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Morning Ag Markets

Pete Loewen

Both the feeder and live cattle futures traded sharply higher on Tuesday probing closer and closer to new contract high territory. The spot August live market was locked limit up at the close and the front four contract months in feeders were up the $3 limit as well. Fueling the bullish flames was active short covering from technical traders that bit and sold on the weekly key reversal and hard weakness from two weeks ago. That big dip in the market was also the largest price drop witnessed over the entire lives of contracts like August fats and August feeders as well. Feeders now sit within striking distance of their previous all-time highs and the August fats made it firmly into new contract highs during last night's trade.

Cash-wise in the fats, there is a lot of packer interest showing up early this week with some outstanding basis trades being offered in the country. Available numbers are still very tight compared to the processing capacity, so the miniscule amount of non-contract type cattle that enter the negotiated trade each week create quite the bidding competition between packers that are trying to keep those chains moving at a decent pace. Sometimes the buying goes on with apparent disregard for their margins based on what they may have to pay this week. There is still significant leverage sitting in the feedlot's hands.

Monthly cold storage data was released yesterday afternoon showing bullish beef numbers and bearish numbers for the hogs, or in particular the pork belly side of the hogs. Total beef in freezers was down 26% from last year at the same time. Total pork stocks were down 5% from last year, but belly stocks were actually up 100% from a year ago.

Cattle slg.___117,000 +1k wa -4k ya

Choice Cutout__252.80 +2.28

Select Cutout___245.79 +1.71

Feeder Index:___210.48 -.40

Lean Index.__132.57 -.59

Pork cutout___133.84 -1.15

IA-S.MN direct avg__126.02 -1.63

Hog slg.___ 398,000 +1k wa   -2k ya

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Grains futures sunk across everything except old crop soybean futures that managed to squeak by with green on the screen despite new crop being down in the double digits. There is a giant differential still prevalent between old crop and new crop price, but there is also a giant differential between old crop ending stocks and the huge supply that 84.8 mln planted acres should produce as well. That explains very vividly why we continue to maintain the strong price inverse between the spot August and the new crop November futures.

Reasoning for the pressure across most markets can be attributed to stagnant news and continued very good crop condition ratings in corn, beans and spring wheat. Being late July and still holding strong with pretty favorable weather still in the forecast makes it tough to go up. That's exactly why we continue to see lower lows and lower highs being posted and a slow and methodical downtrend.

6-10 day forecasts released last night showed below normal temps over the vast majority of the Corn Belt and Plains states and a mixed bag in the precip category.   For the most part the Corn Belt moisture is normal, but a little drier north. Given the fact this forecast creeps into the month of August, it remains on the bearish side for beans and corn both.

Other news this morning showed a lot of continued chatter about much stronger old crop bean basis quotes popping up around certain regions. I don't think farmers have a lot of beans left in the bin, but corn supplies are still out there in quantity.

Also some talk about North Dakota spring wheat tour numbers that showed Day 1 field checks coming in at 48.3 bu/ac, compared to 43.3 last year and 42.9 on the 5 year average.   A little bearish undertone in those numbers to go along with the weather.

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