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Morning Ag Markets

The cattle complex had a fairly active day Tuesday that ended with moderate losses on the board for both fats and feeders and also a big chunk of the cash business wrapped up before we even hit mid-week. Futures were already setting back somewhat Tuesday morning, with some deferred live and feeder contracts pushing triple digit losses at times, when word broke of some cash business being done in Kansas. Coming in to the day asking prices were as high as $94 or $95 after last week's $92 trade, but with the spot February live contract pulling back just a bit over the past couple sessions, I would imagine some of the hedged producers decided to take advantage of a much better basis situation. With futures below $92, some feedlots were more than willing to give in to $92 bids and capture that positive basis, instead of the dollar to $2 under seen at times over the past couple of weeks. That got the ball rolling and we even saw some of the later deals in Kansas come in at the $91 mark, which would be a dollar lower. Texas joined in as well, with most of that trade called $92 in light activity. The Nebraska dressed trade picked up late in the day at mostly steady money from $144 to $145. There are probably still a few cattle to move this week, but you can bet packers were more than happy to not have to pay higher money for the bulk of this week's supplies.

In other developments Tuesday, we did see another sharp jump in product values, highlighted by big gains on the select cutouts. In fact, select gained over a dollar on choice Tuesday, as that spread continues to narrow and they are now within a buck of each other. We saw similar moves around this time last year, with select even jumping choice at times. Don't ask me to explain this, as last year we could pin it on the number of cattle grading choice. But after the weather issues so far this winter I'm not sure that's the case this go-round. Either way, it is good to see those product values continue to rise, thereby improving packer margins and increasing the likelihood of sustaining the recent cash strength.

Cattle slaughter Tuesday 123,000 unch week ago -1k year ago
Choice Cutouts: 149.78 +1.75 Select Cutouts: 148.99 +2.71
CME Feeder Index: 101.55 -.12 Lean Hog Index 67.44 +.28
Pork carcass cutout value 72.46 +1.11
Hog slaughter Tuesday 429,000 +1k week ago +1k year ago

Calls this morning in the cattle complex are mixed after the pullback the past two days, with the electronic trade looking higher on the feeders and mixed on fats this morning. The spot Feb. live contract was trying to hold higher and is currently sitting pretty close to this week's cash business, so it may be tough to see much movement either way as we head into expiration Friday. Other cattle news will be light this week with most of the cash trade wrapped up, so I would look for some pretty choppy futures action. We'll need to keep an eye on cutouts, as a continued march higher like we have seen so far this week would bode pretty well for sustaining cash up close to these current levels. For the open this morning, I will call live cattle maybe steady to a shade higher Feb. and 5-10 lower on the deferreds, while feeders are called 10 to 20 cents higher to start.

Moving over to the grain markets, Tuesday was a fairly choppy day that eventually saw corn, beans, and wheat all finish lower, although soybeans were actually up double digits at times. The buying ran out later in the day and some added outside market pressure sent us backwards in a little correction from Monday's big gains.

Overnight electronic trade last night was a little higher with corn 2 ¼ to 3 higher, beans 3 ½ to 4 higher, and Kansas City wheat 1 ¼ to 1 ¾ higher.

Well it was another fairly interesting day for the grain markets yesterday, as we started a little lower across the board only to see the soybean market take off and reach double digit gains at times during the session. However, as we moved later in the day those gains were quickly erased and before anyone knew what happened we had closed with some near double-digit losses. The wheat markets suffered a decent pullback as well while corn futures held a little better on a day of light news that saw most commodities struggle. The outside markets added some pressure, but there was really no other major news on the day.

The South American crops and weather continue to receive a lot of press time as their harvest inches forward and we are on the verge of a lot of corn and beans becoming available in the global marketplace. It seems like we get new crop estimates almost daily from one agency or another, with the Argentine Rosario Grain Exchange the latest. They have pegged the Argentine bean crop at 52.5 MMT, up from their last guess at 50.8 MMT. No surprise there, as the South American crops seem to just keep getting bigger. Some of the early talk out of Brazil has yields maybe a little less than anticipated, but keep in mind there is a lot of harvest to go and even if the crops fall short of the estimates by a bit, they are still going to be monsters, especially compared to the past couple of years. Need proof? Oil World is forecasting Brazil bean exports in February to hit 2.2 to 2.6 MMT, compared to just 100,000 MT in January and 700,000 MT last February. So basically they are looking at tripling their bean exports in February compared to last year, and they aren't even half done with harvest. Look for a number closer to 4 MMT in March when more beans are available. Throw in Argentina and you can see why we're worried about what is going to happen to U.S. bean exports over the next few months, with our corn trade also likely to be impacted.

Speaking of exports, Iraq's grain board has said they will buy 3 MMT of wheat in 2010, about the same as 2009. The problem is the U.S. is still not very competitive when it comes to the global wheat market and it may not mean much to our export number. There are no changes to the wheat fundamental picture and there won't be until we see major production problems in more than one major wheat growing country. We can talk about smaller production here in the U.S. all we want, but keep in mind we grow only a very small percentage of the world's wheat. Not to mention the fact that the moisture situation in U.S. wheat country, especially the Plains, is pretty much ideal as we head into spring. Give us some warm weather and this crop will be ready to take off, as even some of the late planted stuff has a chance now. Keep in mind that even with bearish fundamentals, the wheat markets are still prone to sharp corrections thanks to the record fund short positions and their ability to step in and cover those shorts at any time and move the market swiftly. If you are behind on your new crop sales, make sure you are using those moves to your advantage, as fundamentally wheat does not need to move higher.

Well there really isn't much else going on this morning, with just a bit of short covering overnight keeping us supported. The outside markets are fairly quiet for now and not offering much influence, but you all know that can change at any time, especially with the Fed Chairman speaking before the House Financial services committee today. If he says something to spark the outside markets, it could spill over into the grains.

For now, I will call corn futures 1 to 3 higher, beans 2 to 4 better, and Kansas City wheat mixed to 2 higher.

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