



DAILY LIVESTOCK REPORT

By Dennis Smith

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LEAN HOGS

Cash was lower yesterday, quoted down .50 to \$1.00. The trend appears to be soft/lower for cash hogs, look for flat to lower again today. Feb hogs go off the board on Wednesday. Futures rallied sharply yesterday with the most active April staging an impressive bullish engulfing pattern. Volume was good at 56,000 (larger than cattle volume) with open interest increasing by 1,086. There was as dramatic increase in open interest in the back end of lean hog futures. This tends to match up with a couple of rumors we were hearing yesterday. Talk of PRRS creating problems in the U.S. herd circulated and talk of PED rifling through herds in Mexico also circulated yesterday. At this moment we're not sure of the validity or extend of either rumor. If futures happen to gap higher today one will know there's merit to the talk.

LIVE CATTLE

LC staged an impressive rally yesterday on the back side of steady cash trade that occurred on Friday. The volume was not impressive at just 50,000 with open interest rising by 3,000. It appears some bullish traders are getting sucked into new positions likely to get smacked fairly hard soon. Upon reflection what happened last week is not bullish. Packers severely cut back on the kill in an effort to prevent the cash steer market from increasing and in an effort to drive wholesale beef upward to restore poor margins. Fed supplies are indeed tight at this moment and much tighter than 108% on-feed would suggest. However, this type of packer behavior will tend to fill in the hole. Cattle are being pulled ahead yet the packer is slowing the marketing pace. Eventually numbers will begin increasing and the leverage will swing to the favor of the packer. With production slated to be record large this year and second quarter production projected to rise 12% compared to second quarter of last year, we are laying into summer hedges on this rally.

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