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Morning Ag Markets

Both grains and livestock opened up strong after the long holiday weekend. Cattle futures most certainly the strongest, posting triple digit gains and the March feeders actually touched limit higher at one point yesterday. Hogs were mixed with pressure on the front months while deferred contracts traded higher.

No cash feedlot trade to report in the South, but there were 550 head sold in NE yesterday at $122.50 live. Fed Cattle Exchange later this morning with only 388 head consigned compared to last week's 637 head of which all were no sales.

Cattle slaughter from Tuesday is estimated at 113,000 head, up 22,000 compared to last week but down 3,000 compared to last year. Hog slaughter from Tuesday is estimated at 460,000 head, up 103,000 compared to the week previous and up 20,000 compared to a year ago.

Boxed beef cutout values higher on moderate demand and light offerings for a total of 103 loads sold.
Choice Cutout__205.14 +2.24
Select Cutout__196.57 +3.59
CME Feeder Index:__155.33 -.69
CME Lean Hog Index.__62.23 +.51
Pork Carcass Cutout__78.33 +.11
IA-S.MN Wtd Avg Live__ price N/A, Wtd Avg Carcass Base__59.43 +.24
National Wtd Avg Live__ $46.48 +.20, Wtd Avg Carcass Base__59.02 +.28

February live cattle quickly out of the $5 trading range seen last month. Support down around $120 and then from $118 to $117.50 with the first area of resistance at $123.70, the 50-day moving average, then up at $126.70. Feeders actually gapped higher yesterday playing catch up a bit from last week's rally in fats. Looking at the high from November and the low in December, the Fibonacci retracement levels line up pretty well for the next resistance levels. The first was taken out yesterday at $149. A 50% retracement at $151.52 matches up with the 50-day moving average followed by the next level at $154.05. February lean hogs choppy yet again but up near the top of the 3 month long trading range from $66.25 to the contract high at $73.30.

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Grains were higher yesterday but not in part to export inspections. Grain shipments for the week ending December 28th were not bullish with corn and soybeans at expectations, 26.9 MBU and 41.9 MBU respectively. Wheat was below expectations at 10.1 MBU and half of last week's shipments. Demand for grain sorghum continues both domestically and abroad. 4.8 MBU were exported last week and over 5 MBU used for domestic ethanol production in November, up from 4.3 MBU in October. Other domestic usage numbers for November reported by USDA yesterday were 525 MBU of corn milled which was expected but soybean crush at 171 MBU fell short of expectations by 3 MBU and 4.9 MBU below October.

Corn used for fuel alcohol during the month of November totaled 475.2 MBU, a +1.2% increase over October, and a staggering +5.2% jump over November 2016 levels. Total corn usage for the first quarter of the marketing year totaled 1.391 BBU vs. 1.343 BBU last year. Q1 usage as a percentage of the USDA's annual projection equals 25.2% vs 24.7% in Q1 '16/17 and 25.0% in '15/16.

Grains overnight were firm with corn finishing steady to 1 higher, soybeans 4 to 5 higher and wheat 2 to 4 higher.

Later this morning, USDA will release a monthly crop condition report for wheat this is likely to show hard wheat areas still struggling with very poor growing conditions. It is going to be difficult to rally wheat much further though. Winterkill is near impossible to assess, especially in early January, and a continued futures rally will again put US values premium to world marketplace for which we just recently became competitive with again. Ending stocks for wheat are burdensome both domestically and worldwide. US wheat ending stocks at 960 MBU is below a year ago but still more than enough on hand. World stocks are very bearish, currently projected over 268 MMT or 9.86 BBU, up 1 BBU in the past 2 years.

No grain sales announced by USDA yet to start the New Year. Brazil reported exports totals for December. Corn at 3.994 MMT vs. 3.52 in November and 1.006 last year. Soybeans at 2.356 MMT vs. 2.143 in November and only .653 last year.

Ice accumulation continues to be an issue on the IL River, although all 8 locks are still functioning. There is about 1-3" of ice around the Peoria, IL dam and formation continues. Water levels on the Miss River at STL are expected to reach their lowest level in 4 years, and drafts are being reduced as ice forms there as well. The OH River is now taking over origination for Gulf buyers, with Cincinnati soybean bids lagging St Louis by only $.10 The typical spread is closer to +$.20 premium to St Louis.

6-10 Day US Forecast: colder than normal still in the Northern Plains through the Midwest and up to the Northeast. Above normal temperatures forecasts for the West & Southwest and creeping into the Southern Plains. Precipitation is actually normal to above normal for the entire U.S. with rains expected locally this weekend. More than 50% of the U.S. is categorized as having some severity of drought conditions which is now trending near 12-month highs.

South American weather: a pattern of heat and dryness looks to persist over the next 10 days. So far, the Argentine growing season has been marked by just periodic rains, which based on vegetative health is doing little to improve yield potential. Mostly favorable weather will continue in Central Brazil, but dryness is accelerating elsewhere. A high pressure Ridge aloft South America's west coast will force the jet stream much farther south over the next 10 days. This upper air pattern will not be conducive to rain, while temps in pockets of Argentina's crop belt will reach into the 90s and lower 100s. Another 10-12 days of declining soil moisture lies ahead. Better Argentine rain is again hinted in the 12-15 day period, but confidence so far out is low.

March corn trying desperately to break above the 50-day moving average now at $3.55. This has been trending lower since mid-August and was only topped briefly in late October. The contract low is at $3.46 ½, with more resistance up at $3.60 then $3.65. January soybeans found support last week around $9.43 with resistance up at last week's high of $9.64 ¾ then $9.75. Soybeans did gap higher on the open yesterday but filled during the trading session. Wheat futures gapped higher as well and held strong gains, now showing signs of breaking the downtrend in place since late September. March KC wheat holding a solid uptrend since December 13th. Support down at $4.10 ½ then the $4 area with resistance up at $4.41 then $4.50. March Chicago wheat with the same higher trend since the contract low at $4.10 ½, resistance next in the area from $4.48 to $4.50.

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