Loewen and Associates
Commodity Brokerage/Consulting
Pete Loewen, Tim Strunk,
Matt Hines, Doug Biswell
866 341 6700
www.loewenassociates.com

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Morning Ag Markets

Pete Loewen

Livestock trade on Tuesday found hogs continuing their rally efforts but cattle traded unevenly mixed. Cash indications are positive at the feedlot level and the technical trend is positive as well, but live cattle futures in particular have had a tough time finding buyers this week. It's not that they are going down a lot, but they just don't want to go up much either. When cattle traded last week at $95, the spread between cash and the spot August futures was $1.50-$2.00 and it has gotten even wider this week. How that changes the cash picture this week is that we came into it thinking higher money would be a given, but now without futures showing any rally potential so far, it might be more of a struggle. Worst case it is going to delay trading till Thursday or Friday.

In the hogs, the futures trade has been very choppy lately, but that chop is happening in big ranges and the overall trend appears to have an upward bias. Comparing a chart of futures compared to a chart of what cutout values have done recently is vastly different. Cutouts are up $5.00 from last week with the gains driven moderately by appreciation in loin values, but more dramatically by the belly trade. Cash bellies are $10.00 higher than where they were at just two weeks ago and $15.00 higher than where they were at coming into the month. That's some stellar improvement! It makes the hog market look pretty bullish here short term yet.

Cattle slg.___125,000 -5k wa +3k ya

Choice Cutout__155.23 +.33

Select Cutout___145.73 -.05

Feeder Index:___112.76 +.16

Lean Index.__ 80.01 +.98 Pork cutout__86.26 +.12

IA-S.MN direct avg__80.43 +.95

Hog slg.___ 378,000 -13k wa -35k ya

In the grains, it was a strong start for the markets on Tuesday, but a lackluster finish. Outside markets were quiet for the most part, weather is negative and the crop condition reports on

Monday afternoon were negative as well, so there really wasn't any reason for significant strength. Probably more room for weakness than anything else, but that wasn't in the cards either. Corn and beans closed flat and wheat mildly higher.

Overnight E-CBT trade was__ higher with KC Wheat +2 ½ to +11 ¾, Chicago +9 ¼ to +13, corn +3 to +5 ¼ and soybeans +6 ¾ to +8 ¼.

We obviously had a big turnaround in the overnight action and by looking at the newswire this morning it was being led by the wheat. EU futures continue to shoot higher on threats to the Russian and European crops and the US market is obviously in close tow. Russia's production forecast has been cut from the 80-90+ mmt range, down to 75-80 mmt's. That isn't new news though, as it was right in line with previous estimates. Private analysts are looking for Russia's wheat exports to be trimmed by about 10 mmt's from 22 down to 12 this year and that's the equivalent of 360 mln bushels. So, with some quick calculations, let's say the US were to pick up all of that slack in the world wheat trade and our exports go up by 360 mln. That would take US ending stocks in this marketing year down to about 750 mln bushels, <u>still</u> the second largest total since 2001 and almost 2 ½ times larger than what the 2007 stocks number ended. From a world standpoint, the potential slippage this year takes stocks down to the second largest total since 2001 as well. <u>Stocks would still be over 2 bln bushels larger than the tight point in 2007.</u>

So, the question that warrants being asked is- do US wheat prices really need to be more than double what they were in 2001 when stocks levels were similar???? Can you say- "opportunity"?

The ONLY market that legitimately warrants being well supported in today's market is the corn market. No longer is 1.4 bln bushels a comfortable stocks number domestically and we have to continue to produce larger crops and plant more acres each year to feed the demand giant that is growing larger every year. The problem is, $6.73 new crop wheat futures and $9.80 new crop 2011 beans are overpriced and creating too much competition for corn acres for the next crop year. $6.73 wheat in KC and $6.75 in Chicago WILL generate expanded acres in wheat and WE DON'T NEED THAT!

One other point to make about wheat is the basis argument. The KC Wheat protein scale is sliding farther and farther as futures go up. That's going to translate into weaker country bids and make this basis tragedy even worse. Keep that in mind when you're thinking about selling cash wheat into this rally. Don't make silly mistakes!

I'm calling wheat a dime higher today, corn and beans 4-7 higher.

Pete Loewen & Tim Strunk

<u>Loewen and Associates, Inc.</u>

www.loewenassociates.com

peteloewen@cox.net

timstrunk@cox.net

866 341 6700

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