

This time it was a matter of too much water in the corn and soybean producing regions. Prices popped higher on June 1 as we came out of a weekend with talk about excessive rains and floods. There has been little or no follow through to the upside in corn or in soybeans, but this does change the fundamental picture as producers have to replant some acres. This type of development causes abrupt changes in prices, and the December corn showed prices well above the downtrend line that I showed in the last report. As the market searches to discover the correct price, watch for the July contract to find support around \$2.87 across the May 21 low, only about \$.10 below prices in Tuesday's session. Look for that low to help stop any continued price dips in the new crop December, and I suspect we will see the December contract come back down into the \$2.85 to \$2.90 range and hold there if the July does uncover buying support around that \$2.87 level. There is lots of uncertainty, so if this December contract dips to the May 21 low at \$2.78, selective hedgers might want to think about buying back short hedges and look to replace them on a subsequent price rally at better price levels. Long hedgers covering costs of corn might want to think about placing or replacing long hedges around that \$2.79 to \$2.80 level in the December until we get a better handle on what these markets are going to do. There is a survey being taken now that will be released toward the end of June that shows planted acreage, and we will not have much in terms of data to clarify the situation until we get that report.

The price rally in soybeans was relatively smaller than in corn. If the ground stays wet in the Midwest, then some fields have to be replanted. Any late replantings are likely to be in soybeans rather than corn, so this was not a completely bullish development for the soybean complex. Since the abrupt rally on June 1, this market has now dipped back down to the earlier lows around \$6.70 on the November futures and Monday's low tested that earlier \$6.70 low. This is the same general price area in which I expected to see buying support develop before the recent weather phenomenon. There is still much uncertainty about this crop in front of us, so a dip toward this \$6.70 level on the November could be seen as an opportunity to buy back short hedges and/or to place long hedges for those operations processing soybeans. There are signs that the trading funds that had run away from these markets compared to their heavy participation back in March are now coming back in, and I suspect most of those larger speculative efforts will be inclined to come back in on the long side of this market.

This was another huge opportunity in wheat to get excellent prices established on both the 2004 and 2005 crop. The June 1 rally in the July Chicago wheat increased to the \$3.91 level, but the rally was stronger in Kansas City and recorded a June 1 high of \$4.10. That stands in sharp contrast to the \$3.80 to \$3.85 price levels we are seeing in Tuesday's session in Kansas City. This was another and late opportunity to get prices established up around \$4.00 in a futures complex that has spent very little time, historically, above \$4.00. The July 2005 Chicago wheat that had a prior contract high at exactly \$4.00 on May 4 recorded a daily high of \$3.99 1/2 on June 1, and I would strongly advise that at least 50 percent of the 2005 crop be priced at these price levels.

Limited trade in the cash cattle market so far this week ranges from \$88.50 to \$92.00 from Texas up through Kansas and \$142 to \$147 from Texas through Nebraska on a carcass basis. Boxed beef cutout values were up on Monday and up again in Tuesday morning's trade. We have seen an advance of over \$6.00 since June 1 on the Choice grade boxes. This capacity of the boxed market to move up and hold higher prices is reflecting a strong demand, and demand is becoming the key component to the higher than expected prices we are seeing in cash cattle as we move into the middle of June. Much of this strength in the cash complex had been anticipated by the futures with the June contract trading as high as \$92.70 on Monday of this week, and the August contract also showing a high of \$92.70 on the same day. I do see signs on the charts of selling pressure emerging as we move up into this \$92 level, and given the uncertainty that I would anticipate in terms of the cash markets being able to hold these higher price levels, I would look at placing or replacing short hedges on these summer cattle around this \$92 level. It is a bit difficult for me to conceive of an environment in which these markets would need to move up

from that level as we slowly get the trade channels around the world moving back toward something approaching normal.

The August feeder cattle show no signs of breaking its long standing uptrend. I am going to show that chart this week, because I think this is a significant and major opportunity for anyone selling feeder cattle this summer. I had wondered in earlier reports whether or not this market could hold levels above the \$102 to \$105 range, suggesting it would take a \$90 fed cattle market to support those price levels in feeder cattle. But we now have the \$90 and better market in fed steers and heifers, so the August feeder cattle have traded up accordingly. Contract high was recorded on Monday at an astonishing \$110.10 per hundredweight, and the market is down but above \$108 at the close on Tuesday. Look at the very pertinent and very important trend line that I show on the chart and perhaps it is best to stand away from this market and not place short hedges on these summer cattle until we see a close below that trend line. Any efforts to suggest forward pricing on a scale-up basis have been met with having to buy back the short positions or answering margin calls, so the idea of using a trend line sell signal to place or replace short hedges is appealing. Keep in mind that carrying unpriced calves and feeder cattle through the summer with as much uncertainty as we are facing on the size of the corn crop and corn prices this year means exposure to significant risk of downside prices in feeder cattle.

The price picture is radically different in hogs depending on whether you are looking at the summer months or the late fall months of this year. The December lean hog contract is trading around \$58.50 in Tuesday's session, and the June is showing prices around \$78.50 with the July trading around \$76. This is partly seasonal strength since we normally expect higher prices in the summer months, but I think a substantial part of the high price patterns is also coming from the boost in demand that pork is getting while the trade channels for beef continue to be closed to important countries like Japan. The price discovery I see at the Chicago Mercantile Exchange is suggesting that the boost in demand will likely come to an end before the end of the year, so we have the December futures trading \$20 per hundredweight below the summer contracts. I would have been short hedging these summer contracts already and that has opened up the specter of margin calls. This July, as it tries to continue to make new contract highs, lends itself to the possibility of an uptrend line that hooks the low at \$68.90 on April 19 with the more recent low of \$72.45 that occurred on May 26. This market either has to continue to make new highs across the next few weeks or give us a sell signal on a close below that trend line. I expect the latter to occur since I see signs of an end to these bull markets in both the cattle and hog complex as I look at recent price action on the charts.

### AUGUST 2004 FEEDER CATTLE

The trend line is steep but will be watched by chart readers all over the world, and from this price level, we will see a major surge in selling on a close below the line. Keep in mind that risk of price declines from these very high levels is big in magnitude if not in chances of occurrence. Look at short hedges on summer and early fall feeder cattle and at taking profits on long hedges on a close below the trend line. Keep a sell stop or sell stop close only order below the line by about \$.10 to \$.15 per cwt.

