

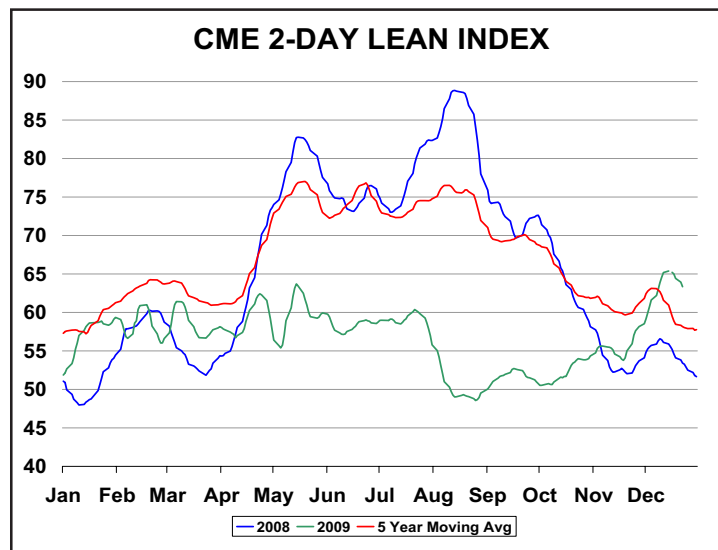
Livestock Outlook for 2010

January 4, 2010

The inflationary tone to commodity markets in general and the longer-term expansion of protein demand due to globalization and continued economic growth in China and India are factors that will likely attract investors to the livestock markets in 2010. Traders are also in the hunt for commodity markets that lag economic recovery and which appear cheap relative to other markets that made historic moves higher in 2009.

LEAN HOGS

February 2010 hogs started 2009 at 70.70 and put in the low for the year at 49.10 before a staging strong recovery back towards 66.00 into end the year. The sharp break after an extended period of losses for producers has left the US hog population down nearly 3% from last year at this time. Lean hogs were one of the few commodity markets to see weakness last until the late summer of 2009, as the unfortunate name for the H1N1 virus made it difficult for demand to recover from the "Great Recession." However, if the global economy continues to expand, the dollar stays weak and inflationary pressures continue, hogs are in a position to see significant gains into the first half of 2010. Recent Cold Storage reports have indicated that exports are running higher than expected, and the shift from a large production base to a smaller base into 2010 suggests the market will remain in an uptrend into mid-February. We would not rule out an extended advance into May.



