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Morning Ag Markets

The cattle complex was stronger Wednesday, led by the live market which found support from active cash trade at steady to higher money as well as outside markets that were very strong. The cash trade got underway mid-morning in Kansas and Texas with the early reported sales called \$91 live, which was just steady with the past couple weeks. As the day went on the cash reports got stronger, with trade up to \$92.50 reported in Texas by early afternoon. There was some active Northern business as well, with the dressed trade called \$2 higher at \$148 and the Nebraska live trade \$1 to \$2 higher at \$93. Packers were pretty aggressive Wednesday and we likely finished up the bulk of this week's business, but once again cash is at or mostly a little higher than the spot August futures contract, so we should see that front end of the live market stay pretty well supported for the time being.

Feeders were a little more subdued on the day, seemingly taking more cues from the higher corn trade than the strength seen in the live market. The cash feeder business has been fairly decent this week for the most part as we start to see cattle come off grass in some areas. The seasonal trend for feeders is still strong and if the live market can continue to build some strength, feeders may be able to make one last run at the levels seen earlier this spring. Corn prices may start to become a little more of a factor if the weather doesn't cooperate over the next few weeks, but most probably don't view that as a major issue at this point for the feeder market.

Cattle slaughter Monday 130,000 +1k week ago +3k year ago
Choice Cutouts: 155.62 -.32 Select Cutouts: 146.28 -.19
CME Feeder Index: 112.32 -.07 Lean Hog Index 80.42 -.24 Pork cutout 80.99 -1.05
Hog slaughter Monday 411,000 +8k week ago +22k year ago

Calls this morning in the cattle complex are just mixed as the front end of the live market was holding gains in the electronic trade this morning while feeders were on both sides of unchanged. The outside markets seem a little more settled at this point after the DOW's near 300 point rally yesterday. That definitely didn't hurt anything when it came to the cattle trade, although for the past couple of weeks we haven't seen the strong correlation between the two. With cash business likely close to wrapped up for the week, cattle market specific news should be pretty light and we'll have to look elsewhere for direction. For the open this morning, I will call live cattle 15 to 30 higher on the front months with the deferreds closer to unchanged while feeders will be called just 10 lower to 10 higher.

Moving over to the grain markets, it was a pretty exciting Wednesday with big gains noted in beans and wheat while corn futures were up double digits as well. A reduction in crop conditions and more talk that things may not look as good as previously thought in many locations had the bulls in charge Wednesday. Wheat futures continue to see major short covering and sharply higher prices, with additional help coming from talk of European production problems. All in all, no one major news story to drive us Wednesday, just a day of widespread buying across the grains.

Overnight electronic trade last night was mixed to mostly higher with corn 1 ¼ lower to 1 ¾ higher, beans ½ to 3 ½ higher, and Kansas City wheat ¾ lower to 2 ¼ higher.

Well the excitement has returned to the grain trade over the past couple of weeks, ever since the June acreage and stocks report. Wednesday's big gains weren't really centered on one news story, as all the markets moved higher in tandem. The outside markets were helping, but that alone wasn't enough to

justify the gains. The talk has really picked up in recent days regarding production issues scattered around the Midwest with the focal points being too hot and dry in places in the Eastern Midwest and Delta while some parts in the West are still dealing with the effects of too much rain. Something for everyone, but it has definitely gained momentum with some starting to lower yield projections already for corn and beans. The heroes are also predicting weather problems developing in late July and into August, but since the weather guys can't tell us what will happen 3 days from now I'm not sure how they can make predictions 3 or 4 weeks down the road. Nonetheless, the buyers have showed up in force, taking us sharply higher.

The wheat market is still a little different story, with short covering still the main feature. There has been some talk of European and Canadian production issues, but in case you haven't heard, the world has a lot of wheat on hand. Even if the U.S. picks up another 3-400 million bushels of export business due to production woes around the world, we are still going to be sitting on comfortable ending stocks levels. That's not to mention the fact that July 2011 wheat futures at the \$6 level aren't going to discourage any acres this fall. More than likely it will do just the opposite. Even with a \$1 under basis, there is money there for most producers. Don't try to read too much into this wheat rally from a fundamental standpoint, just enjoy it and use it to your advantage.

Weekly export sales would normally be out this morning but the will be delayed until tomorrow due to the Holiday Monday. Tomorrow morning also brings the release of the monthly Crop Production report from the USDA, giving us new ending stocks guesses. After the sharp drops in quarterly stocks for corn and beans a couple weeks ago, the ending stocks projections are obviously going to come down quite a bit as well. The average corn ending stocks guess for this year is 1.4 billion bushels, down from 1.603 billion in June. 2010-11 corn carryout is guessed at 1.301 billion, down sharply from 1.573 billion in June thanks to the reduced carryin from this year and the smaller acreage number. Soybean ending stocks for this year are guessed at 169 million bushels, down from 185 in June. Next year's guess jumps to a much more comfortable 366 million bushels, up from 360 on the June report. We will also get wheat production estimates, with the average guess on all wheat production at 2.163 billion vs. 2.067 billion in June. Look for the hard wheat number to make up most of any increase noted in wheat production, as the harvest reports indicate a little better than expected crop. The bigger production number also has the ending stocks average guess up to 1.047 billion bushels from 991 million in June. You should all know by now that over a billion bushels in wheat ending stocks is by no means friendly to the wheat market.

Well that is about it for news this morning with the overnight trade a little quieter as the trade tries to catch its breath. Weather will still be front and center, as traders watch for rains that are supposed to be coming to most of the Midwest to see if they bring some relief to the east. Forecast maps still don't look threatening but the market acts like it wants a little more weather premium in it as the talk picks up of lower yields than thought a couple weeks ago. Corn futures are still pushing up against some major resistance, but if we can break through that \$3.95 to \$4 area on the December contract, it may open the door for more gains. Beans and corn both will be monitoring any new Chinese developments and also obviously the weather. The wheat market may have more short covering to go, but I'm still not open to much fundamental argument over the recent gains. Once again, use this rally to your advantage, but make sure you are still paying attention to things like basis and carry and choose the right tool to take advantage of the recent gains.

For the open this morning, I will call corn futures steady to 2 higher, beans 1 to 4 higher, and Kansas City wheat 1 to 3 better with about anything possible across the grain markets as traders finish positioning ahead of tomorrow's reports and watch the weather.

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