

Daily Livestock Report

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Market Comments

The rumored acquisition of Pilgrim's Pride by JBS Swift is apparently fact. JBS Swift announced today that it had agreed to purchase a 64% stake in the second largest U.S. chicken producer for \$800 million in cash and, according to reports, paying off Pilgrim's creditors in full. Current Pilgrim's stockholders will receive shares totaling 36% of the company.

This makes JBS Swift a direct competitor to Tyson Foods in the three largest meat proteins — beef, chicken and pork. JBS Swift will be the second largest chicken producer, third largest beef producer and third largest pork producer in the U.S. Tyson would rank first, first and second in those three species, respectively.

It might be interesting to see how antitrust officials handle this acquisition. Recall that they blocked JBS Swift's purchase of National Beef last year due primarily to regional concentration concerns in High Plains fed cattle markets. So, it was monopsony (single buyer) power and not monopoly (single seller) power that concerned the feds in that case. This acquisition does not give Swift any more power in its existing markets but does extend the company's scope into another protein. If there are concerns, they would likely therefore lie in monopoly power but a countervail to Tyson's scope could enhance competition, too. This horizontal merger would not have raised much concern in years past but things have changed in Washington.

We do not intend to be political at all but the governmental and regulatory environment regarding competition issues has changed dramatically with the Democrats in control of the executive branch and both houses of Congress. Several top USDA officials come from regulatory and non-government organization backgrounds that suggest they will be much more aggressive than their predecessors on issues such as mergers, acquisitions and market power. A more aggressive posture may be either good or bad but that is not the point. The point is that things may well be different, regardless of your opinion of good or bad and differences in this realm may mean markets work differently in the future, impacting market participants from producers to processors to traders.

And the changes aren't just in the regulatory realm. Bills have already been introduced in Congress that would change marketing practices in both the beef and pork sectors by either forcing a higher level of spot market purchases or putting significant restrictions on the terms of marketing contracts. There is still talk of a bill to ban packers' owning cattle, hogs or lambs over 14 days prior to slaughter.

Again, neither DLR nor the CME Group intends to be partisan in these remarks. Change could be good but change will almost undoubtedly have major impacts on livestock markets and, perhaps, prices in coming years.

DowJones Newswire released today the results of its monthly survey of market analysts regarding USDA's Cattle on Feed report. The report will be released at 3:00 pm EDT on Friday. The key numbers appear in the table below. The ranges of estimates for both September 1 cattle inventories (3.6%) and August marketings (3.5%) indicate pretty widespread agreement on those numbers. But the spread of August placement estimates (13.4%) is huge. The estimates include two observations that are significantly higher than the others. Dropping the two highest and two lowest estimates cuts the range to a more normal 98.7 to 104.5. Should the average estimate of 98.5% for September 1 cattle on feed be accurate, U.S. feedlots with capacities of 1000 head or more would have 9.847 million head on September 1, roughly 200,000 head more than one month earlier. That level of inventory would be just under 300,000 (3.1%) fewer than the 5-year average for September 1. It would also mark the 17th straight month of U.S. feedlot inventories that are smaller than year-earlier levels.

Pre-Report Estimates -- USDA Cattle On Feed

September 18, 2009

	Range of Estimates	Average of Estimates
On Feed, September 1	97.0 - 100.6	98.5
Placed in August	96.6 - 112.0	100.9
Marketed in August	93.0 - 96.5	95.3

Source: DowJones

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