

I did not expect to see the new contract lows in corn this quick. The chart pattern I have discussed the past few letters projected down to the \$2.50s on December corn, and that is usually seen as a minimum projection. But I did not expect to see this new low just above \$2.26 on Monday. It is an old economic rule playing itself out again, a rule I have talked about many times. When we get commodity prices well above all costs of production and there is no supply management, it is not a question of whether we will see an increase in supply to force out the profits, but a question of how quickly the supply increases will occur. Sometimes, the weather can keep the realities of low prices at bay for a year or so, but the weather looks like it is going to usher in a big corn crop this year. Against that is the reality of the strong world level demand for corn and the fact that the U S is a huge player in world trade. Aggressive short hedgers who operate on a selective hedging basis should buy back short hedges here with the December futures at \$2.30 and below. We are likely to see a pre-harvest rally in corn as talk about world demand heats up again. There will be chances to replace short hedges later at somewhat better prices than we are seeing this week. Leave the short hedges on the 2005 crop in place. Users of corn might step out and place long hedges here, looking for a rally in the September through spring 2005 contracts as the December new-crop contract stages a modest rally.

No contract lows in November soybeans but this market dipped below \$5.90 on Monday, over \$2.00 below the \$7.99 high. I started suggesting short hedges and contracts in this market early in the year, and did not expect to see prices surge to levels as high as \$7.99. But starting too soon is better than the more common mistake in these high priced years, and that is not doing anything for fear still higher prices will somehow be offered. I would hold short hedges here since this market could feel still more pressure from a crop that could benefit from good to excellent August weather to set high yields. Exports in corn and soybeans are dipping periodically below the levels needed to meet USDA projections. Users should wait on long hedges on soybeans and on soybean meal. Look for the market to stage a modest rally, but until we see a close above the downtrend line that hooks the early May and late June highs on the November futures, the trend in this market is down.

December Chicago wheat is within a few cents per bushel of last October's \$3.33 low. We should see a post harvest bounce in wheat, especially if we get at least a short covering rally in corn and perhaps in soybeans. December Kansas City is still over \$.20 above its \$3.41 contract low, and it may hold near current levels if the Chicago market gives us a bounce. Hold your short hedges in 2005 wheat, and watch your basis improvement models in 2004 wheat you have in storage to tell you when to sell. Remember that if you see the full basis improvement you expect by next March or May early in the storage period for hedged wheat, you can eliminate any remaining storage costs and take your storage program profits by buying back your futures and selling in the cash market. Keep the tax ramifications in mind if that would mean you would have sold 2003 and 2004 wheat in the same tax year and work with your accountant on that issue.

Bull markets in cattle do not die easily. The continued strong demand pushed the cattle futures higher in early week trade as we saw a nice improvement in boxed beef values on Monday and all live cattle futures except August made new highs. Cash trade is likely to

be around \$86 or possibly \$87 this week, with limited early sales near the low end of that range. Selective hedgers will see the higher Tuesday closes and think about buying back short hedges as we get two consecutive closes above the old highs, but there is another side to that “buy back” rule this week. The October and December contracts have moved above \$90 and that strong performance may be based on expectations that all beef trading channels, including to Japan, will be open before the end of the year. That is not guaranteed, and this might be a time to answer margin calls on short hedge positions and hold the positions. It will be hard to hold a \$90 market in cattle in the fourth quarter as seasonal hog supplies increase. And in passing, we need to note that the July 1 inventory reports finally shows some limited signs of herd building tendencies as the category “heifers for beef cow replacement” came in over 4% above year ago levels. Once this building starts, it will reduce beef supplies and continually push beef, cattle, and calf prices to new highs and that pattern could last for several years.

It is harder to see how feeder cattle can hold current levels. A \$115 price tag on feeder cattle in the 800 lb. category needs fed cattle prices well above \$90 to break even. Late in 2004, look for cattle coming out of feedlots to be losing significant money on a per head basis and that is always a negative in this complex. At these extraordinary levels, I think holding short hedges in feeder cattle makes sense. If you have no hedges, then watch the current price advances and add to protection when the markets reach levels that allow you to lock in exceptional profits, especially on cattle placed in grass programs early in 2004 when prices were not this strong. If we get any significant seasonal price dip in this market, I will want to start watching for chances to place long hedges against a spring 2005 market that will show us record high prices again.

The lean hogs futures are advancing again with strong Tuesday closes, but the upside will be constrained by emerging seasonal patterns that show much higher daily slaughter levels as we move toward October. The August lean hog futures will run into selling near the contract high of \$78.25 and that might be the time to look at October and December futures and consider placing or replacing short hedges. On the December, it is clear we have an uptrend line with the May 28 low at \$54.97 connected to lows across the past week. One approach is to wait until we see a close below that trend line and then hedge the hogs for September through December in the October and December lean hog futures.

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New contract lows this week. On the long term weekly chart, there is support near \$2.10 and then again at \$2.03. Selective short hedgers should look at buying back short hedges on any price dip toward \$2.10 and users of corn should think about long hedges on futures out into early 2005 in anticipation of at least a modest rally from levels a bit above \$2.00.

