account for the trend, would peg total harvested acres at 84.8 million, about 2.6 million acres lower than the current USDA estimate, the equivalent of 317 million bushels of corn. With a balance sheet projecting minimum pipeline supplies, any further reductions in corn production could put significant upward pressure on corn prices.

Markets will continue to focus on the supply picture in the short term. **Resolving the demand side of the equation will be especially challenging given the level of demand reductions needed across the board.** USDA lowered corn use across the three main use categories, feed, ethanol and exports. Feed demand is expected to be hit the most, with corn use expected to decline some 725 million bushels from the July estimate and now down 475 million bushels (10.4% from a year ago). Some have argued that the impact of the corn supply reductions on feed demand will not be as severe because part of the ethanol use will flow back into feed via ethanol by-products, such as DDGs. The argument is that for three bushels of corn used to make ethanol, one bushel goes back into the feed supply via DDGs. USDA projects corn use for ethanol in 2012/13 at 4.5 billion bushels, about 725 million bushels less than in the July report and some 475 million bushels less than a year ago. The combined corn feed/ DDG supply in 2011/12 is cal-

USDA/WASDE Corn Supply/Demand Estimates

	2011/12 USDA Estimate	2012/13 Projection		Change vs. Jul.
		USDA July Est	USDA Aug Est	
million acres				
Planted	91.9	96.4	96.4	0.0
Harvested	84.0	88.9	87.4	-1.5
bushels				
Yield	147.2	146.0	123.4	-22.6
million bushels				
Beginning stocks	1,128	903	1,021	118
Production	12,358	12,970	10,779	-2191
Imports	25	30	75	45
Supply, total	13,511	13,903	11,875	
Feed and residual	4,550	4,800	4,075	-725
Ethanol for fuel	5,000	4,900	4,500	-400
Food, seed, other	1,390	1,420	1,350	-70
Domestic use, total	10,940	11,120	9,925	-1,195
Exports	1,550	1,600	1,300	-300
Use, total	12,490	12,720	11,225	-1,495
Ending stocks	1,021	1,183	650	-533
Stocks/Use	8.2%	9.3%	5.8%	

culated at 6.05 billion bushels of corn equivalent (4.55 corn + (5 ethanol * 30% DDG). In 2012/13, that corn/DDG supply is estimated at 5.425 billion bu. corn equivalent, a 10.3% reduction. Even when accounting for DDGs, there is no escaping the dramatic impact that the short corn crop will have on the livestock and poultry sector. The USDA estimate of a 10% reduction in ethanol use does not reflect expectations for a waving of the ethanol mandate, USDA never makes such speculation in their estimates. Rather, it reflects the expected impact of higher corn prices on ethanol profits and the use of stockpiled Renewable Identification Numbers (RINs) by refiners. By some estimates, there are about 1 billion bu. corn equivalent of such numbers out there. USDA also expects corn exports to decline some 250 million bushels or 16% from a year ago. There have been some reports of major corn export shipments recently and it remains to be seen how world buyers respond. Wheat world supplies are not as abundant and are much more expensive than they were a year ago.