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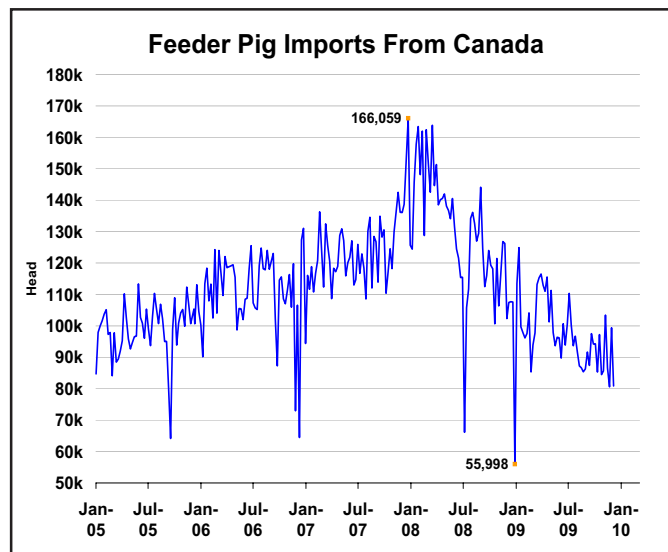
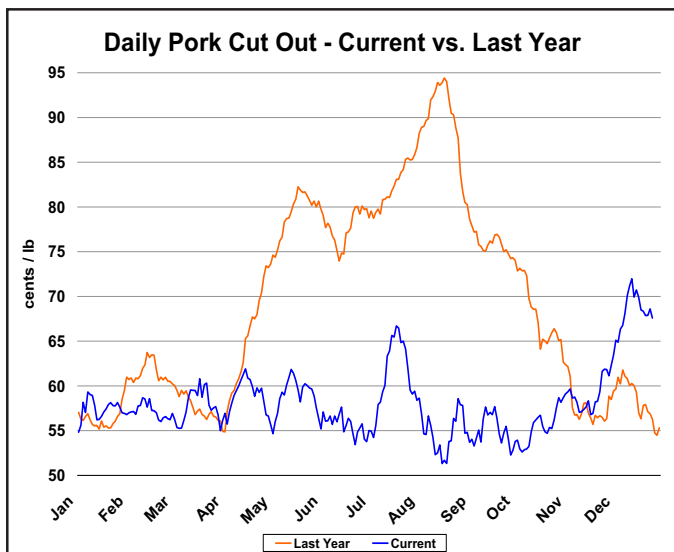
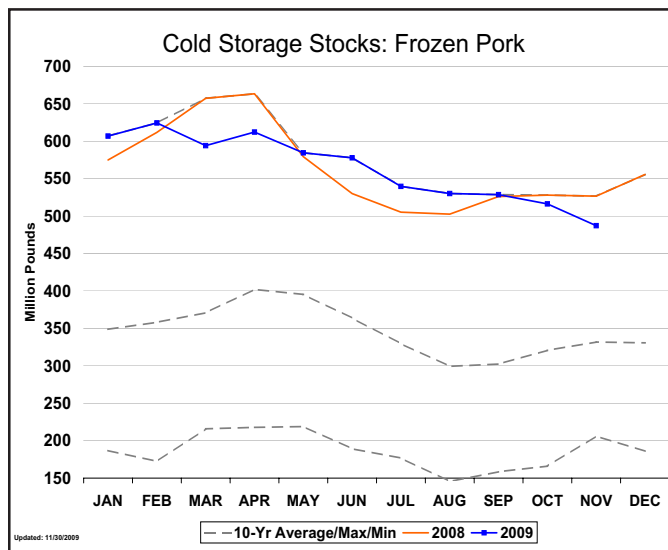
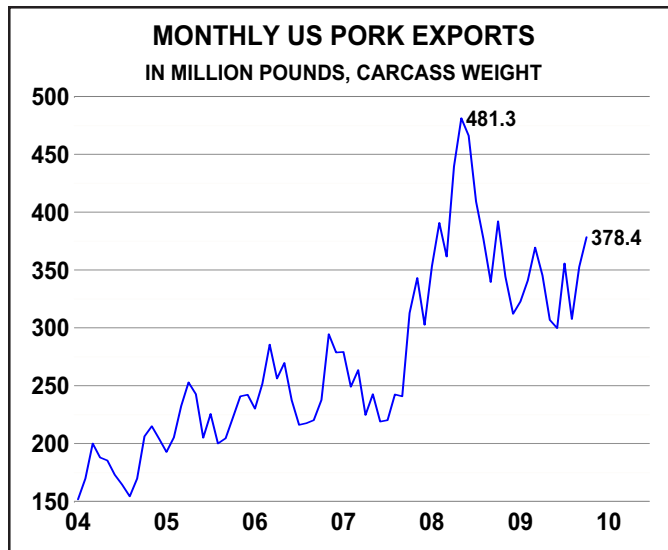
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Hogs

It's H1N1, not Swine Flu!

On top of a collapse in pork exports due to the recession, the market also had to deal with the H1N1 virus outbreak in Mexico, which at the time was called the "Swine Flu." While the industry preached that there was no correlation between the consumption of pork and catching the disease, consumer demand took a major hit. Monthly US pork exports peaked in mid-2008 at 481 million pounds, and by mid-2009 they were down to 300-350 million, causing a significant surge in per capita supply for the US. By October exports had climbed back to 378.4 million pounds, the highest level in one year. The cold storage report for the period ending November 30th showed that supplies fell 6% that month, compared with a normal drop of 1% during November. This suggests that exports were strong in November.

