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Morning Ag Markets

Pete Loewen

The entire meat complex closed in the red on Tuesday with a lot of contracts down in the triple digits. You might be surprised when I say this, but I viewed the action as somewhat of a victory and positive day given the circumstances of some of the influences that helped cause the selloff. Equity markets peaked two Monday's ago at the highest point ever for the DOW, but then stepped off a cliff with the DOW beginning that decline in the upper 26,000 level and hitting a low point of just over 23,000 at yesterday's low.

Monday was the biggest one day point decline in history for the stock market and yesterday's range from low to high was equally as impressive. Down days like Monday spread a lot of fear into the general populace and from an ag market perspective, I think the markets that stand to lose the most from something like that happening are the meats. Beef specifically could have been the worst given the fact beef product trades at more than twice the value of pork. We could have seen a major washout in the meats, but instead most of the cattle contracts were only moderately lower.

Cash bids out of packers started the week $1-$2 lower than last week's trade and a LONG way off the $130 early offers that came out of feedlots. There's still a lot of uncertainty in those equity markets that could quickly add some fear selling in the meat complex, but the DOW recovered very nicely yesterday after making a new recent low and that helped avert more pressure yesterday. The jury is still out today.

Cattle slg.___116,000 unch wa +3k ya

Choice Cutout__ 208.43 -1.00

Select Cutout___202.73 -1.43

Feeder Index:___147.95 -.17

Lean Index.__ 74.84 +.36
Pork cutout___78.23 -1.89

IA-S.MN direct avg__72.67 +.23

Hog slg.___ 466,000 -1k wa +19k ya

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Grain and oilseed trade showed nice gains yesterday with a lot of help in that buying coming from commodity funds. They were estimated buyers of 18,000 corn, 14,000 soybeans and 7000 wheat. Soybeans finished in the double digits higher, corn came close to posting nickel higher gains and wheat was up 6-8 cents on new crop contracts.

Coming off of a bearish day for export inspections on Monday, it was good to see markets up. Part of that run is also coming from the continued concerns about Argentine weather and reduced crop production potential. There is also some attention being placed on Brazil. If their soybean harvest continues to lag the normal pace, that means a lot slower planting pace on their second crop corn that they call their safrina crop. In some areas, soybean harvest is running two weeks behind and corn planting behind those beans about 20% behind the normal pace. Granted, that doesn't guarantee a smaller corn crop in Brazil, but it definitely enhances the "chance" it could be smaller based on non-ideal planting dates.

