

Daily Livestock Report

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Market Comments

Notice: On page 2 of the DLR we have included a special CME notice regarding the daily price limit for bellies in Q4. The price limit for the upcoming quarter will be determined on the basis of the closing futures price on September 30. See page 2 for full details and implementation.

On Friday, September 25, USDA will issue its **quarterly update of the inventory of hogs and pigs in US operations**, providing a gauge not only of current hog supplies but also estimates of hog and pork production in 2010. Based on a survey of analysts conducted by Reuters, the expectation is for overall hog inventories to be down 1.7% from a year ago, with market hogs down by a similar amount and the breeding herd also down 2.7%. On the latter, there continues to be plenty of disagreement and this is reflected in the wide divergence of opinions. The current average of estimates indicates that the breeding stock as of September 1 is expected to be down by a similar amount as in the June survey (-2.7%). Those that hold a more bearish view of the market likely will point out that despite much talk, US producers continue to be reluctant to sharply cut back the production base, be this because of large sunk in investments, hopes for a rebound or lower grain prices in July and August. They also point to the fact that a significant number of sows during the recent increase in sow slaughter are Canadian animals rather than US stock. More bullish analysts, on the other hand, note that many producers had little choice but to liquidate, following a prolonged period (20 of 22 months) of losses.

One item that will also likely get much attention is the **estimate for the pig crop** in the June - August period. That estimate will be a function of both farrowings and pigs per litter. The average of analysts' estimates indicates that the pig crop will be down 1.8% from the previous year, a much needed reduction but likely smaller than those calling for a significant reduction had hoped for. As we have noted many times before, the steady gains in productivity have offset much of the decline in sow numbers. Indeed, the pig crop may end up being even larger as pigs per litter in recent quarters have increased by more than 1.4% (the current estimate for Jun - Aug). Overall, the estimates do not paint a very bullish picture for pork going forward.

Estimates of the USDA September 1 Hogs & Pigs Inventory

Based on survey of analysts from Reuters

	Average	Range
All hogs Sept. 1	98.3	97.4 - 99.0
Kept for breeding	97.3	96.6 - 98.2
Kept for market	98.3	97.4 - 99.1
<u>Market Hogs by Weight Group</u>		
over 180 lbs	98.9	97.0 - 100.9
120 -179 lbs	98.7	98.0 - 99.8
60 - 119 lbs	98.4	98.0 - 99.2
Under 60 lbs	98.3	97.0 - 99.0
<u>Pig crop</u>		
June-August	98.2	96.8 - 99.5
<u>Farrowings</u>		
June-August	96.8	96.0 - 97.5
<u>Farrowing intentions</u>		
September-November	97.3	96.5 - 98.0
December-February	97.0	96.5 - 97.5
<u>Pigs per litter</u>		
June-August	101.4	100.4 - 102.4

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Special Executive Report

S-5012

September 23, 2009

DAILY PRICE LIMITS FOR PORK BELLIES SUBJECT TO CHANGE

Per Rule 15102.D, the daily price limits for CME Frozen Pork Bellies futures are set for a calendar quarter based on the settlement price for the contract nearest to expiration on the last business day of the prior quarter. The regular price limit is \$.02 per pound (expandable to \$.03) if that settlement price is below \$.60 per pound or \$.03 per pound (expandable to \$.045) if that settlement price is equal to or above \$.60 per pound.

The settlement price for the February 2010 contract month on Wednesday, September 30, 2009, will be used to determine the regular daily price limit for all contract months during the fourth quarter (October through December) of this year. At the present time, the daily price limit is \$.02 per pound (expandable to \$.03). **If the settlement price of the February 2010 contract on September 30 is above \$.60 per pound, then the daily price limit for all contract months will increase to \$.03 per pound (expandable to \$.045) beginning on Thursday, October 1, 2009.**

A determination will be made for daily price limits in the first quarter of 2010 using the settlement price for the February 2010 contract month on Thursday, December 31, 2009.

FROZEN PORK BELLIES FUTURES

15102. FUTURES CALL

D. Daily Price Limits

There shall be no trading at a price more than \$.020 or \$.030 or \$.045 per pound above or below the previous day's settlement price, as described below.

The regular daily price limit shall be set at the beginning of each calendar quarter based upon the settlement price of the contract nearest to expiration on the last business day of the prior calendar quarter. If the contract nearest to expiration settles at a price below \$.600 per pound on that day, the regular daily price limit for all contracts shall be \$.020 per pound for the following quarter. If the contract nearest to expiration settles at a price equal to or above \$.600 per pound on that day, the regular daily price limit for all contracts shall be \$.030 for the following quarter.

If the contract nearest to expiration settles on the limit bid for two successive days or on the limit offer for two successive days, except on the last trading day for the contract nearest to expiration in which case the contract second nearest to expiration shall serve the purposes of this rule, then, on the next business day, the daily price limit for all contracts shall be raised to 150% of the regular daily price limit applicable to that day.

If the contract nearest to expiration does not settle at a limit bid or limit offer without regard to market direction when the daily price limit has been raised to 150% of the regular daily price limit, except on the last trading day for the contract nearest to expiration in which case the contract second nearest to expiration shall serve the purposes of this rule, then, on the next business day, the daily price limits for all contracts shall revert to the regular daily price limit applicable to that day.

If there are any questions about this matter, please contact Jack Cook, Associate Director, Commodity Research and Product Development, at 312/930-3295, jack.cook@cmegroup.com, or Paul Peterson, Director, Commodity Research and Product Development, at 312/930-4587, paul.peterson@cmegroup.com.