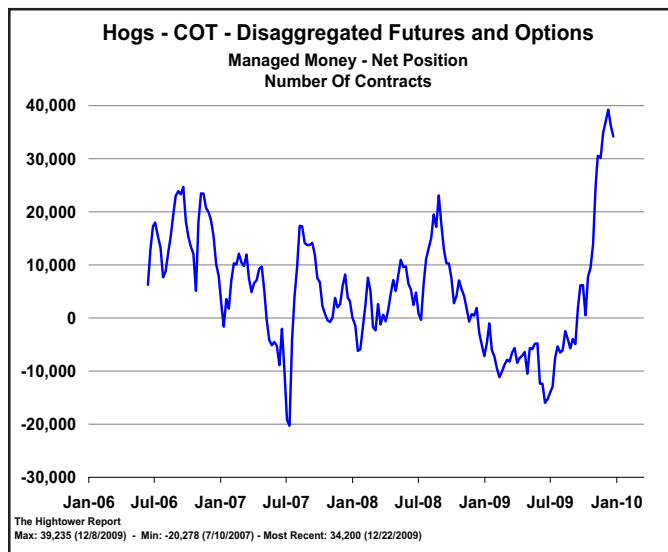
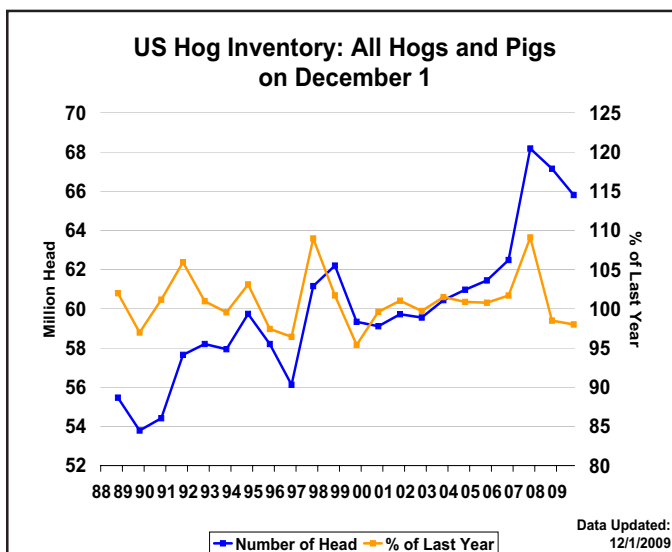
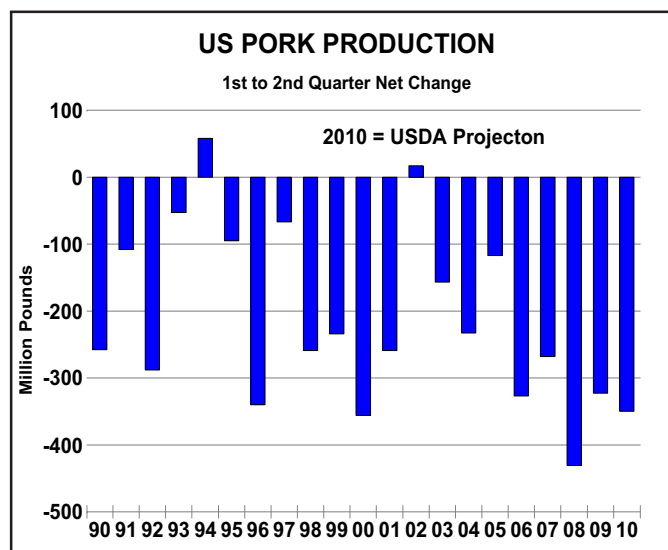
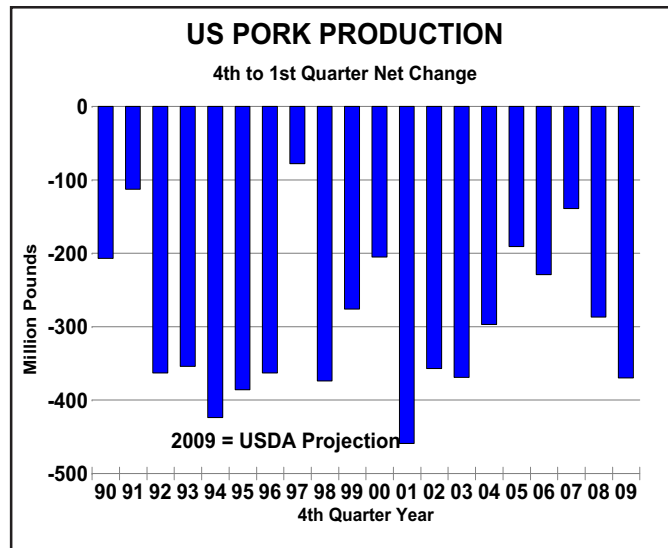
The jump in pork values into the late 2009 could help the market avoid a further depletion of the herd for the coming year. Producer profitability could return soon, ending the incentive to cull herds. Instead, producers will be encouraged to hold animals back for breeding. This will allow for a declining supply base into the first half of 2010, while at the same time per capita US production is already expected to be down 2-3% from the 2009 year and exports are climbing. Canadian feeder pig imports for 2009 are down about 24% from last year, which will cause a dent in US production as well.



