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Morning Ag Markets

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Despite the energy market spending most of the day at higher money, grains and livestock futures found a session filled with red ink. Wheat was the downside leader in the grains, with a weak book of fundamentals working against it. Crude oil was edgy, but surprisingly not as bullish as what might have been expected given the hurricane awareness that's growing in the Gulf. That's probably the only factor that kept corn and beans from a lot nastier losses.

In the livestock markets, live cattle were the least ugly of the bunch with no losses in the triple digits, unlike feeders and hogs. With a growing contention that cash trade is finally on the mend and headed higher into fall, that warded some bears away from that pit. Last week the cash trade kicked it off on a Tuesday at lower money which was a disappointment a) because they didn't hold out for higher money and b) because they gave in so early in the week which sent a clear signal that the packer had the upper hand in leverage. **Hopefully** we'll see a better negotiating stance taken by feedlots this week and a final turn in prices towards higher fall market money.

Cattle slg. __ 128,000 -1k wa unch ya

Choice Cutout __ 162.04 +.42

Select Cutout __ 155.31 +.89

Feeder Index: __ 113.61 +.08

Lean Index. __ 86.90 -1.19

Pork cutout __ 83.79 -3.93

IA-S.MN direct avg __ 77.09 -1.82

Hog slg. __ 432,000 -2k wa +28k ya

Opening calls this morning are just mixed in the live cattle market, mixed in feeders and mildly lower in the hogs.

Product price quotes have literally been torn apart this week in the pork market and that doesn't bode very well for a repeat performance of what we had with the steep early August rally. We've pointed out all along that slaughter capacity was going to be tested this fall, which theoretically should be a negative to the market. However, to read some comments this morning that pork demand looks like it's falling apart at the seams is a statement that is a little bit out there in left field. I don't think demand for pork is going to be wavering one bit this fall. Especially with beef product prices set to stay steady or even move a little higher. What has the potential to hurt hogs is steady to only slight increasing demand this fall coming at the market hand in hand with slaughter numbers increasing 3%-4% over year ago levels. That

means weekly kills will not only overshadow previous year totals like they have all year long already, but they are going to also be going through their normal seasonal increase that always happens from Sep through Dec in the first place. So the question is- can the market handle 2.3+ mln head per week during the fall and early winter months, compared to 2.0-2.2 mln like we've seen through the spring and summer??

In the grains, yesterday's opening bell action was contrary to the opening calls. Overnight trade on Monday night was considerably weaker, but with a hurricane that at the time had a bullseye centered on the Louisiana coast, the opening price was a lot less damaging than the calls were thanks to higher early crude oil trade. Corn and soybeans both spent a little time near unchanged and even a little higher in the case of beans and compared to a bean market that was down 30 cents in the overnight close, that's a stout turnaround.

Overnight E-CBT trade was__ higher with KC Wheat +3/4 to +5 1/4, Chicago +1/4 to +8 1/4, corn +5 to +7 1/2 and soybeans +10 1/2 to +19 1/2.

On a little bit of a weaker dollar this morning, grain calls are getting some help with a chance to open near the overnight settlements. Wheat 1-4 higher, corn 3-6 better and beans 10-15 higher. Short term outlook still raises question about corn and bean crop production potential domestically. There are probably more leaning towards lower crop sizes in the coming September report than higher. That flies in the face of the old adage that big crops get bigger. Additionally, when you step back and look at the big picture for the fall crops, increasing usage each and every year makes it imperative that we continue to seed more acres and raise better crops or risk extreme tightness in supplies and that's going to command higher soybean AND corn prices down the road in another battle for acres. It doesn't mean we couldn't go back down and test the recently lows or possibly even exceed the lows in the short run, but longer term it's a higher market.

In the case of wheat, a \$10+ new crop quote last week made a major statement in a market that's bearish any way you slice it. Domestic stocks are large, not huge, but large. World stocks are a lot more healthy now and \$10, plus a lot better soil conditions in many parts of the High Plains is going to ensure adequate seeding this fall. So it is going to take an awfully strong pull from corn and beans to the upside to get wheat to follow.

Opening calls are better, but I don't know if we can close there in the wheat at least.

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