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Morning Ag Markets

The cattle complex had a surprisingly strong start to the week Monday, with both live and feeder cattle futures jumping to some big gains in the early going Monday morning and never really looking back. We did see the spot June live contract ease up a bit, but in the end we finished with triple digit gains on most other contracts. You can't give credit to the cattle on feed numbers from Friday and other news was pretty light, so where the buying came from was the big question Monday. Showlists did appear to be a little smaller this week and cutouts were a bit higher Monday, but weekend beef movement didn't appear to be overly impressive and there still hasn't been anything in the product market to warrant much enthusiasm in the live trade just yet. The stronger start to the week on the board will definitely boost the cash hopes, but keep in mind that June live contract still isn't up to last week's \$91 cash level, so I'm not quite ready to get bulled up on the cash market just yet. Give me a few days of a better performance in the product trade and that may change, but I'm not sure we stand to see wholesale changes there as we head into the heart of summer.

The cash feeder action to start the week had a slightly better tone to it, with Joplin called steady on the steer calves and yearlings while some of the heifer calves were able to trade up to \$2 higher. Oklahoma City caught a little better pop, with the feeders steady to \$2 higher while the steer calves came up as much as \$2 to \$5 over last week. The Monday auction in Oklahoma City saw cattle selling at levels similar with last Saturday's special sale, so you can't really give all the credit for stronger cash to the higher board on Monday.

One last cattle note, and I am hesitant to even mention it, but the rumor started yesterday of a possible foot and mouth disease case in Alberta. As of this morning, the Canadian Food Inspection Agency said it is investigating an animal health issue at a processing plant in Alberta. That is the only confirmed news on this matter, so don't read too much into it just yet and don't assume the rumor of it being foot and mouth is true. We'll wait for official word before discussing any potential impact on the market if it does end up being true.

Cattle slaughter Monday 129,000 unch week ago +4k year ago
Choice Cutouts: 154.70 +.76 Select Cutouts: 146.34 +.33
CME Feeder Index: 109.45 +1.10 Lean Hog Index 79.10 +.73
Pork carcass cutout value 84.23 +.49
Hog slaughter Monday 378,000 -24k week ago -25k year ago

Calls this morning in the cattle complex are going to be stronger again as the overnight electronic trade actually pushed to triple digit gains at times before backing off somewhat this morning. Feeders have pushed to levels not seen since mid-May without much help from the live side, so if we could get some improvement in the product market and cash fed cattle trade, feeders may be able to extend this run a bit. However, I am a little leery of the big recent gains, as there doesn't seem to be much behind them from a fundamental standpoint, unless the Canadian deal pans out. For the open this morning I will call live cattle 10 to 25 higher and feeders maybe 25 to 50 cents stronger.

Moving over to the grain markets, it looked like we were poised to start the week with some decent gains across the board, as the Chinese currency news along with some weather questions for parts of the Midwest had us higher in the early going. However, corn futures failed miserably at some resistance levels and finished with moderate losses while soybeans were able to hang higher, although

about a dime off the highs. Wheat futures were very choppy, although it was fairly impressive to see KC move higher at the close with the harvest pressure picking up in a big way with better weather in much of Kansas wheat country.

Overnight electronic trade last night was mixed with corn 2 to 2 ½ lower, beans ½ lower to 1 ½ higher, and Kansas City wheat 2 to 3 lower.

Well the two main drivers of the trade Monday were weather and China, with China probably having the biggest initial impact on the markets. Their decision to remove their currency peg with the U.S. dollar was viewed as supportive for most markets and helped us to the higher open. Corn futures quickly pushed up against some resistance levels and unfortunately immediately sold off, with the losses getting pretty serious at times before moderating some into the close. Soybeans held on a little better, surprisingly led by the new crop months despite the announcement of another Chinese old crop purchase. In other China news, the first cargo of U.S. corn has arrived in China and passed inspection, with unloading underway. The quick unload of this first cargo should help ease the minds of those worried about our corn getting stuck in quarantine, as that was about the last concern regarding U.S. corn sales to China. Speaking of corn sales, China tried to auction off another 1 MMT of corn reserves today to their domestic feed users, but only about 59% of it was bought and prices were lower than last week. If that market is cooling off some, it may slow the further booking of U.S. imports, unless we remain competitive from a price standpoint.

Monday afternoon's Crop Progress report showed the decline in corn and bean conditions that most were looking for, although the change in crop condition may have been slightly worse than expected. Corn condition dropped 2% overall to 75% good to excellent, although we are still ahead of last year. The bean crop was rated 69% good to excellent, down 4% from last week with Illinois and Iowa both losing 6 points in the upper two categories. Bean plantings only came up 2 points to 93% complete, although that still leaves us 2% ahead of last year. As I mentioned, the decline in crop conditions was expected following another week of treacherous weather in parts of the Midwest, as heavy rains and storms have taken their toll in some areas.

Weather forecasts bring some pretty serious heat to most of the Midwest in the coming days, with arguments already starting about how that will affect crops sitting in saturated ground. My guess is the bit of heat and sunshine will be welcome in most areas that have been pounded by rain, although the drier areas will start to suffer. There are some problems in the Delta with heat and dryness, while the Midwest is still dealing with excessive moisture in many areas. Storms are around again this morning and parts of Kansas wheat country saw some scattered storms last night, but as a whole harvest weather looks to remain pretty decent. Most of this week's rains should stay to the north, hopefully allowing us to see some more active harvest progress. Many farmers are anxious as the yields seem to have been a little better than expected so far in many areas and they would like to get it in the bin before anything else can happen. Looking at the current 6-10 day temp and precip maps, they should have a pretty good window to get that done. As a whole, weather is still a bit of a question mark with different issues plaguing a few different areas, and with the market not having much weather premium built in until just recently, we may be able to find a little support until some of these concerns pass.

That is about it for news this morning, with the overnight trade just mixed as the outside markets weren't offering much support and the corn market was still feeling the effects of Monday's reversal. Wheat will still be dealing with harvest pressure, but will be waiting for the Stats Canada acreage numbers tomorrow as well. Corn and beans both may get a little support from the crop condition decline yesterday afternoon, but it really didn't help much overnight. For the open this morning, I will call corn futures 1 to 3 lower, beans 2 lower to 2 higher, and Kansas City wheat 2 to 3 lower.

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