Hogs

Pork production normally falls from the 4th quarter to the 1st quarter of the following year, and 2010 is expected to show the steepest drop in six years. On top of that, the forecasted decline in production from the 1st to the 2nd quarters is expected to be around the second largest in history (2008 was the largest). This is likely to be a positive force for June 2010 hogs. The larger than normal “shifts” in production into the first half of the year indicate that stronger than normal seasonal strength should be seen just ahead. The December 30th USDA Hogs and Pigs report showed the total US inventory at 65.8 million head, down 2% from last year and down to the lowest level since 2006.

The hog market is technically overbought to start the year, but the enclosed Commitment of Traders report showing the positioning of “managed money” shows a sharp increase in interest of ownership for hogs by this group of traders. The market is still operating off of the negative influence of the November 27th hook reversal to the downside. Given the more positive fundamental setup for the first half of 2010, longer-term position traders can look at corrective breaks as buying opportunities.



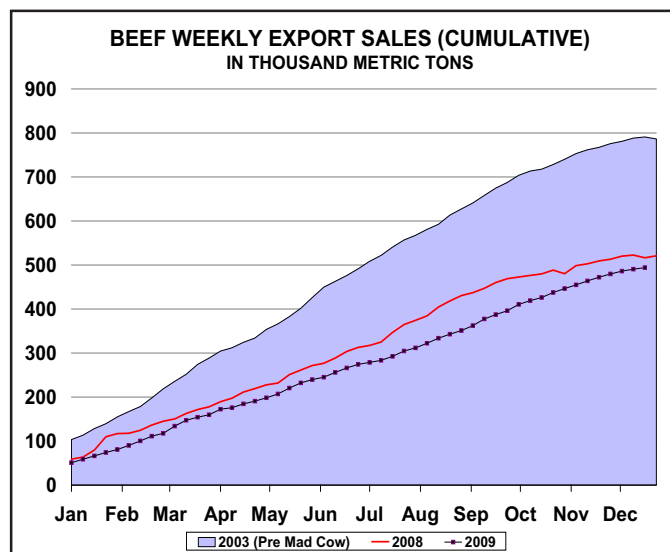
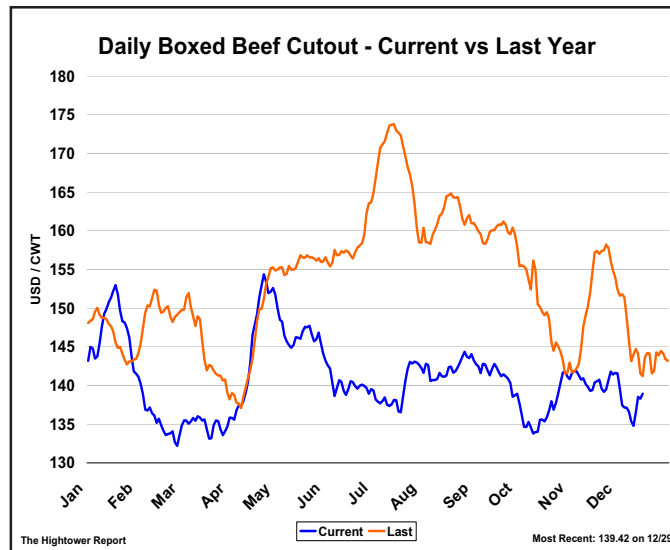
Cattle

LIVE CATTLE

While we have seen periods of a higher beef prices in 2009, the market did not find a bottom until December 9th, as slackening consumer demand was a persistent issue through most of the year. Not enough product moved to keep prices firm, as buyers quickly shied away from any minor rally. In December, the market was in the process of finding a low enough price level to entice sustained demand. This was a difficult task considering the hefty supply of meat in general and competition from lower-priced poultry and pork. In addition, restaurant demand was down, as corporate holiday parties were cut back sharply and consumers were trimming budgets. These factors continued to keep demand slow, and this caused cattle marketings to slow and cattle to sit in feedlots for a little longer than expected into late 2009. As a result, average weights jumped to higher than normal levels. It was not until blizzard conditions into the holiday weekend that the supply issue became a positive force for prices, as cattle in Nebraska and some parts of Kansas were hit with high winds and heavy snow. It will take time for these cattle to recover from those conditions, and this could leave a void of market-ready cattle for early 2010.

