

It is the end of August but it is weather that is driving the grain and oilseed markets. Crop conditions were down 3 percentage points in the good/excellent category for soybeans across the past week, and there is a forecast of possible frost in the northwestern part of the Corn Belt for sometime around September 10. Soybeans jumped on that news on Monday, but forecasts for frost damage look like a long shot for the bulls as we see generally good conditions in corn, wheat, and soybeans in the other parts of the country.

November soybean closed on Monday near the trend line on the chart that we showed last week and it was not clear that this market could move above the line, but Tuesday's close was stronger. The best strategy for conservative traders is to keep the short hedges in place. More aggressive short hedgers will buy back short hedges on the close above the trend line on Tuesday. But this market will move lower again if we do not get the forecasted damage, so we need to be careful. The most optimistic view on this market would be a rally to the June highs just above \$7.10 and short hedges should go back on if we do see a weather induced rally to that level. A \$1.00 move up from recent levels would be enough to cover a 5% or so reduction in yields and production and we are not likely to see damage at that large level.

Corn prices were up on Monday but the December closed in the middle of the trading range for the day and I expect to see this market struggle in the \$2.25 to \$2.45 range of recent weeks. If we get past any frost damage in soybeans, the big corn crop will increasingly weigh on this market and we will see the market go down through the recent lows at \$2.25 and possibly test the \$2.00 level. I always like to buy back short hedges on a dip to a contract low that is toward the bottom end of the fundamental supply-demand price range for the year. If you followed that general advice and bought back short hedges on the second dip to the \$2.25 level, replace those hedges on a rally toward the \$2.45 level. I am not nervous about the user of corn at this point and would be inclined to watch and wait to see if the market does challenge the \$2.00 level before placing or replacing long hedges. If the market can close above the \$2.45 recent highs before harvest, which I do not expect to see, then we might want to re-examine the need for long hedges.

The wheat market is jerky and not very well behaved in a technical context. We saw 2 consecutive closes below the old low near \$3.21 on the December Chicago, and then the market rallied back above that level. The market then dipped below \$3.20 again and, now, we are back around \$3.23 and the market is showing no concerted direction. Wheat is being influenced by corn and, to a lesser extent, what is happening in soybeans. I rather expect to see a test of the new contract low at \$3.09 which was put in about 10 days back and then this market might be able to stage a rally. It will be hard for wheat to rally if it turns out that December corn is in fact going to test the \$2.00 level, however, so we need to be alert to what is happening in the other markets in the grain and oilseed complex.

Cattle markets are nervous with the trade volumes going into the long weekend not all that positive. Monday's markets were sharply higher on the futures, but cash sales may not show any improvement from last week's generally low-\$80s market. Boxed beef values were lower on Monday but stopped the day-to-day losses in Tuesday morning trade with the Choice boxes in the \$135-136 area. If last week's low near \$82.50 can hold on the October live cattle futures, both live cattle and feeder cattle futures should be able to trade sideways until we see how beef

sales over the coming weekend turn out. There is talk about weak demand but we have no data to support that assertion unless traders with access to proprietary scanner data at retail are seeing patterns I cannot see. But I would hold short positions until we see more legitimate signs of bottoming action in the live cattle and feeder cattle futures. If we trade sideways for another week or more, we might be able to get more legitimate downtrend lines to work with. Anything drawn across recent highs in live cattle and in feeder cattle futures is too steep to be legitimate as a trend line and a glance at the charts shows we have not yet made a correction of the last price break down from the \$90 area on the October live cattle futures.

The national direct hog market dipped below \$70 on Monday on a weighted average and carcass basis and then dipped below the \$69 level on Tuesday morning. This is the seasonal decline that is always there and the important question is whether the October futures, trading around \$66 on Tuesday, will be where the cash prices will stop their declines or whether the cash market will move still lower and force the futures lower. I am not sure of the answer to that question and would hold short hedges in the lean hog futures. If you are concerned that prices will move lower and have no short hedge protection, use a rally back up toward the \$67 level on the October as a signal to hedge October, November and December hogs.

NOVEMBER 2004 SOYBEANS

