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Date: 12.30.2014

Morning Ag Markets

Pete Loewen

You know, we used to call a $3.00 range of trade in the feeder cattle market in any given day a wild ride, but these days that's a normal range and all in a day's work. $5-$9 ranges are the wild rides and even those aren't very rare since the CME changed the daily price limit to $4.50 from $3.00 previously. The meat complex is not a market to speculate in given the extreme volatility these days and it's not for the faint of heart from a hedging standpoint either. The cash flow needs are tremendous given the fact there is often times swings in a daily trading range that equate to well over $50/hd in value for the entire weight range that the contract covers.

I think I made the comment yesterday that the wide swath between spot January feeder futures and the index that was trading at a steep premium had to start coming together over the next 30 days heading into the expiration of that contract. What I didn't anticipate was it happening in a single session with the index dropping more than $11 yesterday! The reality of that drop is that there were only two auctions added to the index in the calculation yesterday since holiday trade is so thin. It really puts into perspective the extremeness of the situation though when you go from a $10+ cash index premium versus futures to a $3.00 futures market premium over the index in just one day. That's just one more reason we push the positive margin and risk management game so hard when it comes to cattle in here. If they don't pencil positively at the purchase, they shouldn't be bought. If something does work, 100% of the equation is risk managed using cash methods whenever possible to reduce the basis risk. If that can be accomplished, health and weather are the only two omens that can bite you and that's a LOT different than the "bet on the come" philosophy that should be 100% avoided in the cattle market these days.

Cattle slg.___116,000 +1k wa -17k ya

Choice Cutout__245.67 +1.15

Select Cutout___236.51 +.90

Feeder Index:___214.46 -11.14

Lean Index.__78.73 -1.08

Pork cutout___86.88 +.77

IA-S.MN direct avg__74.65 -.84

Hog slg.___ 437,000 +2k wa unch ya

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Moving on to the grains, it was a frustrating finish for everything except wheat yesterday. Last week's scheduled export sales report was released yesterday morning and keep in mind it was for sales two weeks ago, so it was moldy data in the first place. The corn number was really quite friendly at 67.1 mln bushels, beans neutral to mildly friendly at 23.4 mln and wheat bearish at 10.8. So, a bearish wheat number resulted in a higher close for wheat. Bullish corn and friendly beans resulted in lower closes for both of those markets. We did see the bean market trade double digits higher at times during the session, but they faded fast into the closing bell.

Recent South American weather has been conducive to good crop development and overnight there was at least one story floating around of 100 mmt production potential in the works for Brazil this harvest. USDA has them pegged at 94 mmt's at the moment, with Argentina at 55 mmt's. Keep in mind, if South America breaks 155 mmt's between Argentina and Brazil combined, US ending stocks are still projected at 410 mln bushels and world ending stocks break out above 90 mmt's, that's a very large mountain of supply that's going to take an unbelievable amount of demand to chew through. Also keep in mind the thoughts that US soybean seedings this coming spring could increase sharply and it becomes really difficult to be longer term friendly to beans. That's some frustrating data to chew on and digest for a little while this morning…

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