The seasonal decline in production into the 1st quarter is expected to be a little less than normal, which could mean that the seasonal support to prices will not be as strong as normal. The jump in production into the 2nd quarter is expected to be higher than normal, and this may dull the normal strong spring seasonal pattern. However, the USDA currently shows a decline in production from the 2nd to the 3rd quarter for the first time since 1996, so longer-term position traders might concentrate their buying on the August 2010 cattle contract. Similar years to 2010 include 2008, 2004 and 1996, with contract highs in these years on June 20th, June 7th and August 22nd. Years which are most different from 2010 include 2005 and 2002, which posted significant lows during June and July. (See charts on page 6)

The sensitivity of beef demand during a deep recession was certainly felt in early 2009, and the cattle market could not shake the weak demand setup for most of the year. Weak consumer demand was still the issue into mid-December. December is normally a strong demand period, but recently boxed beef cutout values were hovering around \$137.45, the lowest since October 21st. Traders had expected the export market to improve due to the weaker US dollar and an expanding world economy, but this did not happen in 2009.



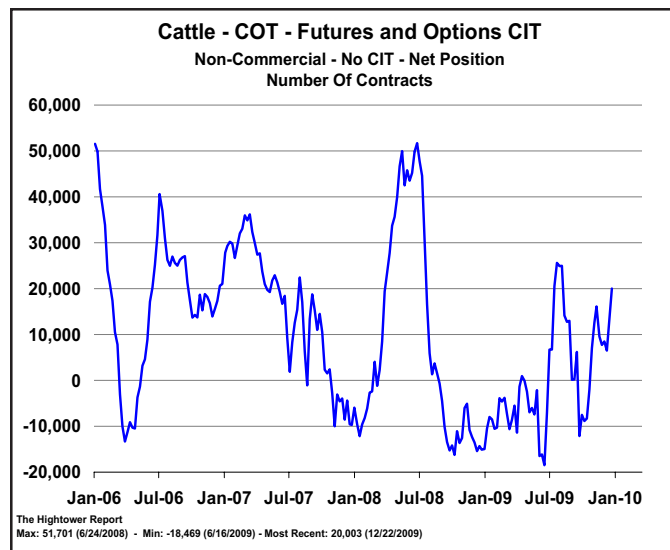
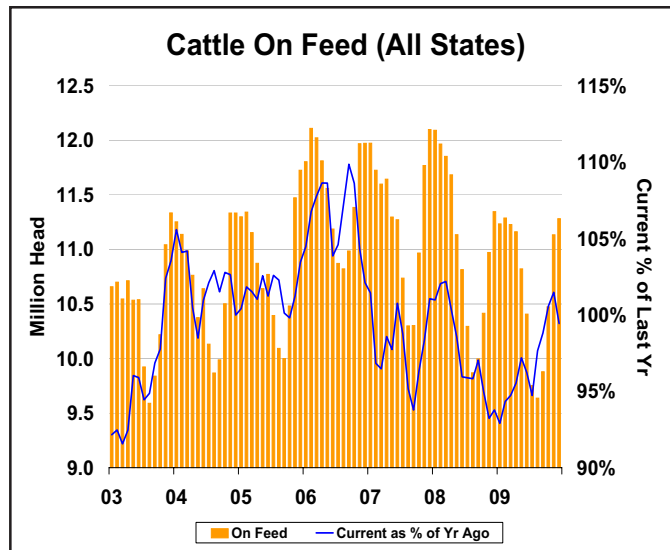
Cattle

US beef export sales for the week ending December 17th came in at just 3,500 metric tonnes as compared with the prior 4-week average of 6,680 tonnes. This was the lowest weekly total since April 9th, and that included holiday-shortened weeks. By December 24th cumulative export sales reached 500,000 metric tonnes, compared to 520,900 tonnes last year at this time and cumulative sales of 786,400 back in 2003.

While placements of cattle onto feedlots declined quickly in late 2008 to push feedlot supplies down 7% year-on-year to start 2009, feedlot supply was back above year-ago levels by October 1st. Placements were not the real issue; it was sluggish marketings that helped to boost supply on feedlots by late in the year. However, the December Cattle on Feed report showed placements at the second lowest level for November since 1996 (when the report was expanded to 13 states from the previous 7). On-Feed supply was expected to be above last year for the third month in a row, but instead it came in at 99.4% of last year. Placements for the month of November were just 91.5% of last year, as a lack of profitability kept them below expectations. This will mean that there will be fewer cattle coming off of feedlots and available for slaughter for the March to May time frame. This news is supportive for the April contract.

