

The grain and oilseed markets are watching the weather and harvest progress in Brazil, where about 79% of the soybean crop is now harvested. Export inspections for last week were relatively weak for corn and soybeans. Wheat looked a little better and gained additional support from talk about freeze damage from the cold nights last week. These markets continue to act as if we have short term tops in place as I suggested in last week's letter. But this corn market is not ready to quit yet and is not ready to be labeled anything else than bullish, especially from the fundamental viewpoint. We have two chart gaps that were left as the market moved rapidly down from the highs on the December. To date, there has been no rally to challenge those gaps. Essentially the same type of conversation could be had about the soybeans, and I suspect we will mark time as we move through what has already become a substantial planting progress and watch when we are able to get the corn and soybean crops in the ground.

Virtually any trend line that you could have constructed on the soybeans and corn charts has given sell signals. Many producers have short hedges in place at prices lower than those we are seeing this week, because they correctly started their forward pricing early at profitable prices. I hadn't expected to see the December corn run all the way up to the \$3.40+ level like we saw on April 8. My fundamental range for the year had capped out at about \$3.05 on the December board, but that was before we got some improved fundamentals in terms of the unexpectedly small planted acreage in the March 31 report. Users of corn who might have taken profits on long hedges should stand aside this market until we see more definitive signs of short term bottoming action than we have seen to date. This recent low about the \$3.00 level on the December corn may provide buying support, but I'd like to see the market show us that before I conclude that we might, in fact, want to replace long hedges and buy back short hedges. We have also seen sell signals with closes below very reasonable trend lines on the November soybean futures. That contract has shown us a dip down to the \$7.15 level on April 15, and we'll be watching to see whether or not this becomes a support zone before this market tries to rally again. I think it will rally again. Let's hold short hedges here until we see more signs of a bottom, and if those short hedges are held as the market tries to rally back up toward the highs, I wouldn't have a big problem with that. Longer term, short hedges placed up toward that double-top at \$7.99 have this crop priced at excellent price levels.

There is a chart gap starting around \$4.10 on the July Chicago wheat, and we are trying to rally in this market based on talk about weather damage. The July Kansas City contract looks different and could possibly show us a head and shoulders top in this market if we get a rally back up toward the \$4.20 to \$4.25 level before it turns down again. Generally, I want to be aggressively forward priced in this market especially with recent opportunities above \$4.00 on both July contracts which gives us price levels we seldom see in this sector. As we head to harvest, I would suspect that we are going to start seeing some pressure in this market unless we have very unfavorable weather moving out through May.

After a huge advance of \$15 per hundredweight or more across the past two weeks, the boxed beef cut-out values are running into some difficulty in the low \$160s for the Choice types. Cattle prices closed last week around \$86 on a live basis and as high as \$140 in Nebraska for some cattle on a carcass basis. There has been very limited action in the cash market so far this week at \$86 in Texas with some Nebraska cattle up to \$144 on a carcass basis. The expiring April live cattle contract is trading around \$83 on Tuesday, and when the June becomes the active nearby, the futures market will be showing a big discount with that market trading around \$78 in Tuesday's session. I would be lifting short hedges on April slaughter cattle as the cattle are sold. If you have short hedges placed on the recent rally up to new contract highs, (for example, on the June when it ran up toward \$79.50 about 10 days ago) I would hold those short positions and see if this market rallies to those levels again after the recent price dip and the strong close on Tuesday. You can construct a good trend line on the June live cattle chart if you hook the lows in late March with the April 16 dip down to the \$75.10 level. We have traded up from that \$75.10 low, and that is a legitimate trend line. We can sketch a resistance plane across the relatively recent contract high from April 13 at \$79.65. If approaching \$79.65 in the futures locks in good profits, I would

sell a rally back to that level. An alternative approach for those who are more bullish in this market is to keep the resistance plane across the high and the trend line under the market and let the market show us whether it can go out to the upside. The cash market is showing a substantial premium to the June at this date, but remember there are over 30 days for the number of cattle scheduled to come out of feedlots to increase and put pressure on the cash market as we approach June.

The old contract high on the August feeder cattle from back in October was at \$93.25. We had a challenge that ran as high as \$93.00 in early December. Tuesday's market is showing new highs in this contract and a very aggressive posture with the better boxed beef values, a slaughter market in the mid-\$80s, and some signs that corn has topped. Hedge these late spring and summer cattle with this August contract around \$94 to \$95 or look at hooking the relatively steep trend line which can start with the April 5 low at \$86.17 with the price dip last week at \$89.50 which occurred on April 16. This is a relatively steep uptrend line. If this market can make new highs, we need to look at getting these late spring and summer cattle priced when we see a close below that trend line. It is going to be very difficult for the feeder cattle market to hold in the mid-\$90s unless we see substantially better prices than we are seeing at this point on some of the live cattle contracts for the second half of the year. We have had a hard time, historically, holding a \$15 premium in the feeder cattle market to the slaughter cattle market unless corn is cheaper than it is at this point in late April.

It looks as if Monday's action on the lean hog futures showed us buying support and perhaps moved this market to a position that it can rally again. Aggressive selective hedgers might want to look at buying back short hedges as this market starts to rally. But we are not that far off the highs, so one needs to be careful. Monday's low gives us a chance to draw a very legitimate trend line on the hog charts, and I suspect with demand continuing to be in good shape (especially in the export arena), we may be getting ready for this market to try to challenge its highs again. If we do get the rally to the high, keep in mind the contract high from April 12 on the June contract is at \$76.47. Again, we can sketch a resistance plane across that high and put a trend line under this market and either sell a rally up against the high or wait and let the market tell us by its closing actions which way it will move out of this triangle.

