

The grain and oilseed markets roared higher again on Monday as we came into a new trading week. There is talk of continued reduction in estimates of crop in soybeans and in corn in South America, and you can add concerns about a dock strike that would constrain Brazil's ability to export beans or product. On top of what we were hearing out of South America, the export inspections for corn and soybeans from last week were strong. Wheat hit the \$.30 limit up on what appears to be a sympathy move with corn and soybeans, because we saw none of the fundamentally-based reasons for prices to move higher in wheat like we saw in corn and soybeans. I would suspect that we will see the wheat market having a difficult time sustaining upside prices after running buy stops yesterday and drawing trading funds back into the wheat market on a large-scale basis on the long side of the market.

This unusually strong market is reminding us again of the importance of having a plan and knowing what you are going to do out front. I generally favor being a selective hedger directly in the futures which means taking short positions on sell signals when the market is in the top part of the price range that I expect for the year and then being willing to buy those short positions back on two consecutive closes at new contract highs. That is not a comfortable position with a lot of producers. The alternative is to sell the futures and place price protection at very profitable levels, but then you need to be in position to answer margin calls if the market goes up. One way to avoid the margin calls, of course, and establish specific prices is to go to cash forward contracts where the grain buyer is establishing the short position in futures. The last thing I would do on these unusually high prices is buy put options. In these volatile markets, the put premiums are very high with a \$2.80 put, which is \$.30 to .35 below the market in December corn, costing about \$.20 on Monday. It is also the case that the primary advantage you are gaining when you buy a put instead of selling futures directly is to leave open the possibility of still higher prices. I think the odds of substantially higher prices to more than cover the very large premium of an at-the-money put are very small. When you are sitting at price levels that are so high they are not likely to be sustained, you are buying upside flexibility when there is not likely to be any.

In these bull markets, you never say they can't go higher, but we are in all likelihood close to the tops in corn and soybeans. What we are doing with these unexpectedly high prices is attracting every acre that could be planted in the Midwest and around the country into either soybeans or corn. We have heard talk about nitrogen fertilizer being more costly this year, and therefore encouraging soybeans instead of corn, but when you can price the corn crop with the December corn futures well above \$3.00, that eliminates any big concerns about nitrogen costs in a hurry. What we are likely to see in all actuality is even larger planted acreages than what we are going to see in the March 31 Prospective Planting report. That survey was taken around the first week of March and before we had this last surge in both corn and soybean futures. I would continue to either hold short positions in these markets and answer the margin calls from a pre-arranged credit line or scale up and price more with each \$.10 rally in corn and each \$.25 rally in soybeans. If you are worried about margin calls, then go to the cash contract route because it's hard to go wrong pricing either one of these crops at these very profitable levels. In wheat, I've been surprised by the recent moves. I think part of this is technical in dealing with running of buy stops and forcing people to buy and cover short positions as both July contracts made new highs. We have the July Chicago trading above \$4.20 and that is certainly an opportunity to move up to about 75% forward priced in that commodity this week. The July Kansas City is also trading above \$4.20 and has been as high as \$4.29. I would hit these markets hard if you have very little price protection in place in wheat and if you have already forward priced 50-65% as I have been suggesting, I would think about anticipating what yields you are going to get in moving up to about 75% forward priced, and do it now.

Light sales of fed cattle have ranged from \$85 to \$87 in Texas with some \$86 to \$87 cattle selling in Kansas and some light sales at \$135 in the beef in Nebraska. The Choice boxed beef cut-out values came into the week above \$140. We did have slight day-to-day decline on Monday afternoon, but it looks like the day-to-day move Tuesday morning is to the upside again. The live cattle futures had run on this last rally to levels higher than I expected, and now we see more weakness across the past 10 trading days than

I had expected. With trade likely to develop around \$85 as the week goes on because packers do appear to be short bought, we have the April trading below \$78 in Tuesday's session and the June closed at \$73.60. I would expect both the April and the June to find buying support given this differential between cash and futures just below where we are and try to rally again. If that happens and if you don't have short hedges in place, let's see if we can catch a trend line across the late January and early February lows and the bottom of the correction to the downside which is what we appear to be in right now. If you have short positions, hold them. If you don't have short positions, I wouldn't sell this market where we are seeing it on Tuesday. Let's see if this correction to the downside can run its course and then, on a subsequent rally, see if we can get a trend line under this market to give us some protection and then try to sell a rally back up against the recent highs.

Feeder cattle are being hurt by continued increases in corn, and the market is surprisingly resilient given that we are looking at new-crop corn well above \$3.00. If this May can rally back up toward its recent high of \$88.75 which occurred on March 17, I would take a look at short hedges here. The comparable price level on the August contract which gets out past the danger from the pollination period in corn is a March 4 high at \$89.50. I believe rallies back to that level should be sold because I think we are going to have trouble seeing still further moves to the upside as long as corn is strong. There is always a strong inverse relationship between corn costs and feeder cattle prices. Generally, for each \$.10 per bushel increase in corn costs you need to mentally subtract \$1.25 to \$1.50 per hundredweight from the price of your 700-800 lb. yearling cattle.

The weighted average price for slaughter hogs on a carcass base is above \$66 per hundredweight. I think these strong prices are due almost totally to the increased demand for pork in the world market where many of the trading channels for our beef have been closed due to the BSE concerns. It is apparent, for example, that when Japan is not buying beef they will buy much more pork. With supplies essentially already determined in the short run, it simply adds to the demand side of the price equation and bids up prices. April hog futures have traded up to as high as \$67.30 on Monday. I think up at these levels, short hedges are in order. I don't see reasons for substantial moves up from here. When I look at the July and find that it is trading only \$.150 or so higher than the April, I am much less inclined to place short hedges in the July. We will see the seasonal surge in the hog prices for the summer months. What could keep that from happening this year, of course, is if these trade channels open up completely for beef before we get to the summer. Then we lose that demand side kick for pork and could end up with a summer hog market that is priced about where the March / April hog market closed. I would still be carrying the risk in the cash market on these summer hogs, however, and be looking to establish or reestablish short hedges on hogs to be sold for the rest of March and into early April.

