CME Group

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Federally-inspected hog slaughter continued to run WELL ABOVE levels suggested by the June Hogs and Pigs report last week with 2.282 million head moving to U.S. processing facilities. That number is 6.8% higher than one year ago and marks the third straight week in which hog slaughter has exceeded 2011 levels by 6% or more. Our calculations based on the June market hog inventory data suggested that slaughter the past three weeks would exceed last year's levels by 1.4%. The difference is clearly significant.

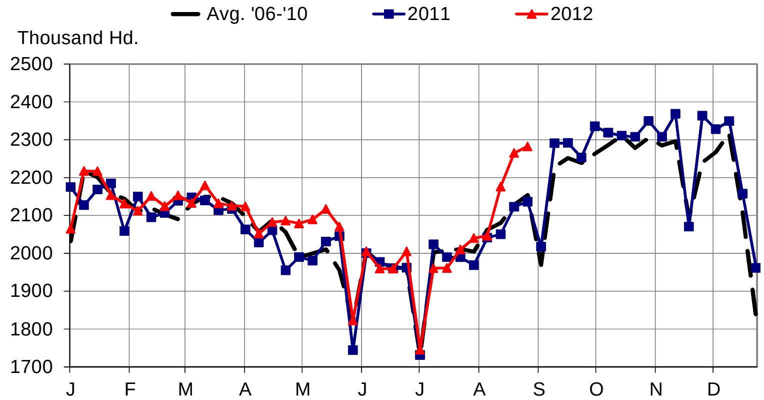
There is still some differences of opinion about this huge surge of pigs with market bears claiming that this is the first of a larger seasonal wave of pigs and market bulls seeing this is a monumental effort to reduce feed costs and losses by selling hogs early. Until last week, the bears likely had the upper hand in the discussion simply because weights were not falling as one would expect if the driver of this surge was an effort to move hogs quicker. The confounding factor, of course, was cooler weather which would have spurred feed consumption and thus growth rates perhaps enough to overcome the effort to get the pigs moved lighter.

Last week provides a new piece of ammo for the bulls, though, in that weights actually dropped for the first time since the normal summer swoon ended in mid-July. The decline was only 0.51 pounds – not a huge reduction by any means. One could easily conclude the drop was driven by slightly higher temperatures if it had not been accompanied by such large, unexpected slaughter numbers. We think the weight drop confirms that producers are trying to reduce weights, reduce costs and save feed for the future and that, therefore, these pigs are being draw out of supplies that would have come later this fall.

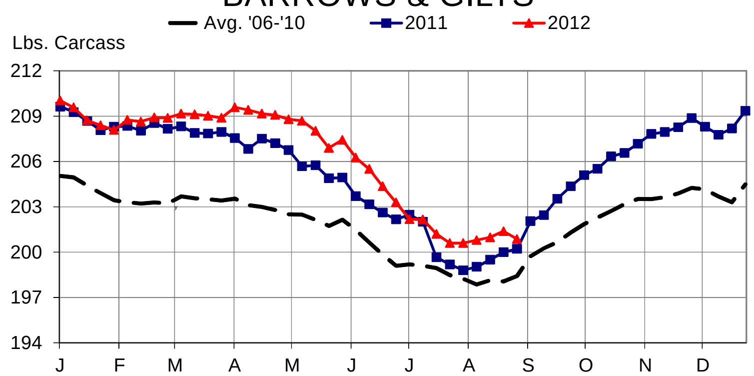
FI slaughter has exceed the levels we had forecast for the past three weeks by just over 225,000 head. We doubt seriously that slaughter will return to predicted levels soon even though last week's increase was MUCH smaller than those of the previous two weeks. Let's assume that it drops linearly relative to 2011 until it is at the expected level at the beginning of October. That would add another 230,000 to the "overrun" and mean that Q4 slaughter may be 455,000 head or 1.5% lower than was forecast by the June report.

The longer-term outlook for the pork industry is still very much a toss-up at this time but USDA's weekly sow purchase data suggest that producer are biding their time. Purchase data through Thursday suggest that the number of sows moving to plants covered by USDA's mandatory price reporting system will increase by about 1500 from the week before. The expected level of 46,725 head implies actual sow slaughter of just over 60,000 last week, almost exactly the number that moved to plants one year ago. And that after the week of August 24 which appears to have been much smaller than last year. One of our contacts reported that his southern Minnesota sow buyer was taking any sows that wanted to come with no waiting at all. That may not be universal but it is a far different story than we were hearing in July. Remember that, as far as we know at this time, this is a one time, short crop situation. As such, most everyone would like to keep breeding herds intact. Sows bred from August through early October will produce pigs that will sell in June through August — and those LH contracts closed Friday at $100.15, $99.78 and $98.40, respectively.

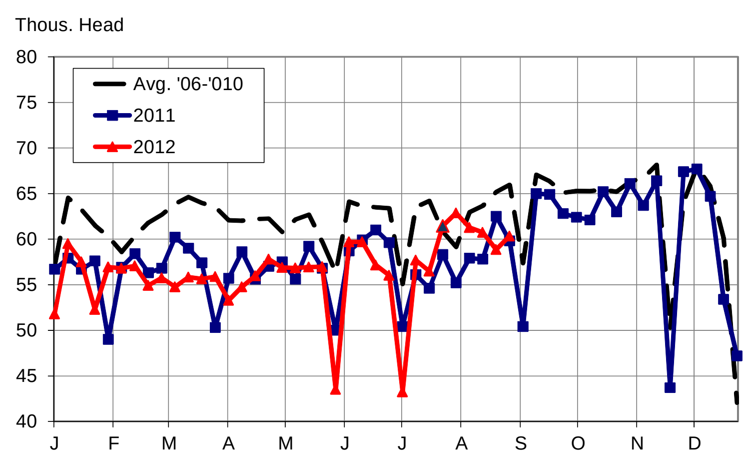
FI HOG SLAUGHTER



AVG. WT., PRODUCER-SOLD BARROWS & GILTS



FI SOW SLAUGHTER, U.S.