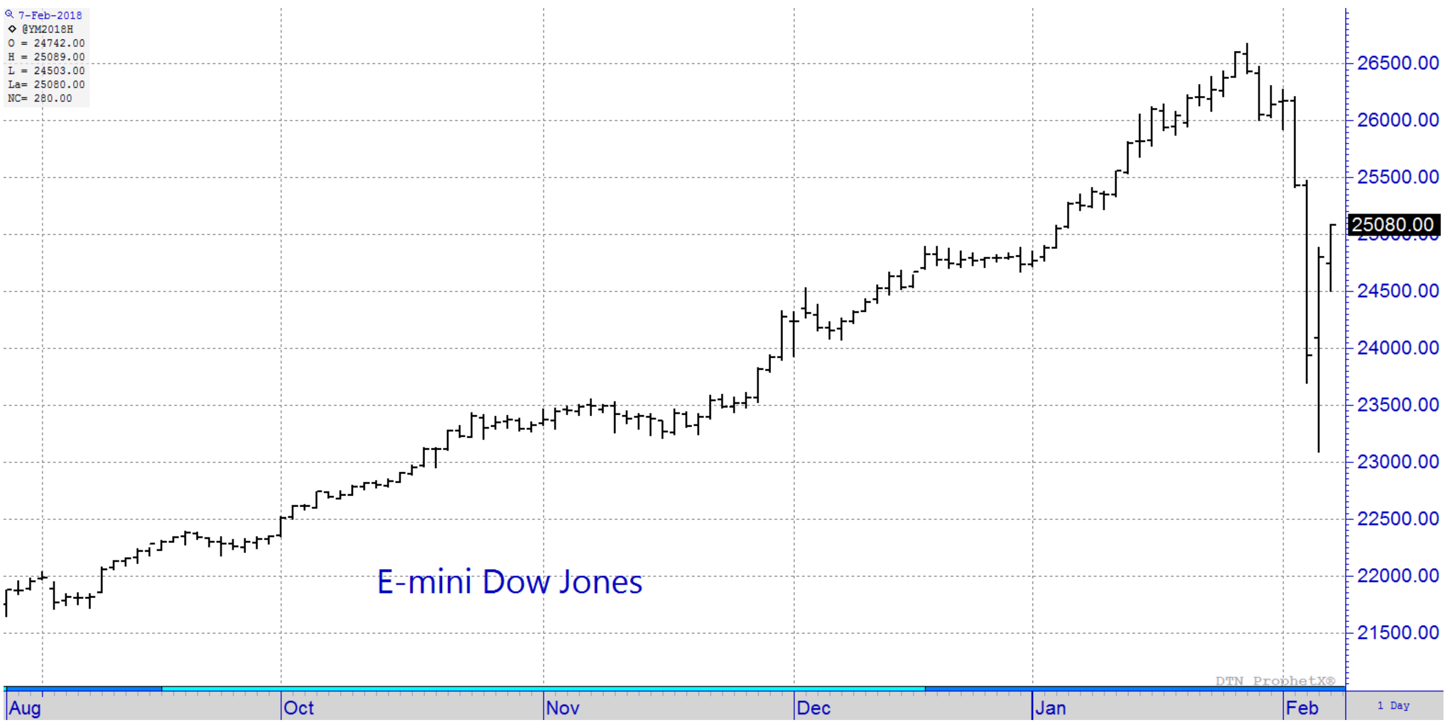
Another important item that corn traders specifically are watching is if China slaps duties on US milo imports. If that happens, milo basis that has been trading premium to corn in recent weeks in a lot of areas is going discount in a hurry and milo quickly becomes an ethanol feedstock again. That potentially displaces corn that made it into ethanol channels that otherwise wouldn't have, if it weren't for the BIG milo exports. There's a lot of "ifs, buts and maybes" in this equation, but if the duties happen and milo exports collapse, ethanol grind using corn goes down. Could we export more corn if that happens? Possibly, yes.

Yesterday morning there were two daily corn sales reported in the 8:00 am announcements. There was 105k mt's sold to unknown destination and 120k mt's sold to Japan. No new sales today.

Tomorrow morning we get monthly Supply and Demand data out from USDA. While there aren't any domestic productions changes happening, there's demand changes that could influence ending stocks forecasts here in the US. We'll also get world production data on items like Brazil and Argentina corn and soybean estimates.

Average ending stocks estimates for US corn are 2.467 bln bushels, which would be down 10 mln from the January report, yet still 174 mln larger than a year ago. Soybean ending stocks are forecast to hit 492 mln bushels, up 22 mln from last month and a hefty 190 mln bigger than last year. Wheat ending stocks are pegged at 993 mln, which is up 4 mln from last month, but 188 mln smaller than last year.

World ending stocks estimates are forecast to decline 2.3 mmt's in corn versus last month. Soybeans are expected at unchanged. Wheat estimates show a 200k mt decrease in carryout. Production-wise, Brazil corn estimates are looking for a 1.5 mmt decline from January and Argentina corn off 1.5 mmt's as well. Brazil beans are expected to increase 1.4 mmt's, with a 2.2 mmt anticipated decline in Argentina's bean crop. If realized, Argy beans would be down 4 mmt's from last year and Brazil beans off 3.3 mmt's. Their corn estimates are down 5 mmt's for Brazil and .5 in Argentina compared to last year's crops.



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