Loewen and Associates

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Morning Ag Markets

Pete Loewen

Cattle trade was mild to moderately higher at the finish, but there really wasn't a lot of fresh news to drive the trade. Market watchers will be monitoring 4th of July meat clearance for direction and if it's good we've got more upside potential,….without it product trade will struggle, as will the cash.

Feeder cattle trade barely missed a beat, despite corn shooting higher over the last several sessions. There is a lot of hype surrounding this 2-3 week string of huge video auctions and the excitement that surrounds these events is mixing well with the uptrend in the futures charts. Some of the prices and basis levels we're hearing from customers selling cattle at these sales raise a big smile and on a few of the strings that we're hearing reported you don't know whether to feel good for the seller, or bad for the buyer because it sure sounds like a seller's market at the moment. If this trend continues, we're going to be seeing a solid set of upticks in the feeder cattle index quotes in coming days.

Overnight trade in the livestock markets has been kind of sluggish and unevenly mixed. It was nice coming back from a long 3-day weekend and seeing futures higher and also seeing both the beef and pork processors gearing up for the shortened week with a couple of big kills. In cattle, a more aggressive kill schedule may help improve feedlot leverage in the negotiations. In hogs, we have the combination of a good start with a large kill, but also a spot July futures contract that is trading at a sizeable discount to the Lean Hog Index quote. If pork packers post another kill total today that is similar to yesterday, we'll see both the futures and the cash headed up into expiration. The short term futures trend isn't working in that direction though, so it will take an aggressive slaughter pace to fund it.

I'm calling cattle mixed and hogs mildly weaker simply based on what has been going on in that overnight action.

Moving on to the grains, it was a big turnaround day for the complex with the bulls taking charge early on in the day and wheat leading the rally with near 20 cent gains at one point. It all came to a grinding halt late though with a lot of hedge pressure capping gains at the highs. Wheat still closed higher, but corn and beans were lower on the day in most months.

Overnight E-CBT trade was__mildly higher with KC Wheat finishing +3/4 to +3 ½, Chicago -3/4 to +1 ¾, corn +1 to +2 ¼ and soybeans +4 to +7.

With Monday being a trading holiday the weekly crop progress and condition summary wasn't released until yesterday afternoon. Corn condition ratings came in at 71% g/ex, down from 73% last week. This number actually matched last year, but it's still 3 points above the average for this date as well. Corn silking was at 19% compared to just 12% on average. Last year we were at 8%. In beans, g/ex ratings were 66%, which was down 1 point from last week. Spring wheat ratings were 83% g/ex compared to 67% on average, but that was down 1 point this week as well. Two things come from these numbers; 1) they are all lower than last week which is going to be viewed as friendly, but 2) they are all still really good numbers. With the 6-10's showing normal to below temps and normal to above precipitation, these numbers should hold up very well this week. It is kind of hard to make a bullish argument on the corn market at least from a weather standpoint when temps are mild, moisture is good and the crop development is in the tasseling to pollinating stage across the entire Corn Belt! But, here we are higher nonetheless…

The wheat market raises more questions than any other at the moment. As of this weekend, winter wheat harvest passed the midway point at 54% complete. Basis hasn't budged much if any in most locations since harvest started, we're sitting on nearly a billion bushels of wheat left over from last year's harvest and this year's stocks projection is likely to top a billion bushels in Friday's report. All of this bearishness surrounds the fundamentals of the wheat market and yet futures are more than 50 cents higher than where they were at when harvest started in Oklahoma and Texas?? Folks, this is called a "GIFT", so don't pass it up!

Friday we get a fresh new batch of S&D numbers in the June USDA report. The big thing about this report is the addition of the new acreage figures from the June Plantings report added into the stocks adjustments and usage updates that will be provided. Average guesses for 09/10 ending stocks are 968 mln in wheat, 171 beans and 1.404 bln corn. Average guesses for 2010/11 stocks are 1.337 corn (down more than 200 mln from the June report), 354 mln beans (which is more than double this year's stocks!) and 1.033 bln wheat. Of course, according to the futures market recently and historically wide basis, someone thinks that must be bullish to wheat prices?? I think NOT.

Basis is telling us the true value of wheat and I also think with higher futures, we run the risk of basis widening even further in the short term. The risk in hanging on to too much of a bearish argument in wheat though is the technical picture on the charts. We blew through some major resistance levels in wheat yesterday and the chart does look bullish. It's not providing very good price discovery at the moment…

I'm calling the grains higher today. It looks like corn and wheat could start 1-3 better and beans 3-5 higher. Outside markets are very flat this morning in the DOW and dollar index, but crude is up 50+ cents.

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