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Morning Ag Markets

Pete Loewen

Tuesday was a quiet day for the live cattle market, mild to moderately lower in feeders, both having very little fresh news to drive the trade. Hogs were moderately lower on the front and actively lower on the back end. Cash hog trade was mostly higher though, so finding reasoning for the hog market drop was tough as well. The pork product market was up for the 16th straight day and most of the direct carcass cash trading was up near and even over the $2.00 mark. Maybe we should just chalk the losses in the hog trade up to not being able to go up every day? On contracts like the now spot May futures, there have been very few down days in the last $10.00 run up in price. There is no reason to think yet that the trend is changing in the hog market.

In the cattle trade, without the strong showing in futures anymore, the cash and product trade has become a lot more uneasy. The Monday Oklahoma City feeder cattle trade was reported as lower for the first time in a long time! Feeders were steady to $2.00 lower and the calf market trade was lower as well. The run lightened up significantly compared to where it had been the previous week or two, but most of that can also be attributed to heavy rainfall hitting the region the week prior not allowing producers to gather many numbers. With Texas and Oklahoma both taking huge shots of rain last week that stands a chance at trimming overall placement totals slightly in the South through April. We'll see when we look at runs for next week's sales in that region. OK City's run on Monday was just over 8600 head compared to 13,000 the previous week and 10,628 last year.

Friday's release of the On Feed report holds some bearish expectation to the deferred months with a high end estimate on March Placements of 110% of a year ago. The range of guesses is 102-110. On Feed estimates are right at 97% and March Marketings 102-106, so those numbers continue to be friendly to the front end of the market.

Cattle slg.___128,000 +2k wa unch ya

Choice Cutout_168.03 +.93

Select Cutout_165.03 +.32

Feeder Index:___112.85 -.24

Lean Index.__ 78.91 +1.19

Pork cutout__87.04 +.90

IA-S.MN direct avg__81.63 +2.77

Hog slg.___   409,000 +3k wa -15k ya

Calls this morning are mixed to 25 higher in both the cattle complex and the hogs. Overnight action has held in there firm this morning in most contracts, but nothing is overly strong, just firm.

In the grain markets, the price action was strongly higher in wheat yesterday and that generated some following in the corn and beans, albeit a bit more reluctantly.   There was ZERO fundamental logic behind the wheat market advance as crop conditions improved dramatically in Monday afternoon's report, and they were already good to start with. I think most of the wheat market gains can be attributed to speculative driven- since the funds still hold a sizeable net short position there.

Overnight E-CBT trade was__ mixed with KC Wheat -1/2 to -1, Chicago -1/2 to +1/2, corn +1/4 to +1 ¾ and soybeans unchanged to +2 ¾.

Alright, there are several things to talk about today- ethanol mandates, planting progress, acres and the technical aspects of the grain markets.

Beginning with the technicals, there is still a lot of bullish uncertainty surrounding markets like wheat and soybeans.   Beans broke out last week from that long-held period of sideways trade from January through mid April and opened the door for more technical and speculative buying. Now that buying just needs to show up?? The wheat trade has had a nice short term uptrend going, but is fighting tremendously bearish fundamentals as it tries to gain upward momentum. This is probably the toughest task in the entire grain complex! What helps is the fact that funds are still heavily short wheat and if this Goldman Sachs and JP Morgan investigation develops into something that scares funds out of positions, wheat will head higher despite those nasty fundamentals.

The weather picture is still conducive to a very active corn planting pace and we certainly have a shot at record speed this year across the Corn Belt. Everyone attributes early planting with increased yield potential and another factor that needs considered is that farmers LOVE to plant corn. Therefore, an early planting pace might also lead to more corn acres going in the ground than anticipated.   That's why we've seen beans outpace corn at an accelerating rate in the trade over the last couple of weeks. However, we're still convinced there are plenty of acres to go around for both crops and we'll see increases in both on the June Final Acreage tally. There is nothing bullish about that development!

Rumors have been floating around a lot more actively lately about the 10% ethanol mandate jumping up to 15% sometime this summer. In the big picture, it isn't a matter of IF it is going to happen, but WHEN has been the big debate. There are two sides to this story; on one hand that keeps a firm shelf of support under corn over the long term and should prohibit corn from dipping down to levels with a "2" in front of price for any extended period of time, but secondly, with 90+ mln acres going in the ground this spring likely, we also have a shot at a 2.2-2.4 bln carryout in the 2010/2011 marketing year! Volatility is NOT going away in these grain markets! Regardless of acreage, usage is increasing even more in the longer term picture, so any threats to production will generate pretty wild swings in the markets. Keep in mind, I'm not saying the market has to go UP right now because of this. In fact, I think the path of least resistance is still down right now. However, the days of 10+ cent gains and losses are going to become more frequent as we move closer to trading weather more actively.

Calls this morning in the grains are unevenly mixed and really fairly quiet. Outside markets like crude and the dollar haven't done much so far this morning, so there is very little pull from those directions.

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