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Morning Ag Markets

The cattle complex had another solid day Tuesday, this time led by the front end of the live market with the spot February contract gapping higher at the open into levels not seen since last August. We had a fresh round of fund buying today aided by thoughts that the cash market can continue its recent run, which looks likely given the fact we already saw some scattered \$87 bids in the South Tuesday, which would put the trade steady with the top end of last week's business. As long as the board hangs in there, we should probably see cash come up maybe another dollar when it all shakes out. With the February live contract into deliveries and trading close to the \$89 mark, you would have to think cash is coming up or futures may need to pull back a bit. Right now the bias seems to be cash coming up, despite packer margins that are less than attractive. At least the past two days of moderate gains in cutouts has pushed choice back above the bulk of last week's dressed trade, but margins still aren't encouraging for the packer. It is still a little hard to figure how we can keep pushing cash higher without more help on the product side of things and I would like to see some help from the demand side to go along with the friendly supply side fundamentals, but we just haven't really seen it yet. Feedlots have definitely had the upper hand lately when it comes to negotiations, as packers have seemingly had no choice but to pay higher money to get cattle bought. So far it looks like that is going to continue this week, unless we see some sort of trainwreck on the board before the cash business really gets rolling.

Cattle slaughter Tuesday 126,000 +2k week ago -1k year ago
Choice Cutouts: 139.19 +.54 Select Cutouts: 136.80 +.36
CME Feeder Index: 98.79 +.07 Lean Hog Index 66.04 +.08
Pork carcass cutout value 68.47 -.35
Hog slaughter Tuesday 421,000 -1k week ago -6k year ago

Calls this morning in the cattle complex are going to be mixed to maybe a little lower as the electronic trade was fairly quiet overnight and this morning. We were just about a nickel lower to a nickel higher on most fat and feeder contracts in the early morning hours, with a weaker bias starting to creep in here over the past half hour. All eyes will be on the cash cattle market to see when and where the trade will develop for the week, with most anticipating higher money whenever it breaks loose. I would have to think that a February board around the \$89 mark would be tough to build on as far as much more futures strength at this point, but I suppose anything is possible. For the open on the board this morning I will call both live and feeder cattle mixed to 10 or 15 lower, with a little correction possible at any time after the strength over the past few days.

Moving over to the grain markets, new supply and demand data from the USDA Tuesday morning didn't do much for the markets, even with somewhat friendly numbers for corn and beans. We did open higher but beans quickly backed off and finished the day a little lower while corn held a couple cents higher. The wheat market didn't get any favors from the reports and ended the day in the red as well, with that fundamental picture only seemingly getting worse.

Overnight electronic trade last night was mixed with corn 1 to 1 ¾ lower, beans ¾ to 3 ½ lower, and Kansas City wheat 3 to 3 ¾ higher.

Well Tuesday's big reports didn't really turn out to be as supportive as many had thought for corn and beans, with a higher open quickly fading into lower bean trade and just slightly higher corn. There were some high hopes for another recovery day after the mildly friendly corn and bean stocks estimates as well as outside markets that should have been supportive, but nothing really materialized. It has been interesting to see the separation between the grains and the outside markets over the past several days, with the grains ignoring significant outside pressure late last week and so far this week they seem to be able to ignore the support as well. That separation isn't necessarily a bad thing, it is just worth noting.

Well with another USDA report behind us the trade will start looking ahead to the next bit of potential news that could affect the markets. From a report standpoint that would be the Outlook conference report set for Friday, February 19. Usually not a major deal, but many of you will remember a couple years ago when they threw around some wild acreage figures and it got the market going for a while. Those acreage guesses will be getting the most attention this year, as the arguments continue over where the lost wheat acres, CRP acres, and the phantom acres from last year are going to go. The market has started to build in a little more incentive for beans lately, as the returns on paper for most seem to be better for beans at current price levels. However, we all know corn is king and if Mother Nature allows, we will still see a significant increase in corn acres, which could be coupled with a larger bean number as well. Basically there is no need for an acreage battle at this point as we aren't in danger of running out of anything; therefore there is no need for a market to try and gain extra acres.

Other news is pretty light this morning, with the overnight session very quiet. Chinese customs officials did release some new data, with January soybean imports pegged at 4.08 MMT, compared to the 4.5 MMT expected. The January number was also well below the 4.78 MMT imported in December, but was still the 5th largest month on record. Basically they are still importing a pile of beans, just not as much as some had expected. No surprise there as China will likely hold off as much as they can until South American beans become more readily available, likely at much cheaper levels than current U.S. purchases.

Well I could sit here and try to make up some news or spin something into a story that may have an effect on the grains today, but there just isn't much out there. I suppose at this point the biggest surprise to me has been the ability of the soybean market to hang in there as well as it has with huge South American crops coming at us. I'm not sure a 20% increase in world production over last year warrants beans much over the \$9 level, but we'll take it. The wheat markets continue to absorb bearish news without much damage, with the record fund short position in those markets working to limit the big downside moves for now. Corn seems to have hit an area where it is comfortable between that \$3.90 and \$4 mark on the December contract. Sharpen those pencils and figure out where you are at from a net revenue potential and if you are lagging on new crop sales and can still pencil a profit, I think you know what to do. Just make sure you choose the right tool to get it done and don't look back.

As I mentioned, there just isn't much to drive the trade this morning and the calls will be pretty much in line with the overnight action. For the open, I will call corn futures 1 to 3 lower, beans mixed to 3 lower, and Kansas City wheat 1 to 4 higher.

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