Loewen and Associates
Commodity Brokerage/Consulting
Pete Loewen, Tim Strunk,
Matt Hines, Doug Biswell
866 341 6700
www.loewenassociates.com

Date: 02.22.10

Morning Ag Markets

Pete Loewen

Well, to summarize the week for the meat complex, it was driven by funds, strong technincals and active speculative buying as a whole. That action has actually somewhat forced the fundamentals into a very positive mode as well. Cash traded as high as $92.50 at the feedlot level in the south and it's just been a remarkable run for the cattle market in particular. Just for this month of February so far, cash feedlot trade is up $5.50-$6.00, choice cutouts are up $6.21 and select is up $6.82. Packers have had to chase cattle aggressively to fill slaughter schedules. It isn't because demand at the end user level has driven price, this is a supply driven rally that has been inspired by those strong charts and by the weather induced performance losses that have plagued so many areas of the Midwest this winter. My thoughts all along though have been that the weather factor likely provided in the range of $2.00-$4.00 worth of the rally and futures have done the rest.

In the feeder cattle and calf trade, there are big differences in the size of the rally depending on the weight class. Heavy weight feeders were steady to $3.00 higher last week, while the prices for cattle weighing less than 800 lbs varied from $3.00 to as much as $10.00 higher. That's a mirror image of the previous week, so just do the math and the gains, particularly on the lighter end over that two week timeframe have been huge.

The last highlight from last week was Friday's COF numbers that were released after the close. The On Feed total came in dead even with the average trade guess at 97% of a year ago. This is the smallest February On Feed total since 2003. Placement and marketings numbers missed the average guesses. Marketings during January were 1 point higher than the average trade guess at 102%. Placements during January were 3 points higher than expected at 98% of a year ago.

The interesting side to the placement number was how it all boiled down in the weight breakdowns. Of the four categories covered in the report, only one had placements that were actually lower than the previous year. The 6-7 wt placement numbers were down 12% from last year. All other categories were unchanged to higher for in-movement into feedlots.

Cattle slg.___wtd 620,000 +18k wa +4k ya

Choice Cutout_146.71 +1.80 Select Cutout_144.83 +1.06

Feeder Index:___101.62 +.51

Lean Index.__ 67.13 -.21 Pork cutout__70.92 +1.46

IA-S.MN direct avg__66.59 +1.75 Hog slg.___wtd 2.163 mln +10k wa -52k ya

Weekly closes in the livestock markets had feb live cattle up 3.40, march feeders up 2.85 and april hogs up 1.45.

Opening calls this morning are a little stronger in the hogs and mixed in cattle. Based on the On Feed report numbers from Friday, futures should theoretically start out a little stronger on the front end from the bigger marketing data and a little weaker on the deferred months because of the larger than expected placement totals. Given the fact cash was so strong on Friday afternoon though, I think all cattle contracts have a shot at a higher opening.

Grains waded through a barrage of long term prognosis housed in the USDA Outlook Conference numbers last week. Acreage and next year's S&D tables were cussed and discussed heavily in the newswires. In the end we all need to realize that none of the numbers will likely be even close to the finals because what impacts those fundamentals is constantly changing and so will the numbers as a result. Outside markets had a lot of influence at times with the most notable being a very strong dollar on the heels of the fed raising rates on Thursday.

Grain weekly closes had dec corn up ¼ penny, nov beans up 4 cents and july kc wheat up 3.

Overnight E-CBT trade was__ higher with KC Wheat +3/4 to +5, Chicago wheat +1 ½ to +4 ¼, corn +3 ¼ to +5 and soybeans +6 ½ to +8 ¾.

Looking ahead in the grain markets, there are several points that bear mentioning and watching in the weeks ahead that will impact price. Commodity funds moved from a small, net short futures position to long about 20,000 beans in Friday's report. This takes a fundamentals bearish picture and adds some tension to the battle between bearish fundamental signals and friendlier short term technicals. In the export sales data, there were NO sales of beans to China last week and with Brazil now 18% complete in harvest and last week's export total only 7.5 mln bushels, our weekly export sales reports will get more and more bearish as time passes. What is driving this change is that South American product moving into exportable position.

In corn, issues about quality of all this stored corn in the Corn Belt are gaining ground again. The big picture side to this story at the present time is heavy discounts being taken in the form of basis and dockage on poor quality product. The bad corn can be blended to make grade, but the problem with that is sourcing enough good quality corn to blend with the bad and sometimes that takes sourcing corn from quite a distance. I have no idea where this topic is headed down the road, but it will be very important to watch. The biggest issue is the inability to feed some of this stuff and when feed use is the number 1 demand category by total bushels, that could be a BIG problem.

With the fed raising interest rates last week, traders viewed that as very bullish the dollar. A stronger dollar makes for weak grain export potential, so it should be viewed as bearish to the grain markets. The dollar is a little weaker this morning so far.

With regard to the Outlook Forum numbers from last week, Spring Wheat seedings gained 1 mln acres compared to last year. If that gain becomes reality, when you pair it with their ending stocks forecast for the 2010/2011 marketing year that was still over 900 mln bushels, you simply cannot be optimistic to wheat price. The total acreage base was heavily disputable. USDA trimmed 1.7 mln acres from the total crop base for this spring's plantings.

The reasoning behind their change was lack of profitability. When we run our revenue projections for corn, beans, wheat and also crops like cotton- we have no idea where they are coming up with lack of profitability. Weather permitting, we're going to see more cotton acres this year, more corn, more beans and likely even more spring wheat too. There are plenty of acres to go around with 6.2 mln less winter wheat, 2 mln previous CRP acres available and nearly 5 mln acres not planted in 09 that found crops in 08. Profitability will entice those acres!

I'm calling the grains higher this morning, with wheat 2-4 better, corn 3-5 higher and beans 5+ higher. Longer term I'm still negative, so use these rallies to make some more sales. That's what we're doing!

Pete Loewen & Tim Strunk

Loewen and Associates, Inc.

www.loewenassociates.com

peteloewen@cox.net

timstrunk@cox.net

866 341 6700