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Commodity Brokerage/Consulting

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Morning Ag Markets

The cattle complex posted higher closes yet again Wednesday, fighting off a lower open to grind out gains for the 7th day in a row on the spot February live contract and the 4th session in a row for March feeders. We have now bounced over \$3.50 in the past week and a half on that spot live contract, which is in turn pulling cash higher right alongside. Packers are seeing red for the most part as they paid the same dollar amount or more for dressed cattle last week than they were getting out the back door on choice cutouts, so they really have no incentive to pay up. However, feedlots have been very successful standing their ground over the past few weeks despite some very harsh conditions. I would still like to see help from the demand side before getting overly excited about sustaining these gains in the cattle market, but I think we'll see higher cash this week anyway. With some \$87 bids already out there, higher money should not be a problem as long as the board holds in there.

One minor note for those with an interest in the hog market, February lean hogs expire this Friday and yesterday's close was just under the \$68 mark. The latest index quote was just over \$66, meaning there is some work to do to see those come together. Cash has had a mixed tone over the past couple of days, meaning it isn't likely the index will take a big jump by the time the Feb. contract settles. I would think that would have to leave room for a little drop in the Feb contract before it goes off the board, or we are going to need to see some magic on the cash index side.

Cattle slaughter Wednesday 120,000 -1k wa unch ya Hog slaughter 408,000 -13k wa -2k ya
Choice Cutouts: 138.77 -.42 Select Cutouts: 137.37 +.57
CME Feeder Index: 99.07 +.28 Lean Hog Index 66.19 +.15 Pork cutout 68.71 +.24

Calls this morning in the cattle complex I suppose can't be much worse than mixed as it looks like futures are still going to hang in there, at least if the overnight electronic trade was any indication. There wasn't much going on in that session but we were still holding mostly higher on fats and feeders into the morning hours. I think it may be tough to see big gains posted here after the recent run, unless we get some surprisingly friendly news from the cash market. While I think we can probably get another dollar out of cash at this point, I don't think packers will push the envelope too hard as their margins are already a little thin. For the open on the board this morning, I will call both live and feeder cattle maybe 10 lower to 10 higher.

Moving over to the grain markets, a lower open quickly gave way to some slight gains Wednesday, with corn futures finishing a bit higher while the front end of the bean market found some decent buying that sent us to double digit gains, with the new crop November contract lagging behind. Kansas City wheat futures actually led the gains on the day, as a wave of short covering came on a low news, light volume day and prices jumped nicely.

Overnight electronic trade last night was mixed with corn 1 ¾ to 2 higher, beans 6 ½ to 8 ¼ higher, and Kansas City wheat 2 to 3 ¼ lower.

Well Wednesday's trade was fairly encouraging for once, with the front end of the bean market looking strong throughout the day while a wave of short covering sent the wheat markets sharply higher as well. The corn action wasn't quite as positive, but we'll take any kind of higher close we can get. Let's take a look at the bean market first and try to piece together what has transpired over the past few days, with the front end of the market greatly outpacing the new crop November contract.

The biggest issue here is the tightness of cash bean supplies in the current marketplace, with crushers all around the Midwest fighting for bean supplies. When the market pulled back over a dollar in the wake of the January reports, farmers quit selling and the flow of beans stopped. The weather around the Midwest has not helped either. The result has been some very strong basis pushes over the past week or so as those users fight for ownership. For the basis savvy marketer, this is what you live for if you still have beans on hand. Remember, the futures price should have nothing to do with your decision to sell cash grain. If you want to maintain your ownership fine, but sell the cash beans and move your ownership to paper, you will be much better off in the end. If the market rallies, basis will weaken and you will have already taken advantage of a better basis bid and still have your ownership. Pretty simple game really, but most struggle to fully grasp the concept. Learn it and use it to your full advantage. Now I'm not saying I would re-own last year's bean crop at these levels, I'm just saying that if you are hesitant to sell cash beans because you think the market is going higher, that is definitely not a valid reason for not selling beans if you are seeing some strong basis in your area.

The basis pushes lately have not been limited to beans, with many corn users finding themselves in the same boat. Ethanol plants are known for not having much storage as they generally count on farm storage and commercial elevators in their area for supplies. Much like beans, the pullback in the market has shut down the traditional farmer selling and the weather is keeping a lot of the farm-stored corn in the bins, even from those who have it hedged and would like to move it to take advantage of stronger than normal basis bids. Eventually this weather is going to clear up and grain is going to start moving again, so if you are logistically able to take advantage of this developing situation, get after it now.

Well I suppose I should spend some time talking about the wheat market since it jumped 15 cents yesterday. I will go ahead and tell you it had nothing to do with fundamentals, it was just a pure short covering rally and we ran some buy stops when we got above last week's highs. I know we have been touting the bearishness of the wheat situation for a long time and everyone probably wonders how a market that has such an ugly fundamental outlook can have rallies like that, but don't read too much into it. The wheat markets are loaded with record short fund positions and at times those trading funds will cover shorts and trigger more buy stops along the way. In a thinner market like wheat, those short covering rallies are always exaggerated as the sellers disappear. We have seen it countless times over the past few months and it will continue, but don't try to kid yourself into thinking the big picture has changed for wheat. We may be done with the steep breaks, but I think any major rally attempt will be pretty limited for now.

Well there really isn't much in the way of news this morning, with the normal Thursday export sales report delayed until tomorrow due to the weather issues in D.C. and most government workers not making it in much of this week. It is possible that we could see this little short covering rally extended a bit, but I still don't think we're ready to make a run up anywhere close to the pre-January report levels. The South American crops came on too strong and the acreage picture for this spring in the U.S. is not going to do the markets any favors, with increases likely for both corn and beans. Obviously weather will play a big role and spring weather is likely our biggest potential for a game-changer in these markets, other than any potential big changes to the supply and demand numbers on the March USDA report after they have re-surveyed some areas. Until then these markets will likely chop around and be led by the technicals as well as fund activity.

Calls this morning are going to be mixed, in line with the overnight session. The outside markets aren't really doing much at this point and likely won't be providing much direction, at least at the open. For now, I will call corn futures 1 to 2 higher, beans 4 to 7 higher, and Kansas City wheat 2 to 4 lower.

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