Loewen and Associates

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Morning Ag Markets

Pete Loewen

Live Cattle futures were fairly quiet on Monday, but a big jump in the noon boxed beef report on Tuesday sparked a strong late surge that pushed the front month April contract to a close up over a dollar higher. Feeders found some strength in the deeper deferred contracts, but were quiet on the front end. Oklahoma City's Monday feeder cattle auction had another large run, but instead of strongly higher like it had been in recent weeks, the heavier weight end was steady and stockers and calves only $1.00-$4.00 higher. Hopefully that's not a sign that this long held rally has maybe started to moderate just a little bit.

The problem in looking at the big picture fundamentally is that we have banked all along on demand really needing to be the driver in a sustainable rally in the cattle market. By "demand" I'm referring to the demand at the end of the line, which is demand for middle meats in the export channels, HRI trade and at the consumer level in the home. I think we have really good demand at the lower end of the spectrum for calves and stockers and up through the feedlot level as well with packers willing to push cash up into the $90's. At the feedlot level, part of the push was weather induced, but I'll still argue that a bigger portion of it was outside forces and speculative and fund money that drove both the feeder market and the live market futures up to such high levels. While that's a great thing to have happen for the cattleman, the burning question is whether it's sustainable when these markets are supported beyond where the true fundamentals would dictate??

That's also why it is important to be very margin sensitive in this type of environment and not be afraid to lock in some of these higher prices that are being offered and at the same time don't be too overzealous in what you have to spend on the next round of cattle you buy…

Cattle slg.___120,000 -3k wa -4k ya

Choice Cutout_151.25 +.91

Select Cutout_149.50 unch

Feeder Index:___101.49 +.22

Lean Index.__ 69.78 +.66

Pork cutout__73.96 +.25

IA-S.MN direct avg__70.13 +.84

Hog slg.___432,000 +3k wa +4k ya

Opening calls this morning are 25-50 higher in the hogs based on what has been going on in the overnight action and just mixed to maybe slightly higher in the cattle.

Grains traded actively on both sides of unchanged yesterday and in the end finished just mixed. Outside markets like the dollar and the DOW were mixed as well, so outside direction wasn't active outside of crude which was up 1.00. That obviously didn't have much of an impact on the corn market.

Long term fundamentals are still pointing towards a very large South American bean crop and too much wheat supply both domestically and in the rest of the world. That fundamental bean pressure in particular is going to be growing with each day Brazil and Argentina gather more of their crop. The fear is whether or not China will begin to cancel previous export commitments and replace them with S.A. product. If prices move higher, it is unlikely to happen very actively, but if a lower trend develops again in the futures, the odds increase significantly. We've made it through the last three weeks with a pretty decent recovery on the books in soybean prices, but it gets tougher by the day to sustain those gains and support with their harvest progressing so rapidly.

I think the wheat situation has been supported entirely by the funds. This goes back to the fact the last time we had ending stocks projections like this was in 1987 and in every year since that supplies have been within even 150 mln bushels, the market spent a significant amount of time in the low $3's and even upper $2 range. I'm not saying we have to dip that low this time around, but to say wheat belongs at $5 which is twice as high as where we were back in 1987 at the expiration of the July KC Wheat contract isn't very realistic. That's why I feel like wheat still has a lot of downside risk tied to it. Another $.50 to $1.00 is certainly not out of the question.

Overnight E-CBT trade was__ mildly higher across the board. KC Wheat finished +1 ¼ to +2, Chicago +1/4 to +2, corn unchanged to +2 and soybeans +1/2 to +6.

At the forefront of the news today is the growing concern about the March 10th USDA report numbers and where they peg the harvested corn and bean acres and yields for the 2009 crop. Planting intentions are also being talked about heavily and with such a wet winter and continued wet pattern, the talk is mostly friendly towards the market. Keep in mind though, all of this talk is based on speculation and not fact, so developing a strong opinion about a price direction based on that speculation wouldn't be very prudent. The grains and oilseed market have moved from short term higher since early February, to much more choppy in recent sessions.

A slightly weaker dollar, higher crude and mildly stronger DOW and metals should help support a continuation of the overnight action at the open and a mildly higher start.

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