Loewen and Associates

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

Date: 5.13.10

Morning Ag Markets

The cattle complex moved lower Wednesday, unable to find much support from a fairly strong day in the equity markets as we saw triple digit losses at times on several live and feeder contracts. We did see the cash fed cattle trade kick up again Wednesday, with fairly active Southern business reported at the $100 level, steady with last week and also steady with the Kansas trade from Monday. Steady bids and a weakening board meant an attractive basis situation, which likely helped contribute to the active mid-week cash business. The Nebraska trade came in at $163 dressed, which was $3 higher on the week while the Northern live sales were steady at that dollar level. The jump in the Northern trade was perhaps a little surprising, especially since it occurred after we were already trading at steady money in the South. By the time it was all said and done we probably wrapped up the cash business for the week for the most part, leaving us to look elsewhere for direction the remainder of the week on the board.

Well I'm going to step back on the soapbox briefly, as it has been a while. I know there are a lot of you out there with unhedged cattle who may be afraid to take the jump for one reason or the other, but I would encourage you to run the numbers again and look at your potential returns before just assuming the market will move back higher. Could we make another run to new highs? Sure, but what is your plan if we don't? Base your decisions on sound business principles, as the goal should be to make money, not try to outguess the market and predict the high. Remember, you have the ability to limit your risks to health, basis, and weather, and the basis side can be managed through cash contracting alternatives. You may miss the high and catch a bunch of grief from your neighbors, but at least you're making sound business decisions and you should be able to sleep a little better not having to think about what the market may or may not do every day.

Cattle slaughter Wednesday 130,000 unch week ago unch year ago
Choice Cutouts: 171.05 -.35 Select Cutouts: 166.65 +.04
CME Feeder Index: 112.84 -.05 Lean Hog Index 88.70 -.01
Pork carcass cutout value 91.30 +.59
Hog slaughter Wednesday 397,000 unch week ago -13k year ago

Calls this morning in the cattle complex are just mixed after a very quiet overnight electronic session that was trying to hold a little stronger this morning but has started to weaken a bit. As I mentioned earlier, news will be pretty light for the cattle markets after we wrapped up the cash business yesterday, so that may leave us with some choppy trade. For the open I will call both live and feeder cattle maybe 10 lower to 10 higher as the market searches for direction.

Moving over to the grain markets, more reported Chinese corn purchases had the bulls excited Wednesday, but the higher open did not hold well for any of the markets as corn and beans fell to a mixed close while wheat was a bit lower. A shift in the outside markets likely added a little pressure and there just wasn't any follow through buying to sustain the early strength, leaving the markets vulnerable to some light selling pressure that erased what were some nice early gains, especially in corn and wheat.

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

Well everyone in the grain trade seems to love the word China, as for the past several weeks that has been all the buzz. China did this, China did that, China may do this-you get the idea. When China's state-run grain agency said they had bought 6 cargoes of U.S. corn Tuesday night, it sent the overnight trade higher on big volume and that had everyone excited for the open Wednesday morning. We did in fact open higher, but there just wasn't any follow-through buying and by the close we were right back to unchanged. There has been no confirmation from the USDA on this latest reported trade, so it will likely be listed as optional origin on the weekly report next week. There are still some question marks on how much corn will actually end up on a boat headed to China, with quality as well as GMO issues potentially posing a problem. Either way, at this point it still isn't a story that stands to have a drastic effect on our ending stocks levels, as we aren't talking about a tremendous amount of bushels. Could it get to that point? Possibly, but there are still a few hurdles to jump yet. It was interesting to note that in a Reuters survey of several grain analysts who were asked how much corn the U.S. would ship to China, the answers ranged from 700,000 MT to 6 MMT. That comes out to a range of about 28 to 236 million bushels. The top end of that range would have a larger effect on our carryout, while the lower end would be miniscule. Unfortunately with the way China operates, we won't know what they're going to do until it's done, but for now I would assume China will remain a buzzword around the corn trade. China's government did announce they would auction additional corn reserves to feed mills only, which have been driving the higher prices in China as of late and are also said to be the ones trying to import corn from the U.S. I'm sure China would love to cool their domestic prices and stop the potential imports of U.S. corn, but so far they have not been able to do so.

In other news this morning, weekly export sales data didn't really hold any major surprises, although the corn number did come in quite a bit smaller than expected while beans and wheat were pretty close to the guesses. Corn sales tallied 32.2 million bushels, well below the guesses from 43 to 47 million and there was nothing in the report regarding China sales. Soybean sales came in at 9.7 million bushels old crop and 7.8 million new, taking the combined total up to the lower end of the range of guesses from 18 to 24 million. Wheat sales were just under 9 million bushels old crop and 8.9 million new, getting the total close to the upper end of the guesses from 9 to 15 million. Not really much for the markets in either direction from the export sales report this morning.

Well it has been a fairly active week from a weather standpoint so far, with some pretty wicked storms across much of the Midwest. We saw more rain in wheat country last night, but unfortunately those storms also brought hail and high winds to quite a few. We did see some big rain totals in places so I'm sure there will be reports of flooded out corn and beans and other problems, but this week's storms also brought a drink to a big chunk of wheat country that was starting to need it pretty bad. Next week's weather looks to warm up significantly and dry out, so conditions should be pretty favorable for continued crop development, especially for those that caught the rain this week and missed the severe stuff. In one other weather note, we did see some frost and freezes again this morning in parts of Southwest NE, Northwest KS, and Eastern Colorado, but for now it doesn't look like it was cold enough long enough to do much damage.

That is about it for news this morning, with a quiet overnight session highlighted by the corn market trying to hold higher. We are seeing crude oil weaken up some this morning while the dollar is trying to strengthen, so that could possibly add a bit of pressure at the grain open, especially without any support from export sales.

For the open this morning, I will call corn futures maybe mixed to 2 lower, beans mixed to 3 lower, and Kansas City wheat 1 to 3 lower.

Tim Strunk
Loewen and Associates, Inc.
866 341 6700