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PRODUCTION & PRICE SUMMARY

Week Ending 8/11/2012

Item	Units	Current Week	Last Week	Pct. Change	Last Year	Pct. Change	YTD	Y/Y %
		11-Aug-12	4-Aug-12		13-Aug-11			
Total Red Meat & Poultry	mil lbs., cwe	1,693	1,689	0.20%	1,686	0.41%	52,875	17.0%
C FI Slaughter	Thou. Head	639	647	-1.24%	665	-3.94%	19,871	-4.2%
A FI Cow Slaughter **	Thou. Head	122	132	-7.87%	128	-4.96%	3,567	-3.2%
T Avg. Live Weight	Lbs.	1300	1300	0.00%	1267	2.60%	1,296	1.7%
T Avg. Dressed Weight	Lbs.	791	792	-0.13%	774	2.20%	786	2.0%
T Beef Production	Million Lbs.	504.0	511.4	-1.45%	513.4	-1.83%	15,585	-2.2%
L Live Fed Steer Price	\$ per cwt	119.16	117.61	1.32%	116.12	2.62%		
E Dressed Fed Steer Price	\$ per cwt	188.78	184.95	2.07%	184.78	2.16%		
& OKC Feeder Steer, 600-700	\$ per cwt	N/A	140.88	N/A	135.93	N/A		
& Choice Beef Cutout	\$ per cwt	181.46	177.88	2.01%	176.65	2.72%		
	\$ per cwt, live wt	13.26	13.26	0.00%	13.61	-2.57%		
B Rib, Choice	\$ per cwt	268.41	261.70	2.56%	247.06	8.64%		
E Round, Choice	\$ per cwt	161.51	158.92	1.63%	158.22	2.08%		
E Chuck, Choice	\$ per cwt	146.59	142.86	2.61%	144.20	1.66%		
F Trimmings, 50%	\$ per cwt	43.19	44.05	-1.95%	88.03	-50.94%		
	\$ per cwt	207.84	206.90	0.45%	178.54	16.41%		
H FI Slaughter	Thou. Head	2,031	2,025	0.30%	2,041	-0.50%	66,078	1.2%
H FI Sow Slaughter **	Thou. Head	61.4	56.5	8.76%	58.3	5.38%	1,669	-1.7%
O Avg. Dressed Weight	Lbs.	201.0	202.0	-0.50%	198.0	1.52%	207	0.4%
O Pork Production	Million Lbs.	408.7	408.4	0.07%	404.6	1.01%	13,664	1.7%
G Iowa-S. Minn. Direct	Wtd. Avg.	91.12	92.52	-1.51%	103.99	-12.38%		
S Natl. Base Carcass Price	Wtd. Avg.	91.54	92.41	-0.94%	100.58	-8.99%		
	Wtd. Avg.	93.99	94.90	-0.96%	103.75	-9.41%		
	185 Lbs.	93.00	92.76	0.26%	109.83	-15.32%		
	Hams	\$ per cwt	77.01	-0.72%	89.29	-13.75%		
	Loins	\$ per cwt	98.78	-0.92%	130.33	-24.21%		
	Bellies	\$ per cwt	152.73	2.65%	157.45	-3.00%		
C Young Chicken Slaughter *	Million Head	154.9	157.2	-1.44%	158.7	-2.37%	4,716	-4.7%
H Avg. Weight (Live)	Lbs.	5.75	5.60	2.68%	5.62	2.31%	5.72	-0.1%
I Chicken Production (RTC)	Million Lbs.	672.5	664.6	1.20%	664.4	1.23%	20,305	-3.8%
C Eggs Set	Million	195.3	196.3	-0.51%	195.0	0.16%	6,106	-3.5%
K Chicks Placed	Million Head	163.6	161.3	1.46%	164.1	-0.26%	5,089	-3.0%
E 12-City Broiler Price	Composite	80.61	79.87	0.93%	80.61	0.00%		
N Georgia Dock Broiler Price	2.5-3 Lbs.	93.85	93.81	0.04%	86.2	8.87%		
	\$/cwt	135.46	136.2	-0.54%	123.14	10.00%		
	\$/cwt	65.88	64.29	2.47%	63.41	3.90%		
T Young Turkey Slaughter *	Million Head	4.670	4.418	5.70%	4.487	4.08%	135.742	-0.2%
U Avg. Live Weight	Lbs.	28.80	29.71	-3.06%	28.84	-0.14%	30.08	0.1%
R Turkey Production (RTC)	Million Lbs.	107.5	104.9	2.46%	103.5	3.90%	3,322	N/A
K Eastern Region Hen Price	8-16 Lbs.	107.70	108.12	-0.39%	105.00	2.57%		
G Corn, Omaha	\$ per Bushel	8.21	7.99	2.75%	7.20	14.03%		
R DDGs, Minnesota	\$ per Ton	302.50	302.50	0.00%	182.50	65.75%		
A Wheat, Kansas City	\$ per Bushel	8.66	8.69	-0.35%	7.66	13.05%		
I Soybeans, S. Iowa	\$ per Bushel	16.96	17.02	-0.35%	13.44	26.19%		
N Soybn Meal, 48% Decatur	\$ per Ton	561.20	554.70	1.17%	340.40	64.86%		

* 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.