



## **Loewen and Associates**

*Commodity Brokerage/Consulting*

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## **Morning Ag Markets**

**Pete Loewen**

On Monday, the one word description I gave for the cattle market was “dynamic” and we sure haven’t lost any of that kind of action since. At the feedlot level, \$1.00 lower cash traded already this week spurring a significant amount of pessimism in the cattle complex. The trade started on Monday afternoon no less and continued with more trading yesterday. That prompted two days of moderately active selling in many of the live and feeder cattle contracts.

It’s amazing right now how many comments regarding the highs being in already are floating around the fundamental analysis community. Regardless of the fundamentals at the moment, one important factor to keep in mind is that commodity funds are what took the market as high as it was in the first place, so they will be the pivot point on whether the selling accelerates or not in coming days. It will take them liquidating positions and open interest declining to make things much worse.

That same commodity and index fund buying that eventually pushed futures much higher than the fundamentals dictated also created a false pull on items like cutouts and cash and moved them up to levels that aren’t sustainable. The reason I make that comment is, we have seen an \$11.00+ rally in choice cutouts in the last week and half and movement out of packer’s coolers has slowed to just a dribble. Only 158 total loads were reported on Monday and just 172 on Tuesday. A normal Monday count this time of year would be 250 or better and maybe 300 or more on Tuesday up to a 400+ peak on Wednesday.

I don’t believe these prices are sustainable. The primary reasoning being that we don’t have an economy that can generate enough middle meat demand to sustain it. The reality is, we have seen an early high in a market that really didn’t get fundamentally friendly until the April/May timeframe.

Cattle slg. \_\_\_126,000 +2k wa -1k ya

Choice Cutout\_161.41 +2.21

Select Cutout\_159.74 +1.88

Feeder Index:\_\_\_105.07 +.50

Lean Index.\_\_\_71.63 -.38

Pork cutout\_\_72.70 -.77

IA-S.MN direct avg\_\_67.75 -.35

Hog slg.\_\_\_428,000 +3k wa unch ya

Overnight action in the livestock markets has been mixed. Feeders have spent some time at higher money, but have weakened a little as the morning progressed. Live Cattle have been mostly lower and hogs lower as well.

Spillover from that action in the cattle pits yesterday weakened the pork market resolve some, so I could envision all these meat markets moving in tandem with the increased volatility present now. Calls this morning are moderately weaker across the board.

Corn, soybean and wheat futures weakened as the day progressed on Tuesday and there really wasn't a significant catalyst to lead the news stories. Volatility will likely pick up considerably once farmers really NEED to be in the field, so whether or not they can get there when the time comes may have a lot to do with grain market direction in coming days and weeks. Interestingly enough, as I watch the rain falling outside the window this morning- the movement yesterday in the market and continuing in the overnight action was decisively lower.

Overnight E-CBT trade was\_\_ lower with KC Wheat -1 ½ to -3 ¼, Chicago -2 ¾ to -5, corn - 2 ½ to -3 ¼ and soybeans unchanged to -8 ¾.

Alright, our focus on the grain complex lately has centered around range bound-type trade since the early February timeframe, but also on the increasing odds of heightened volatility as we move further into spring. Regardless of what unforeseen event might happen in the future to influence the markets, you still have to step back and evaluate the current facts and what their impacts should be on the market. The current facts very clearly state that we have way too much wheat supply- both domestically and in the world. Granted, we planted 6.2 mln fewer acres this past fall than the previous year in winter wheat country, BUT- that wheat is also looking fantastic, as witnessed by states like Colorado with a 70% g/ex wheat condition rating!

Soybeans are facing a supply glut coming from South American production that's huge this year. We don't have any kind of supply glut in the US. In fact, 190 mln bushels of ending stocks forecasted is historically pretty tight. Regardless, world supplies are rising thanks to Brazil and Argentina and with more than ample available acres in the US to be seeded this spring, we can change our supply problem easily in one crop if weather cooperates this summer.

Corn market fundamentals have very quickly shifted from what one well respected source stated as moving from a crop of "concern about sufficient supply" to a crop of "can we use all of this stuff"! That's a very negative comment.

Once again, there are more than enough acres available this spring for adequate acreage increases in corn, soybeans and cotton. 6.2 mln fewer acres planted to winter wheat, 2+ mln CRP acres that can come back into production and you can't forget the fact we planted almost 5 mln more total acres in 2008 than we did in 2009. Start doing the math..., that is more than enough for all three crops and Spring wheat to see increases in seeded acres.

Weather or commodity funds are the last hope for a rally this spring and if neither is present in the next couple of weeks- look out below.

I hate to say this, but if you want to remain bullish, you need to hope it stays so wet over the next month that you can't ever get in the field.

I'm calling corn 1-3 lower, beans 5-8 weaker and wheat 1-4 lower.

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