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Commodity Brokerage/Consulting

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Morning Ag Markets

The cattle complex struggled mightily again Thursday, once again pressured by falling equity markets and continued liquidation of cattle positions that looked so attractive just a couple short weeks ago. The widespread fear among the investment community regarding the global economic picture has gripped the cattle markets as they have fallen in lockstep with crude oil and the stock market over the past several days. The cash fed cattle trade this week has been more of a trickle than anything, with a few more cattle traded in Nebraska Thursday at \$154 to \$155 dressed, which is down another \$1 to \$3 from the lower trade seen on Wednesday. The free-fall in the futures market has obviously hindered the cash trade this week; with the Northern dressed sales hit the hardest. We may see a bit of clean-up trade today, but I would guess for the most part feedlots are done selling cattle and will try their luck again next week.

Lost in the mess this week has been the fact that we do have a cattle on feed report this afternoon, with the outside market activity and subsequent break in cattle futures garnering all the attention so far. The average estimate for total cattle on feed as of May 1st is at 97%, compared to 96% last month. April placements are guessed at 102% compared to 103% last month, and April marketings are guessed at 100% compared to 104% last month. I don't think we will see anything too earth shattering on this afternoon's report that will be able to overcome the current outside market influence and general uncertainty and fear in the market right now. However, I wouldn't be too terribly surprised to see some short covering ahead of the numbers, especially after such a steep break.

Cattle slaughter Thursday 130,000 unch week ago unch year ago
Choice Cutouts: 167.65 -.26 Select Cutouts: 161.90 -1.07
CME Feeder Index: 111.15 -.78 Lean Hog Index 87.15 -.16
Pork carcass cutout value 87.76 +.55
Hog slaughter Thursday 397,000 +3k week ago -11k year ago

Calls this morning in the cattle complex are once again lower as it doesn't look like the outside market pressure is ready to let up just yet. Yesterday's advancement of the financial reform bill has stirred more uncertainty in these markets and the rest of the news just hasn't been positive for the equity markets, which continue to spiral downward. I don't know if we'll see any short covering develop today to close out the rough week, but I suppose it is always a possibility. The electronic cattle trade has been lower throughout the morning and as long as the outside markets don't turn around, we're looking at a lower start, again. For the open this morning, I will call live cattle 30 to 50 lower and feeders maybe as much as 50 to 60 lower, hoping for some sort of a turnaround at some point today.

Moving over to the grain markets, it looked like we were headed for more losses at times Thursday thanks mostly to the outside market pressure, but the grains were able to fight their way to slightly higher closes despite all the negative bias in other markets. Export sales were pretty good for corn on Thursday morning's report but other than that news was pretty light, with the weather picture straightening up over the next several days. The grains have been fairly impressive this week, holding above key support levels for the most part, with the exception of new crop beans, which did fall below the \$9 mark for the first time all year Thursday.

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

Well all things considered the grain trade was pretty impressive yesterday, as markets around the world continue to be rocked by uncertainty and investors looking for safety. The outside markets and global economic uncertainty have pretty much taken hold of the grain markets for now and fundamentals are in the back seat for the most part. We have seen farmer selling all but stop with this latest slide and the user pricing has also picked up. Yesterday's export sales were solid for corn and not really that bad for beans or wheat either, so there is still some demand there.

China remains the buzzword when it comes to exports as there are new rumors and headlines seemingly every day, with some private estimates stating China has bought up to 1 MMT of corn so far, with interest in buying more. As I've said before, it isn't the bushels that they have already bought that are helping the market; it is the potential for them to become an increasingly bigger player with regards to our corn exports that provides the support. Those storylines will continue to help underpin the corn market and I think it may be enough to help us hold the old lows in the \$3.60 to \$3.70 range on new crop, especially this early in the growing season.

The bean market continues to slide, with new crop futures leading the weakness. Old crop supplies are still relatively tight and the continued strong demand should keep the front end of the bean market pretty well supported relative to new crop. China is still a player in our bean export market, with the talk this week about China switching some purchases to U.S. origin from South America. So far the large South American crops haven't had much impact on our export trade, although you still have to think we will eventually feel it a little more. Speaking of South America, the Argentine Ag Ministry raised their bean crop estimate another 1 MMT to 53.5 MMT, after spending a couple months at 52.5. The world will have plenty of beans around, especially if we have a halfway decent crop in the U.S. this year, and we are starting to see that reflected in the market with November falling through the \$9 level yesterday.

The wheat trade, well there still isn't much to say there. Plenty of moisture in most of wheat country and warm sunshine on the way over the next few days likely spells improved wheat crop condition by next Monday's report. There is no doubt the majority of the fundamental arguments for the wheat trade remain on the bearish side, but if the outside markets decide to correct and corn and beans go too, we will likely see the wheat market tag along thanks to the short covering. We have seen it several times and unfortunately if it happens, it will likely just make the basis situation even worse as we head into harvest. I hope we are crying wolf about this wheat basis potential, but I am still fairly spooked as we inch closer to harvest.

Well there really isn't much fresh news to cover this morning, with the outside markets weak again overnight and the grains able to fight it off for the most part. Crude oil is still down over a buck and the dollar is holding a little stronger, although well off its overnight highs. The equity markets look like they're going to continue their struggle today, but being the end of the week who knows what might happen, in any of these markets.

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

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