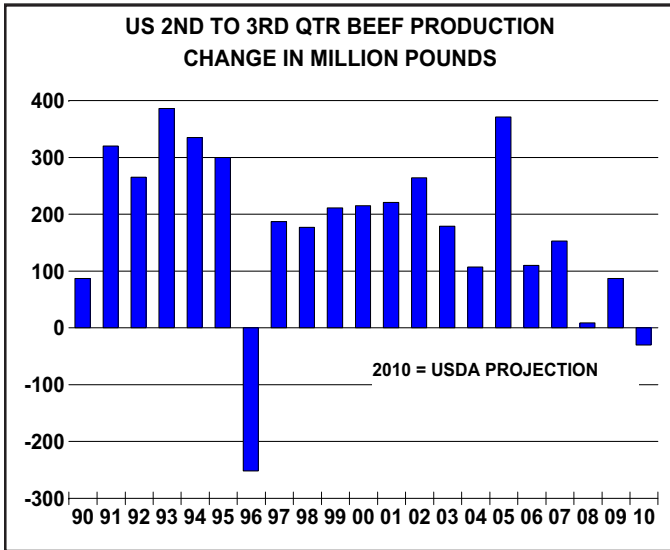
The report was also supportive for the February 2010 futures, as feedlots marketed more cattle than expected for the month of November. This means that feedlots are more current than previously expected, which could be supportive to the cash market. Look for continued low placements for the months of December and January and maybe longer, as feedlot operators have been losing money for months.

While cattle futures did not show much volatility or rally potential for most of the year, the market certainly caught the attention of money managers and fund traders who more than likely considered it undervalued and as a candidate for “buy and hold” strategies as the US and world economies recover. Open interest increased by 74,733 contracts from late May through early November, despite a choppy to lower trade for much of the period. The key reversal on December 10th for August cattle suggests a major low is in place.

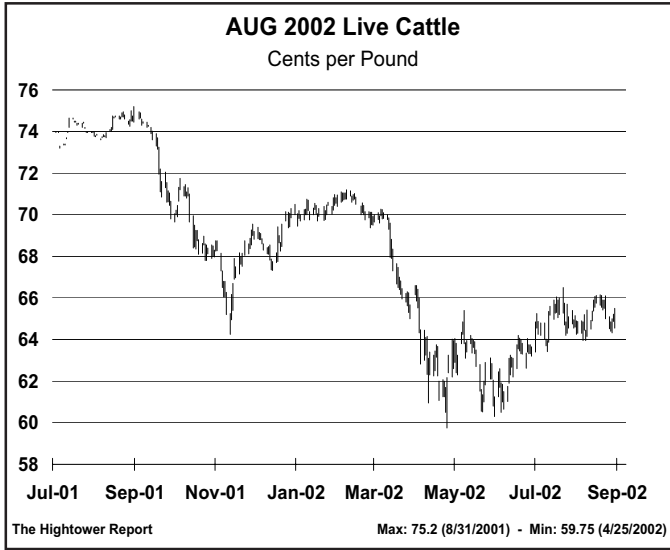
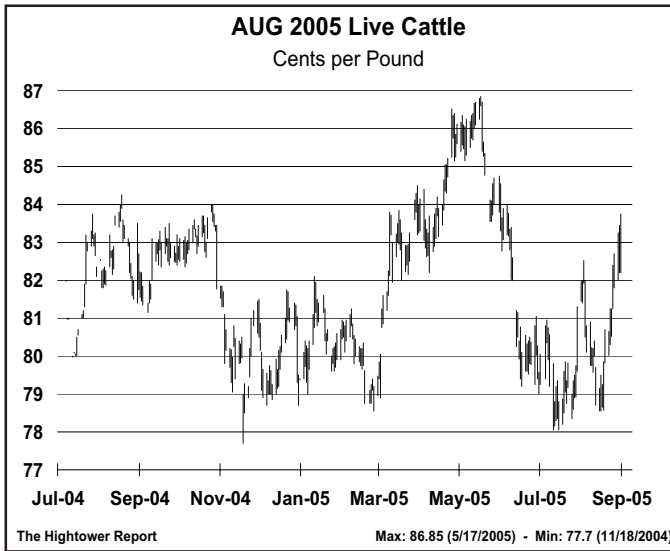


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Cattle



Years Opposite to 2010



Years Similar to 2010

