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Commodity Brokerage/Consulting

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Morning Ag Markets

Pete Loewen

We finally found a little fundamental reasoning behind the feeder cattle price direction last week. They ended the week very flat in futures with cash reporting flat for the most part in the country as well. Considering the corn market continues to advance rapidly, the live cattle market rallying nicely doesn't necessarily need to include having feeder prices in tow also. Corn was obviously the overriding force.

It is a big week for the cattle complex as there is both a midyear Cattle Inventory report coming out on Friday in addition to the monthly On Feed totals. The inventory report is expected to show the smallest cattle herd in 59 years due to more reduction in cow numbers again. The average guess is looking for a 1.8% lower inventory than the previous year.

On Feed estimates are pointing towards a July 1 population that is 2%-4% larger than last year. Placement guesses range from 115%-127% during June. The June marketings total is expected to range from 101.5% to 103% of a year ago. Given the fact we scored a week of healthy gains in the cash arena and in futures, this should be an interesting week of positioning heading into all of these numbers. Inventory numbers are expected to be bullish, yet the Placement and On Feed numbers are going to be bearish. Those Placement guesses are actually very bearish.

Cattle slg. ___666,000 +64k wa + ya

Choice Cutout__153.52 -.35

Select Cutout___144.38 -.41

Feeder Index:___112.70 +.03

Lean Index.___78.12 -.13

Pork cutout__80.61 -.66

IA-S.MN direct avg__74.85 +.86

Hog slg.____ 2.002 mln -286k wa -41k ya

Weekly closes had the August Live Cattle up 2.07, August Feeders down 10 cents and August Lean Hogs up 1.67.

Opening calls this morning are mildly higher in hogs and live cattle. Feeders could open moderately higher as long as prospects for the corn open remain lower. Corn took a decent hit in the overnight session that should help that feeder trade out when the opening bell rings.

In the grain markets, Friday's futures trade came under active pressure at times, but recovered to close near the highs of the day. That still meant a lower close in all of the wheat contracts and most of the beans, but corn finished mildly higher. In the case of corn and beans, the weather bulls are still desperately searching for that friendly forecast that includes not only hot temperatures, but less precipitation as well. The problem is, each model run that comes out stays hot, but precip estimates continue to be normal to above normal as well. When the dog days of summer are approaching, it's hard to fight the rain makes grain mentality.

Weekly closes had the December Corn up 12 cents, November beans up 31 ¾ and December KC Wheat was up 44 ¾.

Overnight E-CBT trade was__ lower in corn and beans, but higher in wheat. KC Wheat finished +2 to +5 ¼, Chicago -4 ¼ to +5 ¼, corn -4 ½ to -7 and soybeans -7 ¼ to -10 ¾.

With the 6-10 remaining at above normal temps and normal to above precip, the trade will continue to be on edge regarding which side of the fence to trade on. Weekend rains led to the pressure in corn and beans in the overnight, but wheat is still grasping the dryness issue in Russia for strength. Personally, I don't buy into \$1.00+ higher from Russian weather because if you look at the commitment of traders report, you can see exactly where the money is coming from to drive wheat. It's coming from the speculative camp. Commercials and end users who view the fundamentals much more than technicals aren't buying it and the farmer is selling it. That is exactly what the farmer should be doing too- and probably working on new crop now as well. 13 pro basis in Kansas City dropped 14 cents on Friday alone, which further emphasizes the FACT fundamentals aren't supporting this rally. Another factor people that want to be bullish aren't looking at is the current net revenue being offered for fall planted Hard and Soft Red Winter Wheat. A 5-8 million acre increase in winter wheat seedings is going to push domestic ending stocks estimates in the next marketing year WAY over 1 bln bushels and maybe even into the 1.2-1.3 bln range.

Calls this morning are 5-10 lower in corn and beans, 3-5 higher in wheat. Corn and bean opening calls are being dominated by the forecast. The overriding factor in wheat is technical strength and speculative buying and once again, has nothing to do with fundamentals.

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