



Loewen and Associates

Commodity Brokerage/Consulting

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Morning Ag Markets

Pete Loewen

It started out looking like it was going to be an ugly day all the way around for both the grains and the livestock markets because the outside markets in the overnight action coming into Tuesday's trade were looking ugly. However, markets like the DOW and dollar moderated into choppy action by midmorning and that helped take some stress and pressure off the livestock, but grains didn't do so well into the close. Most of the cattle and hog contracts settled higher, but grains were all down in red ink territory and very near the lows of the day when that final bell rang.

We have seen the tone of the trade change significantly in the cattle complex over the last 3-4 weeks. Technicals have turned downright ugly. Outside markets have certainly helped influence the action significantly. The HUGE fund-related long open interest has been cut quite a bit. All of these factors have been leaders in the drive towards lower money and they have pulled the fundamental indicators down with them in the slide and not vice versa. Cattle numbers and inventory are still friendly. Weights are also still well below year ago levels and feedlots are ultra-current, yet cash has now taken a huge hit and the product trade has followed suit. So you might be asking "why" would the market be going down so much when the supply side fundamentals of the market are so darn friendly? The reasoning and answer to that may very well be that on the way to the top the market hit levels that were well beyond fundamental reasoning as well! I say that because commodity and index funds (who don't really care about the fundamentals by the way) held record long positions when the market was at the peak. When the outsides started to crumble, they naturally ran for cover and liquidated a lot of their ag commodity positioning as well and that is what has created these huge volatile swings on the market.

Net/net, what I want to convey is- as long as this outside money is involved in the market, volatility and large price swings are going to be the norm and not the exception. That's why it is so imperative to manage risk very aggressively. More aptly put, maybe it's prudent to take advantage of positive margins when they are presented, so that you don't have to manage or weather the risk!

Cattle slg. ___130,000 unch wa +3k ya

Choice Cutout_163.98 -.05

Select Cutout_156.49 +.42

Feeder Index:___107.68 -.73

Lean Index__ 82.06 -.87

Pork cutout__87.16 +.31

IA-S.MN direct avg__75.24 -2.76

Hog slg.___411,000 +17k wa -9k ya

Opening calls this morning are 20-30 lower in the hogs and unevenly mixed with maybe a slightly weaker undertone in cattle.

In the grain trade, after getting hammered on Friday and heading into a long three day weekend with a bearish undertone, it was tough to muster much strength during Tuesday's session. However, everything managed to make it to higher overall values at one point during the trade and the leader in the charge was wheat. It just didn't last though and by the closing bell there was red ink across the board in the fall crop markets and wheat as well. What was particularly ugly about the trade yesterday was that the wheat market had a really good shot at an outside day trading range with a higher close and then just blew it into the close when prices moved lower.

Overnight E-CBT trade was__ mildly higher with KC Wheat finishing +1/4 to +3 1/2, Chicago +1/4 to +2, corn +1/4 to +1 1/2 and soybeans -1/4 to +2 1/2.

Crop progress and condition ratings were released yesterday because of the holiday. There were some notable swings in numbers. 76% of the US corn is rated g/ex, which is up 5 points from last week. That's also only 2 points from the record on this date that was set back in 2007 at 78%. Soybean seedings were 1 point behind the average at 74% complete. Spring wheat was rated 85% g/ex which is unchanged from last week and 16 points better than the average for this time of year. Winter wheat conditions were down 1 point to 65% g/ex. Notably, Kansas dropped 5 points out of the g/ex category. After canvassing the state from northeast to southwest over the weekend, I can tell you that I have no idea where they are talking about poor wheat because it certainly wasn't on the stretch of highway that I was driving!!

Outside markets have been fairly quiet this morning so far. It was interesting also that there really wasn't any noticeable first of the month fund activity in the market on Tuesday. Maybe we'll get that today? With the overnight's up slightly and the outsides quiet, calls this morning should come in very close to the overnight close which was slightly higher. Fundamentals are negative, but the outsides and fund involvement potential at the first of the month here still leaves the door open for a lot of movement.

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