

Weather and uncertainty about acreages are keeping grain and oilseed markets nervous but the longer term trend is down. Sparks was out with soybean acreage estimates of 74.4 million on Friday, a small decrease from their earlier 75.5. Sparks' estimate for corn was 81.2 million, down from 81.5 in May but still far above the USDA 79.0 in the Prospective Plantings report. Acreages will be estimated by the USDA in a June 30 report, and that report will stop some of the uncertainty. Wheat prices are volatile as weather blocks harvest progress, especially in Kansas. Right now, in an overall sense, the weather is largely favorable for crop development, so it will be the acreage and the changes in acres due to the flooding and wet conditions coming into June that will be in the spotlight.

The May 21 low at \$2.78 on December corn is being contested this week as the next line of support. A close below that level sets up a dip into the \$2.50s, a move that I suggested was likely after topping actions several weeks back. Unless the June 30 acreage report gives us a bullish surprise or the weather turns very bad in a hurry, we are going to the \$2.50s in December corn. Selective hedgers should be careful buying back short hedges around \$2.78, since any corrective rally to the upside from that level is likely to be small. I would be inclined to hold short hedges here and watch for further price declines. The next line of support will be across the February 21 low just above \$2.66. Corn users should not place or replace long hedges here. I think the trend is down and in your favor.

The trend in soybeans is down. I expect the rally this week in the July to run into selling near the bottom of the mid-May chart gap at \$9.13. The next support on the November is across the February 5 low at \$6.33. There is some short term support from the continued back and forth between China and Brazil over exports out of Brazil, but if that issue gets settled, there will be even less need for buyers to turn to the U.S. for soybeans. A good sign for our exports comes in the form of a U.S. dollar that has not turned higher as expected but is essentially trading flat against other world currencies. Hold short hedges and stay off long hedges here if you are acting as a selective hedger in this market until we see a test of that \$6.33 level. By that time we will see the June 30 acreage and some of the uncertainty in this market will be gone.

July Chicago wheat is down toward \$3.50, and July in Kansas City is dipping toward the March 11 low near \$3.69. Hold short hedges in this market. Prices are likely to drift lower as the harvest progresses north in the producing regions unless yield data start to look worse than they are at this point in time. And by all means, stay on short hedges on the 2005 crop. Those positions should be seen as long term in nature, and I would not start to think about buying them back unless we see a dip toward the life of contract low on the Chicago July 2005 contract which is at \$3.30.

Tumbling boxed values, called a "free fall" by some in beef as the Choice cutout values lows over \$9.00 Friday to Friday last week, are putting some pressure on cattle and hogs. There have been reductions in slaughter days in hogs where the daily slaughter levels are approaching seasonal lows and the carcass based cash market is in the area of \$78. Friday's Cattle on Feed report did not bring the huge placements some were afraid would be there, but the sharply lower cutout levels will be enough to pressure the cattle market.

But any pressure will be mostly on the nearby contracts. The weight groupings in the placement data indicate the category above 800 lbs was down, and that will help the distant live cattle contracts and, at the same time, the summer and early fall feeder cattle.

I would look to get short hedge protection again on the August live cattle on any rally above \$90 which would be a complete correction of the price break that started from the high at \$92.70 in early June. If the consumer does not come through with robust demand tied to the grilling season, we will not be able to hold these high retail prices and some uncertainty will drift down through the system. Prices at \$90 or better are still “thin air,” and I would be alert to pricing opportunities that offer excellent profits. In August feeder cattle, the recent trend line sell signals have some of you short, and I would hold those positions. The new contract highs this week are coming from the help on the distant live cattle futures coming after the cattle on feed report and may not last since this is truly thin air in terms of price levels for feeder cattle.

The July lean hog contract is trading above the old high at \$78.60 this week, but I would not be quick to buy back any short hedges. The action by a large packer to reduce the slaughter week injects some uncertainty into this market, and the July contract is already consistent with the \$78 cash market. It may be prudent here to hold short hedge protection even if the market can make new highs given the actions by the largest hog slaughterer and a major player in pork in the U.S. and around the world.

