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Morning Ag Markets

Pete Loewen

Extreme volatility hit the cattle complex Wednesday with prices sinking limit down on some contracts in feeders and more than $2.00 lower in several of the live cattle contracts. The big bearish turn had a lot of market participants calling for the top to be in the cattle, but I remember very distinctly this same thing happening early last week and at numerous other times during this long run up and turning around for new highs again shortly thereafter, so I'm not going to be quite so ambitious on agreeing on the top.

What this does do for the live market in particular is create yet another big basis dilemma for negotiated cash feedlot trade again this week. The spot August live market closed $7-$8 below last week's cash yesterday, which means to get steady or better prices this week the beef packer would have to swallow really hard and admit to huge defeat on their leverage position. Then again last week once again proved they really don't have much leverage at all in the first place, so this is nothing new.

Cattle slg.___114,000 -2k wa -10k ya

Choice Cutout__250.57 +.59 Select Cutout___242.26 -.36

Feeder Index:___214.09 +.24

Lean Index.__130.93 +.85 Pork cutout___135.38 +1.05

IA-S.MN direct avg__132.41 +2.01

Hog slg.___ 397,000 -14k wa -10k ya

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Moving on to the grains, trade continued to sink with lower closes everywhere except old crop soybean futures. The july beans were very weak early, but rallied late to close higher in the face of everything else being in the red. Not a lot of bullish news out there and with crop weather still conducive to bigger corn and bean yields, fighting the down trend has not been a smart move lately.

Weekly export sales numbers this morning were very similar to last week as they were bearish wheat and corn and bullish to the beans. 14.3 mln old crop sales and 15 mln new crop in corn weren't viewed as friendly at all. Wheat sales were 12.4 mln. Soybean sales once again came in with a positive number instead of a net negative. The total was 2.1 mln old crop and 19.3 new. Just the fact we're still not seeing any cancellations of size should be viewed as very bullish old crop still. The cumulative shipment pace for the marketing year to date was also bullish with total actual exports over 1.6 bln now. 1.674 is the total commitment number and only 73 mln of that remains unshipped, 24 mln away from USDA's total projection for the year. Granted, if the cancellations start in earnest now it is still possible to miss the export mark, but given the recent pace of positive sales numbers and active shipments, I'm still betting on us meeting the pace and USDA potentially raising the old crop export total still.

In the 8:00 am daily export release there were two bean sales reported. 126,000 tonnes to unknown destination with 60k of that total being old crop beans and the rest new crop. Another 118k metric tonnes were reported in new crop sales specifically to China.

Tomorrow morning we get the next round of S&D and crop production numbers out of USDA. Given the fact we still have to wait until the August report for actual surveyed data on corn and soybean yields, we still get some new production data due to the fact the June final planted acreage numbers will now be incorporated into the numbers. There isn't much to say for the corn market because we'll have an old crop ending stocks number over 1 bln and a new crop stocks number that should come in approximately 500 mln larger than this year.

Soybeans are the battleground with extreme tight old crop stocks being the polar opposite of what huge acreage gains and production will bring into the new crop balance sheet. Old crop beans stocks are pegged at 130 mln in the guesses and new crop at 408 mln. That's a giant difference!

In wheat, I'm still at a little bit of a loss for words… Ending stocks are expected at 585 mln, which historically is riding the edge domestically between slightly uncomfortable and tight supplies. Production is expected to come up slightly compared to the June numbers, which is causing the ending stocks guess to rise slightly. The unfortunate reality for wheat though is that it is still playing second fiddle to the fall crop markets. When stocks were excessively large for several years while corn and beans were tight, wheat rallied on the coat tails of corn and soybeans. Now that wheat supplies are tight, corn and soybeans supplies are growing and wheat is sinking on the coat tails of the fall crops. The one thing I have learned about wheat over the years is that you can't analyze the wheat market by itself. It is influenced very heavily at times by the rest of the grain and oilseed complex.

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