

Fed cattle prices were pushing up toward \$90 on active trade last week. Boxed beef values for the Choice grades had been in the \$120's just 2 to 3 weeks back and have been as high as \$148 in early week trade. I see this as the resurfacing of the strong demand for beef that has been underlying the markets with the short term variations in cattle and box prices primarily due to variations in retailer and packer spreads and not to short term variations in the strength of demand. Prices for Choice product at retail have been above \$4.00 all year and have not varied very much on a month to month basis.

The live cattle futures managed \$90 as I suspected they might in the February contract but could not hold that level. We may not have what it takes to hold a \$90 market just yet, but that price level will be in our future as we move out through 2005. If you have short hedges in the February, hold them as the price correction to the downside works through the system.

Timing is everything in the markets. I show March feeder cattle futures again this week and had suggested this market get bought to set long hedges on spring cattle needs on price dips. Those price dips ran their course within days after I started monitoring this situation and turned higher again after recording a low of \$95 on November 22. By November 30, the market was as high as \$101 but then the momentum to the upside disappeared as live cattle futures ran out of gas and faltered. I still like long positions here and would buy on a dip to the support plane on the chart across that \$95 low on November 22 or on a close above the trend line, whichever comes first. Don't be stubborn here. With all the uncertainty surrounding the negotiations in Japan to open the Japanese markets again and in Canada to resume the flow of cattle into the U. S., be prepared to look at covering your long positions if we see a close below that \$95 support plane. I don't expect that to happen but you never say "never" in these markets.

The pork sector continues to ride high on the strength of a huge increase in demand in the world market and especially in Japan where beef shipments are still banned. Weighted average lean hog prices in the national market this week have been as high as \$79. The February lean hog futures have not been that high, running into resistance and selling about the first of December around \$77.70 and that market is down around \$1.00 in Tuesday trade with a daily low of \$72.25. Clearly, the futures market is anticipating an end to the demand surge coming from Japanese buying when the beef channels are eventually open again. But I am not sure that will get done by February and would expect to see this market rally again. When this down correction runs its course, we will be able to draw resistance across the contract high near \$77.70 and a trend line hooking the low at \$64.15 on October 27 and the low at the end of this correction which is likely to happen this week or next. Let's watch for that chart opportunity and then be ready to sell on a rally back to the highs or on a close below the trend line, just the reverse of what we are looking to do on the feeder cattle contract discussed above.

Corn futures are making new contract lows in Tuesday's trade with the March 2005 threatening to trade below \$2.00. Friday's report could be bearish. The crop estimate might go up again and by more than expected, but the more likely change is in a reduction of exports where the weekly pace of movement is lagging. If some

combination of these changes moves the ending stock estimate for the 04/05 crop year to 2 billion bushels or higher, we could see some more down in corn. Not trying to be too fine here, I have been suggesting buying back short hedges as you harvest the corn and suggesting to users that getting long hedges established at these price levels out through 2005 can hardly be a mistake. Pegging corn costs near historic lows always makes some sense. I would not use calls because (1) I do not see much more downside possibility here and that is partly what you are paying for in the call premiums, and (2) when you are looking as far out as the summer of 2005, the call option premiums are inflated with lots of time value. With the July 2005 futures near \$2.18, a \$2.20 call is trading around \$.14 and that is too much to pay when you can buy the futures directly at a fraction of that cost.

The low on January soybeans is \$5.03 from November 11. After a brief rally tied partly to the talk about rust infections in our fields, this market is running into technical selling pressure with the January down \$.08 and trading around \$5.21 in Tuesday's session. Don't be shocked if this market makes new lows, especially if we see new lows in corn. Pull short hedges as you harvest. Users of soybeans, soybean meal, and soybean oil should look at long hedges if this January 2005 contract does sink down toward \$5.00 again.

Wheat prices continue to languish and this surprises me. We have a huge spread developing between Kansas City and Chicago with December Chicago around \$2.87 and Kansas City December around \$3.44. Weather is a factor in the Southwest but my fundamental supply-demand models and price vs. ending stock models do not show cash prices well below \$3.00. But we are seeing that in the soft red winter with the futures below \$3.00. Waiting for a rally to sell some stored wheat and get started on next year's crop is getting old, but we have to wait until we see something better than we are seeing this week. It is always chancy to be carrying the risk associated with being totally exposed to the cash market, but there are times when we should carry the risk and this is one of them, in my opinion. Let's watch and wait for the rally to sell old crop and start pricing or adding to pricing on 2005. I hope lots of producers have some 2005 wheat priced already from the rallies we saw in March to June in 2004 when the July 2005 contracts went to \$4.00 in both Chicago and Kansas City.

