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Morning Ag Markets

The cattle complex shot higher Wednesday, which was to be expected after we saw cash fed cattle start trading Tuesday afternoon at levels anywhere from \$2 to \$5 higher in the South. Packers came after cattle with some aggression and in the end we saw Southern business anywhere from \$98 all the way up to \$101 live, with those higher priced cattle headed north. Including Wednesday's clean up business, we saw Nebraska dressed trade as high as \$163 as cattle numbers are much tighter in the North and packers are already looking at cattle for next week. Folks make no mistake, this is a supply driven rally as apparently there just aren't any cattle out there. Yes, I know cutouts are still high and packers are supposedly making money, but my question is who is buying the beef? Load counts have been horrendous so there is either something going on behind the scenes or we get some poor data each day. Perhaps there is something big brewing in the export market or elsewhere, but whatever the reason, we have now set new cash and futures highs for the move. Can it continue? At this point I'd hate to bet against the cattle markets, as every time it has been tried lately, the market has been quick to dish out a lesson.

The feeder market was a little more subdued Wednesday, with the little corn rally likely helping keep things under control. Feeders have also seen a significant advance lately as we have seen some of those summer months start to get within striking distance of all time highs for any feeder contract. With deferred live cattle futures not quite participating in this latest move to the extent we have seen on the front end, it may be tough to keep ratcheting feeders sharply higher from here, but as I mentioned earlier, I'd hate to bet against it. The bottom line remains the same whether we are at \$120 on the board or we are at \$90-if the cattle work, buy them and manage your risk accordingly. Profit is profit and I'm sure there is plenty of gloating out there from those who have unhedged cattle on hand that they have owned for a while, but don't let that get to those of you using sound risk management in your operations. You made business decisions based on profit potential and over the long haul, that is a much easier road to success than trying to get lucky and guess the highs.

Cattle slaughter Wednesday 128,000 +3k week ago +9k year ago
Choice Cutouts: 164.62 -.32 Select Cutouts: 163.20 +.55
CME Feeder Index: 109.38 +.19 Lean Hog Index 71.51 +.82
Pork carcass cutout value 77.28 +.79
Hog slaughter Wednesday 418,000 -13k week ago -10k year ago

Calls this morning in the cattle complex are actually going to be a little lower as we started to correct a bit overnight into this morning on the electronic trade. With any fundamental news pretty much wrapped up for the week thanks to the active early week cash business, there isn't much there for the market to digest. After another solid run-up to new contract highs, the market appears ready to maybe take a little breather. The outside markets may add a bit of pressure as well and for the open, I will call live cattle 10 to 30 lower and feeders maybe as much as 30 to 40 lower.

Moving over to the grain markets, things were fairly quiet in the early going Wednesday before the grains seemed to catch a bid at midday and we jumped to some decent gains at times, led by corn and wheat. Soybeans also made a run back toward the upper end of the recent trading range, but backed off the highs a bit into the close. Hard to pin the rally on anything fundamental and everyone seemed to have an idea on what caused it, but in the end there was really nothing major behind the gains, most likely just some general short covering.

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

Well as is the case anytime we see a notable move like yesterday, everyone scrambles to come up with a valid reason. Despite all the different ideas being thrown around, I still think it was probably more of a case of some normal short covering than anything. When the market was unable to continue its downward move in the wake of the stocks report last week, some of those shorts likely decided it was time to bail. Of all the talk yesterday, the story getting the most attention was rumors of Chinese corn imports. Whether those reports hold any water or not remains to be seen, but nonetheless, they can move the market. If we ever do actually see confirmation of the Chinese importing corn, it may mean more for the corn market than a quick one day blip.

Other market moving news was light yesterday, so I really can't give you any other big reasons why we rallied. We do get updated supply and demand tables tomorrow morning from the USDA, with adjustments coming following the higher than expected stocks numbers released last week. The average guess for corn ending stocks is up to 1.922 billion bushels compared to 1.799 on the March report. Beans are guessed at 208 million bushels, up from 190 last month. Lastly, the average guess for the wheat carryout is 992 million bushels, down a shade from last month's 1.001 billion but still a huge number. We also get world production and usage estimates, with those numbers garnering some attention as well as we wait to see what adjustments, if any, are made to the South American crops. From a stocks standpoint, world corn supplies are expected to be in line with last year while beans and wheat should be up sharply. This report normally wouldn't be thought of as one to hold any surprises, but after last week's stocks report caught everyone off guard, I'd say anything is possible.

In other news, we did see some cold temperatures in much of the Southwest Plains overnight, with sub-freezing temps reported well South of the Texas Panhandle. However, it does not appear we are looking at widespread freeze damage as it is warming up quickly and temperatures may not have been cold enough long enough to do much damage, depending on the development stage of the crop in those areas. Obviously the market wasn't too concerned as we traded lower overnight, but I suppose it is worth keeping an eye on over the next few days for any damage reports. I'm sure there are some out there looking at damage, but with the bulk of the hard red winter wheat crop in good to excellent shape, some minor areas of freeze damage are not enough to cause a move in the market.

Weekly export sales data out this morning was pretty supportive for corn and just kind of a non-event for beans and wheat. Corn sales came in at 53.4 million bushels, well above the range of guesses from 24 to 32 million thanks mostly to big increases for South Korea and Japan. Soybean sales were 7.6 million bushels, just barely making it into the bottom end of the estimates from 7.3 to 12.9 million. The bean sales numbers over the past few weeks may not have been overly impressive, but at least we're still seeing positive sales totals. Wheat sales last week came in at 11.9 million bushels, within the range of guesses from 9 to 18 million. In the end the corn number this morning may add a bit of support while there isn't much there for beans and wheat.

That is about it for news this morning, with the overnight trade a shade lower as the outside markets were a little negative and we didn't see much follow through buying from yesterday. Weather forecasts still aren't overly threatening as far as big fieldwork delays for most of the Midwest, so that won't be a concern for now. We will have to wait a couple days on the wheat damage assessment, but I don't think that will end up being a market-mover either. With more Chinese corn import rumors overnight, anything is possible there. For the open this morning, I will call corn futures maybe just mixed to 1 or 2 lower, beans 1 to 3 lower, and Kansas City wheat 2 to 3 lower as traders wait on tomorrow morning's report numbers.

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