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PRODUCTION AND PRICE SUMMARY

Week Ending 9/1/2012

	Item	Units	Current Week	Last Week	Pct. Change	Last Year	Pct. Change	YTD	Pct. Change
	Total Meat & Poultry Prod.	**Million lbs.**	**1757.0**	**1737.6**	**1.12%**	**1696.4**	**3.57%**	**58,110**	**-1.24%**
C	FI Slaughter	Thou. Head	641	653	-1.84%	663	-3.36%	21,806	-4.15%
A	FI Cow Slaughter	Thou. Head	121.5	118.1	2.93%	133.2	-8.75%	3,928	-3.65%
T	Avg. Live Weight	Lbs.	1300	1303	-0.23%	1275	1.96%	1,296	1.77%
T	Avg. Dressed Weight	Lbs.	794	793	0.13%	774	2.58%	787	2.03%
L	Beef Production	Million Lbs.	507.7	516.9	-1.78%	511.4	-0.72%	17,121	-2.07%
E	Live Fed Steer	$/cwt live wt.	119.53	120.25	-0.60%	113.37	5.43%		
	Dressed Steer	$/cwt carcass	188.76	187.46	0.69%	180.51	4.57%		
&	OKC Feeder Steer	600-700 Lbs.	144.32	143.93	0.27%	140.66	2.60%		
	Beef Cutout	600-750 Choice	191.05	193.47	-1.25%	183.22	4.27%		
B	Hide/Offal	$/cwt live wt.	13.46	13.31	1.13%	13.43	0.22%		
E	Rib	Choice	292.85	290.71	0.74%	258.91	13.11%		
E	Round	Choice	166.72	168.68	-1.16%	165.77	0.57%		
F	Chuck	Choice	158.70	159.07	-0.23%	152.33	4.18%		
	Trimmings, 50%	Fresh	58.92	59.23	-0.52%	95.15	-38.08%		
	Trimmings, 90%	Fresh	215.22	213.06	1.01%	179.10	20.17%		
H	FI Slaughter	Thou. Head	2282	2265	0.75%	2136	6.82%	72,831	1.75%
O	FI Sow Slaughter	Thou. Head	60.7	61.3	-0.87%	57.8	5.07%	1,854	-0.79%
G	Avg. Dressed Weight	Lbs.	201	201	0.00%	199	1.01%	206	0.45%
S	Pork Production	Million Lbs.	458.2	454.3	0.86%	425.7	7.63%	15,017	2.21%
	Iowa-S. Minn. Direct	Avg.	75.51	82.39	-8.30%	85.67	-11.90%		
&	Natl. Base Carcass Price	Weighted Avg.	81.14	85.89	-5.50%	91.58	-11.40%		
	Natl. Net Carcass Price	Weighted Avg.	83.53	88.38	-5.50%	94.40	-11.50%		
P	Pork Cutout	185 Lbs.	82.73	88.23	-6.20%	97.02	-14.70%		
O	Hams	Primal Cutout	65.06	68.16	-4.60%	83.09	-21.70%		
R	Loins	Primal Cutout	92.25	96.68	-4.60%	117.01	-21.20%		
K	Bellies	Primal Cutout	124.60	140.60	-11.40%	114.13	9.20%		
C	Young Chicken Slaughter*	Million Head	157.80	157.87	-0.05%	157.22	0.37%	5,188	-4.25%
H	Avg. Weight	Lbs., RTC	4.31	4.19	2.84%	4.19	2.84%	4.3	-0.07%
I	Broiler Production	Million Lbs., RTC	680.7	662.2	2.80%	659.4	3.22%	22,330	-3.28%
C	Eggs Set	Million	191.7	192.0	-0.11%	193.0	-0.65%	6,683	-3.25%
K	Chicks Placed	Million Head	161.8	162.4	-0.38%	162.9	-0.69%	5,576	-2.73%
E	12-City Broiler	Composite	84.33	85.55	-1.40%	78.74	7.10%		
N	Georgia Dock Broiler	2.5-3 Lbs.	94.55	94.26	0.30%	87.02	8.70%		
	Northeast Breast	Skinlss/Bonelss	151.46	143.48	5.60%	134.49	12.60%		
	Northeast Legs		70.66	68.48	3.20%	71.91	-1.70%		
T	Young Turkey Slaughter*	Million Head	4.67	4.48	4.34%	4.46	4.78%	149.5	-0.27%
U	Avg. Weight	Lbs.	23.66	23.29	1.58%	22.41	5.57%	24.4	1.94%
R	Turkey Production	Million Lbs.	110.4	104.2	5.98%	99.9	10.61%	3,643	1.83%
K	Eastern Region Hen	8-16 Lbs.	107.57	111.65	-3.70%	107.4	0.20%		
F	Corn, Omaha	$ per Bushel	0.00	8.22	-100.00%	7.27	-100.00%		
E	DDGS, Minnesota	$ per ton	0.00	296.50	-100.00%	187.50	-100.00%		
E	Wheat, Kansas City	$ per Bushel	8.59	8.49	1.18%	8.25	4.12%		
D	Soybeans, S. Iowa	$ per Bushel	18.15	17.80	1.97%	14.37	26.30%		
	SB Meal, 48% Central Illinois	$ per Ton	579.10	566.30	2.26%	368.60	57.10%		

* Chicken & turkey slaughter, production and prices are 1 week earlier than the date at the top of this table. Cow & sow slaughter are for 2 weeks earlier