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Morning Ag Markets

The cattle complex was mixed to mostly higher Wednesday in a choppy session that saw the front end of the live market as well as feeder cattle futures post some moderate gains, while the rest of the live trade was just mixed. It felt like we were running out of steam early in the session as some were talking about Tuesday's big gains being overdone, but some buying showed up in the feeder market as corn futures weakened up and the front end of the live market continues to find support from thoughts of more cash strength. There have been some bids as high as $89 in the South reported already this week, which would be steady with last week. Of course feedlots are in no hurry to give in to steady bids with the futures strength so far this week as well as product values that continue to creep up, with most expecting cash with a "9" in front at some point this week. Right now I can't really argue with that, as we just seem to keep pushing this thing higher.

Now the attention starts to shift toward what may happen moving forward? Is this the start of the big run in the cattle markets that so many have been predicting for so long? Maybe, but I'm not placing my bets just yet. It would be different if this was a major demand led rally and we saw cutouts move higher every day, packers looking at decent margins, and the cash and futures trade continuing higher. The reality is we probably have weather to thank for 80 to 90% of this rally, as the supply side has been hit hard this winter. Packers haven't had much choice when it comes to buying cattle and they haven't come cheap, despite less than attractive margins for the packer. We have seen cutouts come up nicely over the past week or so, but I want to see how the product market handles $90 cash over time before I get too excited about this being the big turning point for cattle. There is no doubt this has been a beneficial rally, but if you still aren't being smart with your purchases and risk management, it may not do you any good. Looking at some of the runs this week at a few auctions, it is pretty clear some are not running any numbers before buying, which has proved disastrous over the past couple of years. Hopefully none of you fall into that category and if you do, I hope the market continues to move higher and you're right in the end, but I don't know anyone that can accurately predict that.

Cattle slaughter Wednesday 124,000 +4k wa +3k ya Hog slaughter 427,000 +24k wa -1k ya
Choice Cutouts: 144.46 +.48 Select Cutouts: 142.81 +.84
CME Feeder Index: 100.94 +.16 Lean Hog Index 67.42 +.07 Pork cutout 69.02 +.50

Calls this morning in the cattle complex are set to be a little higher for the most part, at least if the overnight electronic session is any indication. The front end of the live market continues to lead the charge as we wait on cash news for the week, which is expected to be at higher money yet again. We do have a cattle on feed report tomorrow afternoon and most are expecting friendly numbers again, so packers may try to get cattle bought before the report is released. For the open on the board this morning, I will live and feeder cattle 10 to 20 higher on the front end and maybe closer to unchanged on some of the deferred contracts.

Moving over to the grain markets, we couldn't build on Tuesday's big gains as corn, beans, and wheat all pulled back on the day, despite a lack of fresh news. Perhaps the short covering got a little out of hand Tuesday and some of those who were on the long side decided to go ahead and call it good Wednesday. The ability of the U.S. dollar to gain back most of what it lost Tuesday likely also provided a little pressure, as there just wasn't much other news out there to drive the trade.

Overnight electronic trade last night was mixed with corn 1 ½ lower all the way out to the December new crop contract, beans ¼ to ½ penny higher, and Kansas City wheat ½ to 2 lower.

Well we sit here this morning after two complete opposite days of trade Tuesday and Wednesday and have to wonder which one was the aberration. It was generally thought Tuesday's gains were just the result of some short covering in the face of outside market support, but open interest figures did not show any big decreases, which would have been the case had it been short covering. Apparently there was some new money coming at these markets, with corn open interest actually taking the biggest jump on the day Tuesday. I guess you just chalk it up to the outside markets influencing some new money into the grains, as the fundamental news wasn't there to justify it Tuesday. So that brings us to yesterday, where we gradually saw the selling build and finished not far off our lows by the close. Once again, news was fairly light and the ability of the U.S. dollar to rebound and get back all that was lost Tuesday likely served as our biggest pressuring factor. In the end we had two complete opposite days of trade with some notable moves, but nothing really behind those moves to read much into.

Well the big USDA outlook conference is under way today and tomorrow, with a continuous drip of comments and information coming out throughout the day which will culminate with the release of their supply and demand guesses tomorrow morning. Keep in mind these are just the round-table discussion numbers, nothing official. In the opening key-note address this morning, the USDA chief economist did say he was thinking 89 million corn acres and 77 million beans in 2010, a 2.6 million acre jump in corn and a half million acre increase in beans. He also put total wheat acres at 53.8 million, which would imply a 1 million acre increase in spring wheat, despite low profitability at these prices. Kudos to him for not giving a smaller bean acreage number than last year, but I don't think he is allowing for enough of a total increase in both beans and corn given the available acres. We have covered that in depth up to this point, so you know our feelings there. Watch for the supply and demand thoughts tomorrow morning, as they have the best potential for any market moving numbers from this conference.

There are a few other minor headlines out there this morning, but nothing really worth mentioning in detail and nothing that should have a major effect on the trade this morning. Obviously there wasn't much going on overnight, judging by the grain price movement. South American crop estimates continue to stay large and that isn't going to change, with more rains moving through Brazil and Argentina over the next couple days. That may slow early harvest progress a bit but the benefits will be far greater than harm at this point.

As far as domestic news, the grumbling is already starting about weather issues this spring, with the cold sticking around and much of the Midwest still under a blanket of snow. Here it is mid-February and the talk is already brewing about how tough it will be to get anything done this spring. Probably a little early to be making those predictions, especially with the efficiency today's farmer has shown. No one can predict the weather over the next couple of months, so there is no point in stressing about it now. The talk is also picking up again about corn quality problems, and that situation requires continued monitoring as it is already having a big impact on rail markets. Users are paying for quality corn and quickly realizing where that corn is located and it is not coming cheap. The damaged or low quality corn on the other hand is being discounted heavily. This story needs watched closely over the coming months as it warms up and for those of you with quality corn on hand, you may be rewarded with some nice basis bids down the road.

That is about it for news this morning, with weekly export sales not out until tomorrow morning thanks to the Holiday Monday. Calls this morning are going to be just mixed to a shade lower with the outside markets fairly quiet, albeit slightly negative. For the open, I will call corn futures 1 to 2 lower, beans mixed to 2 lower, and Kansas City wheat 2 to 4 lower.

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