



Loewen and Associates

Commodity Brokerage/Consulting

Pete Loewen, Tim Strunk,

Matt Hines, Doug Biswell

866 341 6700

www.loewenassociates.com

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Morning Ag Markets

The cattle complex moved lower to start the week, once again finding a significant amount of outside pressure that built shortly after the cattle open. The early trade wasn't too bad Monday until the outsides started to slip up even more and before anyone knew it were down close to a buck on several live and feeder contracts. The correlation between the outside markets and the cattle has been very strong over the past week or so, as worries increase about the ability of the world economies to sustain higher meat prices. With major concerns around the globe, it appears many are starting to think that perhaps some of the sharp gains this spring aren't sustainable. The supply side remains friendly, but as we've said all along, the ability to sustain these higher prices rests with demand, and for now that is still a bit of a question mark.

For the third week in a row we saw some early cash fed cattle trade Monday, with some live business done at the \$98 mark in Kansas, \$2 below last week. That is still better than a positive \$5 basis, so that more than likely allowed for the trade. Trading was quiet in all other areas and not many Kansas cattle traded, so I suppose there is still some hope left for the rest of this week's cash if the board can somehow rebound. With June live cattle down over \$4 in the past 5 days, it was no surprise to see lower cash, especially as we start to get into some larger numbers of cattle.

Perhaps the bigger surprise Monday was the fact the big cash feeder auctions didn't weaken much, with Joplin called steady to \$2 lower and Oklahoma City anywhere from steady to \$4 lower, with the grazing cattle still the best sellers. Some of those cattle were a little iffy even before the board broke hard over the past week, and I definitely wouldn't want to see the math on some of those deals now.

Cattle slaughter Monday 130,000 +1k week ago +2k year ago
Choice Cutouts: 169.29 +.03 Select Cutouts: 164.20 -.12
CME Feeder Index: 112.33 -.22 Lean Hog Index 88.18 -.42
Pork carcass cutout value 90.24 -1.57
Hog slaughter Monday 390,000 +17k week ago -17k year ago

Calls this morning in the cattle complex are a little stronger as it looks like we may finally have our day of recovery, as the outside markets are correcting and the overnight cattle trade moved higher as well. There is no doubt we were long overdue for a rebound, now it is just a matter of how much strength we can muster. I will be surprised if it will be enough to change the direction of the cash fed cattle trade after the \$2 lower in Kansas Monday, but I suppose it's possible. Unless we see something major on the board, I would imagine the \$98 trade from yesterday may have set the tone for the week. For the open on the board this morning, I will call live cattle 40 to 50 higher and feeders maybe as much as 50 to 60 higher.

Moving over to the grain markets, the week didn't start out too well here either with corn and soybean futures giving up more ground as the outside markets added pressure and weather forecasts are still maybe a little negative to the markets. Kansas City wheat futures were actually pretty quiet on the day Monday as we inch closer to those contract lows set back around the first April.

Overnight electronic trade last night was mixed with corn 4 ¼ to 5 higher, beans 6 ¾ to 8 ¼ higher, and Kansas City wheat 2 1/2 to 3 ½ higher.

Well Monday brought more of the same for the grain markets, with lower crude and a stronger dollar pressuring us throughout the day. Weather forecasts that finally bring some warmer weather and sunshine later this week may have added some pressure as well, as things are pretty soggy around most of the Midwest right now and some warmer weather and sunshine would be welcome. One other quick note from Monday, the weekly export inspections report showed 12.6 million bushels of wheat shipments last week, taking the total up to 810 million bushels for the marketing year that ends in two weeks. The current export projection is 865 million bushels, so we need to ship over 25 million bushels a week the rest of this month in order to meet the USDA projection. That will likely be a little tough and in the end we could see the final wheat export tally for the year fall a little short of what the USDA has predicted.

In other news, Monday afternoon's Crop progress report definitely reflected some of the wetter weather as of late, with corn planting only at 87% complete compared to 81% last week. We are still 26% ahead of last year and 9% ahead of the five year average, so you obviously can't spin that number into anything too overly bullish. 55% of the corn was reported emerged, up 16% from last week and 27% ahead of last year. Lastly, 67% of the corn crop was rated good to excellent and another 27% just fair for now. The planting progress number may have been a little lower than some expected but everything else was pretty much in line. Soybeans were up to 38% planted, still 15% ahead of last year but only 3% ahead of average. With the recent weather I don't think anyone expected big jumps in planting progress, so I don't really see much in this report to help build a bullish case.

There were no changes in overall condition of the winter wheat crop on Monday's report, with 66% still rated good to excellent and just 8% poor to very poor. The Kansas crop dropped 1% to 63% good to excellent while Oklahoma fell 7 to 67% good to excellent. Texas came up 2 points to 62% in those upper two categories. As a whole this crop is still in fairly good shape with some of the drier areas seeing a bit of relief last week. I'm sure there are still pockets that need a rain and also those that were hit hard by severe weather, but unfortunately we see that every year. 52% of the wheat crop was reported headed, just slightly behind normal. Combines are just starting to roll in South Texas and the availability of more wheat to an already saturated market isn't likely to help the fundamental case for wheat prices. With the erratic trade on the board, unfortunately that may mean we see more of the weakness come on the basis side than anything. At this point it will take some sort of major weather event or issue to do the type of damage to this crop that can drastically change the outlook-it remains decidedly bearish any way you approach it.

Well there really isn't an abundance of other news this morning with yesterday's Crop Progress report and the weather getting most of the fundamental attention. Perhaps even more important to the current market action is the fact that the outside markets are correcting this morning, with crude up and the dollar weaker. That undoubtedly helped the grains overnight. Yesterday's trade had us pushing the lows from this spring in corn, beans, and wheat and those levels will be pretty important to watch. We are due for a correction and it does look like we may start that today, at least in the early going. After the past several down days it feels like we are due for a round of short covering that could take us to some nice gains, but with the improved forecasts and lack of other supportive fundamental news, I'm not sure how strong of a move we can sustain. A lot of times these corrections can pick up steam as the sellers sit on the sidelines a bit waiting for a better opportunity to sell it higher, so we'll just have to see what transpires.

For the open this morning, I will call corn futures 3 to 5 higher, beans 5 to 8 better, and Kansas City wheat 3 to 5 higher.

Tim Strunk

Loewen and Associates, Inc.

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