

The grain and oilseed markets continue to be very strong this week. Corn and soybeans in the old crop contracts have moved to some of the highest levels we have seen in years. Wheat is not quite at the same price level relative to historical patterns but is very strong with July contracts close to the magical \$4.00 level. In corn and in soybeans, the small correction to lower prices that we have seen across the past 10 trading days relieved the over-bought status of the market, and we came into the week making a new high in old crop soybeans which is likely to pull the November contract back up through its recent high. As we move through March and toward the important March 31 Prospective Plantings Report, I expect the markets to move to an increasingly volatile and choppy pattern. There are private expectations for as many as 80 million acres of corn in the U.S., and if we get acreage at that level, it will make a difference in this market. We have tight stocks going through the summer and into the coming fall harvest in corn and in soybeans, but the markets have a way of moderating these price relationships. Buyers in the global arena will increasingly turn to South America as their harvest gets underway, and buyers will find a way to wait through the summer months until another harvest here if it is a matter of replenishing stocks in corn and soybeans. Weather in South America continues to be something less than favorable for crop development and high yields, and both Brazil and Argentina's crops are likely to be smaller than we had expected. In the face of all of this uncertainty, you would expect the markets to be volatile and they certainly are.

With the markets at or approaching new highs in corn and soybeans, it is important that we remember these high prices are creating excellent opportunities for the 2005 and 2006 crops. We are back in a position similar to the one we were in when I wrote the March 2 letter, so readers may want to review my suggestions in the March 2 letter. The quotes on the November 2005 soybean futures are sometimes difficult to find, but the close on Monday was at \$6.28 and the contract highs are in the \$6.41 area. If you have difficulties finding prices that extend out that far, go to www.britefutures.com and find the November 2005 soybean chart. You'll see both the limited chart action and the prices for the most recent five trading days at the bottom of the screen. This is one place that does extend out and allow us to watch what is going on in the 2005 contracts. In corn and soybeans, if you are a cash contract user, price increasingly larger percentages of your 2004 crop on a scale-up basis as corn goes up \$.10 and as soybean markets go up perhaps \$.25 per bushel. Remember at this same time to look for contract opportunities on the 2005 crop. You can price in 2006 if you are willing to establish large positions in earlier contracts, and then roll those short hedges out toward 2006 across the next year or so. Again, I would suggest you review the commentary in the March 2 letter.

In wheat, I would be very aggressive on getting to 65-70% forward priced if you are not at that level. If you priced that much wheat and your crop looks good and you are likely to have good yields, you might want to move to a higher level of protection with this July Chicago contract moving back up toward \$4.00 again. The market is caught with major resistance across the \$4.00 to \$4.01 level, and I don't expect to see, given current crop conditions and the prospects for this year's crop, new highs made unless major weather problems develop during the remainder of March and into April in the winter wheat producing regions of the U.S.

In the fed cattle markets, cattle sold at \$87 in the Kansas and Texas feeding areas on Monday and were as high as \$90 in Nebraska last week. The April futures are in the \$82 area and are clearly showing a major discount to the cash market. The question, of course, is which market will move and bring some appropriate level of convergence in terms of the cash-futures basis. The April contract has rallied to the point that it has essentially closed the huge chart gap left after the December 23 announcement on BSE. There are some highs above those levels at \$85.50 on October 9 and several highs where the market failed since that date around \$84.60 on November 10 and again at \$84.55 on December 2. I would certainly complete short hedging needs on the cattle to be sold in the remainder of March and up to April 10-15 if this market rallies in this April futures up toward the \$84.50 to \$84.60 level. From that point, I suspect

we will see cash come back to the futures, and I'm not at all sure we can sustain the \$84.50 to \$84.60 level in the April unless we open more channels for movement of beef into the world arena.

Feeder cattle are caught between stronger prices in the live cattle futures and this rampaging corn market which is trying to make new highs. The May futures are trading around \$87 in Tuesday's session, and that is not much premium to the current fed cattle market. Of course, the May futures are more nearly being priced given expectations in the corn market and given prices out into the summer and early fall in the live cattle pits. The August live cattle contract is in the mid-\$70s still and apparently anticipating that we will see the Canadian border open and the 8-9 percent of normal slaughter levels coming back into the U.S. It is very unusual to look at the thinly traded March contract for live cattle which is around \$86 and see an \$11 discount in the August. That is the reason we see only limited movement to the upside in the nearby feeder cattle market. I suspect that if this May can rally toward the fairly recent high on March 4 at \$88.30, we might want to look at hedging late spring cattle. Look out to the summer months and the August at the same time since that is the contract in which you would price feeder cattle you might hold through the summer and during the important pollination period in corn.

The April lean hogs are trading up around the \$65 level in Tuesday's session. You can either use the fairly steep uptrend line on this chart or just forward price these March and early April hogs at these levels if they are offering excellent profits, and for most producers, that would be the case. When we look beyond the current market, with the April trading around \$65 and the July contract around \$66, I am not ready to price the summer hogs. We normally see a significant seasonal improvement in price between the March-April timeframe when the fall pig crop comes to market and the summer months when the daily supply levels are down significantly. This market continues to get help in some arenas because of our inability to ship beef and some of our world level buyers are turning to pork. So long as that situation continues, we will have a boost on the demand side for pork and keep prices up. I do believe it is worthwhile to carry the risk in the cash market on the summer hogs and look for better prices than the prices we are seeing this week.

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The strong fundamentally based markets will show you a sell signal like the close below the trend line and then trade up if higher prices are needed given the tight stocks and the strong demand. Fundamentals, not technicals, do drive this market and the technicals just help us know when to act. Short hedges placed at these levels will be okay and we are near, it not at, the tops in corn and in soybeans. If the market can make new highs, redraw your trend line across last week's low and be ready to place short hedges or replace short hedges on the next sell signal that comes on a close below the new line. Users should stay on your long hedges until we see more signs of a top.

