

CME GROUP DAILY LIVESTOCK REPORT
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Profits in the pork and cattle feeding sectors have been hard to come by in recent months and recent changes in both grain and market animal prices suggest that they may not be just around the corner in 2009.

The graphs at right contain historical cost and price data as well as estimated costs.

The top graph is based on Iowa State University's Estimated Returns for Iowa Farrow-to-Finish Operations.

Note that the blue line represents ISU's actual cost estimates while the red line is a prediction equation using corn and soybean meal futures lagged 1 and 6 months and a time variable as the independent variables. The prediction equation has an R-square of 0.97 meaning that it explains 97% of the historic variability in ISU's cost estimates. The green line is for Iowa-Minnesota butcher hog prices. The losses of late 2007 and most of 2008 are apparent from the relationships between the price and cost lines. Only last summer's impressive and rather unexpected hog price rally prevented 2008 from being even worse.

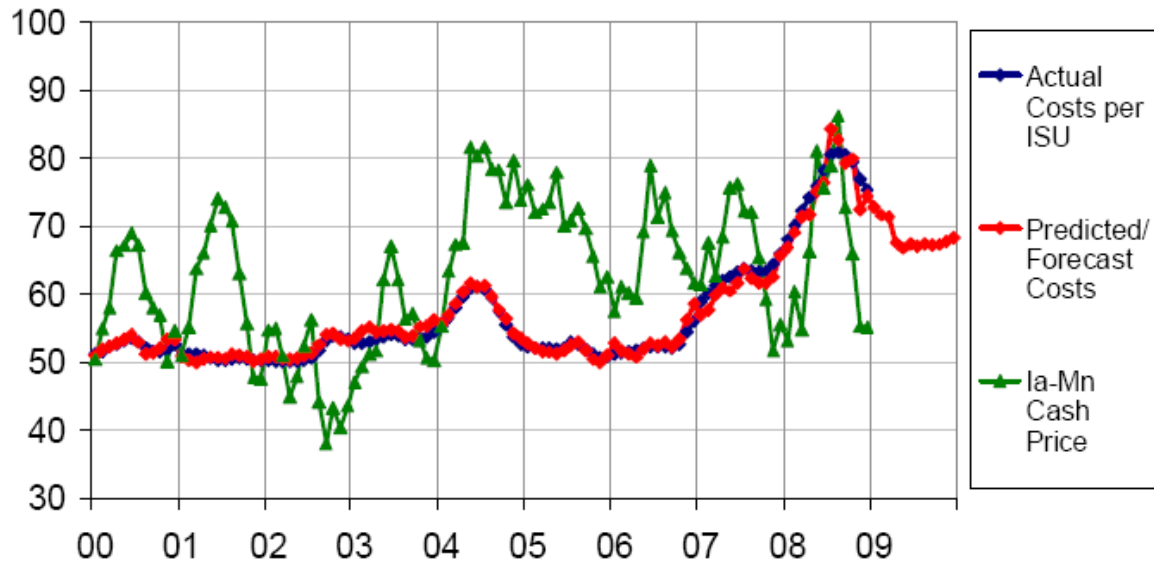
Hog production costs have fallen sharply since last summer when they peaked out in the low \$80s for pigs sold in July and August. The reason, of course, is the sharp reduction in grain prices since a) the 2008 crop became obviously adequate and b) oil prices fell by over \$100/barrel. **Projected production costs for 2009 are in the \$67—\$69/cwt carcass range using corn and meal prices from Monday. At the time of last summer's cost peak, futures prices for corn and beans implied breakeven costs for 2009 above \$90/cwt carcass.**

But don't let the cost decline, though significant and VERY welcome by pork producers, distract you from the fact that 2009 breakeven costs are still nearly \$20/cwt carcass above the pre-2007 "normal" level of \$52—\$54.

ACTUAL & PREDICTED HOG PRODUCTION COSTS* AND PRICES

\$/cwt carcass

2/9/09



*Based on relationship between ISU Estimated Costs & Returns data and historic Omaha corn and Decatur soybean meal prices