



Loewen and Associates

Commodity Brokerage/Consulting

Pete Loewen, Tim Strunk,

Matt Hines, Doug Biswell

866 341 6700

www.loewenassociates.com

Date: 07.26.10

Morning Ag Markets

Pete Loewen

Hog futures enjoyed their third straight day of solid gains on Friday, but they did it in the midst of another boring day in the cattle complex trade. Both the live and feeder cattle markets showed very little activity ahead of both the midyear inventory report that came out in the afternoon and also a monthly On Feed report to add to the mix. Cash was wrapped up on Thursday at the feedlot level, so it wasn't a driver either. It was interesting though that cash was higher last week at \$95 and also that the spot August futures maintained a \$1.50-\$2.00 discount to that cash without showing any desire to rally. You would have thought with cash being up nicely the futures could pull a rally off of it, but that just didn't happen.

Both the On Feed and the Inventory reports were a non-event on Friday afternoon. That's not to say that the numbers weren't dynamic, it's just that they weren't very far off of the expectations. Total cattle inventory numbers were down 1% compared to a year ago and that was right at the expectation. Beef cow numbers were a ½ point lower than the average trade guess at 98%. Beef Replacements were right in line with the estimate at 98%. The biggest deviation from the estimates on the report were the dairy replacement heifers which were up 3% compared to expectations of unchanged.

On Feed numbers were ½ point lower than the pre-report guess- coming in at 103%. Placements were 3 ½% below the average trade guess at 117%. Marketings came at even with last year and that is 1 ½% smaller than expected. The friendliness of the lower than expected placements should be offset by the bearishness of marketings coming in lower as well. One interesting factor regarding that placement total was the 600 and under lb in-movement being up 40% from last year! Considering how good pasture conditions have been from spring through summer, that number baffles me.

The dynamic side of these report numbers of course comes from the continued reduction in the beef cattle inventory. Fewer cows, smaller calf crops, lower heifer retention- it's all bullish in the big picture. The pivot point hinges on the economy and whether demand will continue to allow prices to move higher over the long term. If the DOW stays over 10,000 and the general public continues to share this false sense of security in it staying there, than yes, cattle prices will continue to improve. The DOW isn't going to stay over 10K forever though, as there is a very rude awakening coming at some point! From this big picture standpoint, it's OK to be bullish cattle, but you better be extremely cautious and either be following the market up with stops, or owning some Put option protection for that worst case scenario. This is one of those rare occasions where options might actually have a use...

Cattle slg. ___ wtd 666,000 unch wa +44k ya

Choice Cutout__154.66 -.62

Select Cutout__146.45 -.30

Feeder Index:___111.93 -.16

Lean Index.___78.08 +.29

Pork cutout__85.26 -.25

IA-S.MN direct avg__77.52 -3.62

Hog slg.____ wtd 1.961 mln -41k wa -69k ya

Weekly closes in the livestock trade had August live cattle up 1.15, august feeders up 2.07 and august hogs up 1.52.

Calls this morning are 15-25 higher across the hogs and cattle complex.

In the grains, Friday's trade had wheat mixed to mildly higher, beans mildly higher and corn lower. Corn actually has the most solid set of fundamentals tied to it, so trading lower in the face of beans and wheat being up did nothing but draw more doubt in fundamentals having much impact at all on the grains these days. They sure don't in wheat in particular! Case in point, we got lower than expect corn acres in the June plantings report, 2010/2011 ending stocks are forecasted at 1.373 bln which is only a 10.3% stocks to use ratio. Those are supportive numbers! Now compare that to the bean market that has projected ending stocks more than doubling in the next marketing year and wheat with well over 1 bln bushels in carryout and those situations are dramatically different than that of the corn market! However, it was wheat once again with a higher weekly close, but corn that was under moderate pressure.

Grain weekly closes had sept kc wheat up 16, new crop july up 14 $\frac{3}{4}$, December corn down 22 $\frac{3}{4}$ and nov beans down 3 $\frac{1}{2}$.

Overnight E-CBT trade was__ mostly lower with KC Wheat -1 $\frac{3}{4}$ to -2 $\frac{1}{2}$, Chicago -1/2 to -4 $\frac{1}{2}$, corn +1/2 to -2 $\frac{1}{2}$ and soybeans -4 $\frac{1}{4}$ to -7 $\frac{3}{4}$.

The Sunday night release of the 6-10's sounded like a broken record last night- above normal temps and normal to above precip.

We talked about the protein scale bids in wheat some last week and it's still slipping. 13pro wheat dropped 20 cents on Friday alone in Kansas City, taking it from even to -20 in the bid. The protein scale bid numbers have been slowly declining for several weeks now, but a drop like that one all at one time was a big one! I can't help but think that if wheat continues higher from here yet that basis at the country elevator is going to get even wider than the atrocious levels it's at now as well. This contract needs to be fixed and it needs to be fixed by changing the delivery mechanism. After all, that's how and why these exchanges and contracts were developed.

I'm calling the grains 2-3 weaker in corn and wheat, 5-7 lower beans. Outside markets are quiet, but I seriously doubt the volatility is gone. We'll move big in one direction or the other today.

Pete Loewen & Tim Strunk

Loewen and Associates, Inc.

www.loewenassociates.com

peteloewen@cox.net

timstrunk@cox.net

866 341 6700

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