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Morning Ag Markets

The cattle complex was mixed to mostly lower to start the week, as there wasn't anything in last Friday's reports that caught anyone off guard or triggered any major moves. Live cattle futures did respond with lower trade Monday and we actually pushed triple digit losses on some contracts as we headed into the close. It was a little surprising to see fats move that much lower, especially with the spot August contract already at a discount to last week's mostly $95 cash trade in the South. Now that discount is well over $2 and the likelihood of higher cash again this week took a pretty big hit with Monday's futures losses, unless we can gain that back quickly. Steady money probably isn't out of the question at this point, but another day or two like Monday on the board and we'll start backing cash up as well.

Feeder cattle futures started the day higher Monday but eventually gave in to the pressure from the live side, despite lower corn futures once again as well as cash feeder trade that seemed to start out the week a little better. Joplin was called $1 to $2 higher on the calves and steady to $2 higher on the yearlings, with receipts coming up after last week's heat-induced slowdown. Oklahoma City had a better undertone as well, with the feeders called steady to a buck higher while the calves were steady to $3 higher. The cash index is still more than $2 below the August feeder board, so cash is either going to have to continue to come up over the next month or futures will need to pull back. From a seasonal standpoint the futures trade has performed as expected and there have been scattered reports of strong cash action in the country, but we really haven't seen it reflected in the index-at least not yet.

Cattle slaughter Monday 129,000 +3k week ago +5k year ago
Choice Cutouts: 154.90 +.24 Select Cutouts: 145.78 -.67
CME Feeder Index: 112.60 +.63 Lean Hog Index 79.03 +.96
Pork carcass cutout value 86.74 +1.48
Hog slaughter Monday 386,000 +7k week ago -33k year ago

Calls this morning in the cattle complex are just mixed as the electronic trade has been on both sides of unchanged this morning. Some of the deferred feeder contracts were a little weaker while fats were mostly higher, hence the mixed calls. Traders will be waiting on cash news and with futures over $2 below last week's cash, a steady guess is about the best I can do right now, with the potential to maybe even slip up a bit if the board adds to Monday's losses. I don't think we are ready to fall out of bed by any means, but $95 cash fed cattle at this point in the summer is a pretty good ticket and I don't know how much more we can get out of it for the time being. For the open this morning, I will call live cattle 10 to 20 higher and feeders maybe 10 lower to 10 higher, led by the front months.

Moving over to the grain markets, mostly favorable Midwest weather, including widespread rainfall over the weekend, held the key to the corn and bean trade Monday. Soybeans felt the most pressure after holding strong last week, as not even another confirmed Chinese purchase could do much to slow down the losses. Kansas City wheat stayed lower throughout the day, but there wasn't much conviction behind the selling as everyone is still monitoring the situation with the Russian drought.

Overnight electronic trade last night was higher with corn 4 ¼ to 4 ¾ higher, beans 5 ¼ to 6 ½ higher, and Kansas City wheat 6 to 8 higher.

Well forecasts continue to keep enough rain around the Midwest to generate some weather-related selling, led by soybeans Monday as we get closer to the month of August and crunch time for the bean crop. Corn futures have also been hit hard over the past week, with new crop futures more than 30 cents off the highs scored not long ago. There is still a fair amount of uncertainty as to just how good this crop can be overall due to the wide variety of weather faced by growers around the country this year, but the crop ratings still paint a pretty decent picture. We'll get to those new numbers shortly, but as a whole it still looks like we have a decent corn crop coming on and we are getting closer and closer to not being able to hurt it too much from a weather standpoint. With no major threats in the 2-week outlooks, that should just about do it for many areas. Beans obviously have a little further to go, so all we can do is keep an eye on forecasts and watch for the reaction on the board. Other than weather, China remains the other driver of news for beans, with another big new crop purchase announced yesterday. I would say the active Chinese buying accounts for most of the reason we are still closer to $10 than $8 or $9, as it looks like the Chinese will try to keep the same active import pace through the fall that they did last year.

Moving on to those Crop Progress numbers from yesterday afternoon, there really weren't too many surprises for the market, with overall corn and soybean conditions unchanged for the most part. The corn crop did add 2 points in the excellent column, up from good, but we are still at a combined 72% good to excellent. 84% of the crop is now silking, 32% ahead of last year and 14% ahead of the 5-year average. 17% was also reported in the dough stage, 10 points ahead of last year. The soybean crop stayed at 67% good to excellent on the week, with no major changes there either. 35% of the bean crop was setting pods, 16% ahead of last year and 4% ahead of the 5-year average. With a wide variety of weather conditions over the past week ranging from triple digit heat to flooding rains, most were expecting crop conditions to stay pretty much steady and that is just what Monday's report showed.

Well the wheat trade continues to stay pretty well supported as there has been no relief in the drought-stricken regions in Russia and their crop size continues to shrink. Some relief looks to maybe be coming late this weekend into next week, but the damage will already be done for the most part. Everyone knows that by now, it will just be a matter of quantifying it and that will have to wait until after harvest. It is generally accepted the Russian wheat exports will be down sharply, leaving other exporting countries to pick up the slack. Luckily the world has plenty of wheat around to do just that, but there have been no signs of panic by importers yet. We haven't seen any out-of-the-ordinary wheat sales here in the U.S. and there is still no one to buy hard red winter wheat at the Gulf, even with the protein scale falling off a cliff in Kansas City as basis continues to worsen. At this rate futures may continue to rally and push to the $7 mark, but basis may be $2 under by then. The demand everyone is banking on hasn't showed up yet and even if it does, we still have well over a billion extra bushels to help meet it. I know everyone probably just laughs when we keep talking about burdensome wheat supplies when all the market does is go higher, but until we see that true demand develop and lead us higher instead of just the speculative crowd, I'll stand firm. If we ever get to the point where basis starts to narrow in a big way and futures are still going, then I'll be a believer. Until then, I'm willing to keep using these rallies as selling opportunities, especially as it gets closer to fall and time to make planting decisions. One last wheat note, the early talk from spring wheat country sounds promising as they begin harvest, with some big yields and excellent quality reported, although that won't come as much of a surprise for anyone who has been following the crop condition reports this year.

Calls this morning are going to be higher as the overnight trade turned that way, led by wheat once again. European wheat futures are making more new highs and we just as well follow along. Weather still isn't a problem as a whole in the U.S. with forecasts looking mostly favorable, but it looks like we may try for the classic turnaround Tuesday, at least at the open. For now, I will call corn futures 3 to 4 higher, beans 4 to 6 higher, and Kansas City wheat 6 to 8 cents higher.

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