



Loewen and Associates, Inc.

Commodity Consulting/Brokerage

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Morning Ag Markets

Pete Loewen

Day number three of deep losses in the cattle complex raised more questions than answers as to whether we'd finally put the summer highs in the market yet. Not only is this the largest string of consecutive losses on a daily basis in contracts like the August feeders, but this is already the deepest total pullback in the contract life as well. Same story for the spot August live cattle contract.

The interesting side to this steep drop is that evidently somebody forgot to inform the packer, or the processor or even some cattle buyers that futures were dropping this much. The CME Feeder index quote was higher Tuesday and Wednesday, (although granted, that is figured on a moving average and two day delay), product trade was higher in both the choice and the select last night and negotiated cash feedlot trade was only down \$2-\$3 live and on a dressed basis in Nebraska only down \$1.00 from peak to peak between this week and last! Basis off the Southern Plains top between cash and the August futures close yesterday was \$7.85.

The point I'm trying to make between these cash indicators and futures is that this drop is very obviously being led by futures, with only a few of the cash indicators following and those are following very reluctantly thus far, with some still going up. This drop started with reportedly a large number of get-me-out type hedge liquidations over the last two weeks and now a lot of get-me-in type new hedges that are causing futures to snowball lower to some extent. Whether this selloff lasts and signals the top remains to be seen, because I'm not brave enough to call it a top yet. What I do know is that a lot of managed money and fund liquidation of longs is also taking place and if they want to go full bore with the liquidation, it very well may be over for the time being.

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Cattle slg. ___ 113,000 -3k wa -12k ya

Choice Cutout __ 252.17 +1.60

Select Cutout ___ 243.52 +1.26

Feeder Index: ___ 214.82 +.73

Lean Index. __ 131.63 +.70

Pork cutout ___ 134.76 -.62

IA-S.MN direct avg __ 129.85 -2.56

Hog slg. ___ 395,000 -8k wa -13k ya

Moving on to the grains, red ink and some deep losses in beans were the theme, not unlike the livestock trade. Export sales were bullish old crop beans, daily exports were bullish beans and yet beans led the losses. Weather forecasts have caught the attention of the trade as well with cold temps creeping deep into the Corn Belt early next week. Cold weather is a mixed bag though... In the far northern areas it is going to cut into the heat units and growing degree days very harshly, but for central and southern corn areas in particular I don't think we could ask for better pollinating and kernel filling weather than cooler than normal mid-July temps!

As is normal, what's good for increasing production is usually bad for prices.

This morning at 11:00 we get USDA monthly S&D and crop production numbers. 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, with 1.225 the expectation and a new crop stocks number that should come in approximately 500 mln larger than this year with a current average guess at 1.773.

Soybeans are where the volatility potential lies with extreme tight old crop stocks being the polar opposite of what huge acreage gains and production will

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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! The June S&D had new crop ending stocks at 325, so a jump to over 400 is big.

In wheat, 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 all wheat production guess is 1.972 bln, up from 1.942 in June. Ending stocks are projected at 585 mln versus 574 in June. The outward appearance of wheat fundamentals on the domestic side is bullish, but the wheat market is also fighting a huge world supply and a currently bearish corn market as well. Tough to go up with negative outside forces.

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