

In last week's letter, I talked about the grain and oilseed markets looking for a place to find buying support and start a correction to the upside. It looks like we are seeing that correction this week. We have relatively weak export movement in soybeans, but it was more decent last week in corn. Wheat has good to excellent crop conditions at only 44 percent. In the Midwest, we are getting too much rain in some areas and there may be needed replanting of corn. All of this is in the presence of buyers in the world market tending to buy only on an "as need" basis and strong competition for U.S. product from other countries that are holding ample supplies of wheat and soybeans, in particular. Behind all of these short term factors, we have the corn crop with planting essentially completed and soybeans at about 67 percent which indicates that crop, too, is going in the ground relatively early this year. All of that early planting suggests, other things equal, good yields and big crops.

In corn, watch the December contract as it launches a correction of this last price decline that ran from almost \$3.23 on April 30 down to \$2.78 last Friday. A 50 percent correction of that price dip will be just above \$3.00 on the December, and at that level, it will be running into a downtrend line that I have drawn on the chart this week. Anything above that \$3.00 level is a chance to replace short hedges, or for producers who are still lagging in price protection, to start a short hedging or cash contracting program. If this market can climb up toward the \$3.10 area, I would be inclined to sell it aggressively near the bottom of the chart gap which occurred on May 6 at about the \$3.12 to \$3.13 level. Users of corn who are not inclined to try to trade these short term developments should probably just stand aside and wait. A close above the downtrend line would be a buy signal to place or replace long hedges and lift short hedges for traders who are following a selective hedging mode of operation.

In soybeans, a 50 percent correction of this last price break that dipped from \$7.89 down toward the \$6.78 level would be about \$7.30 to \$7.35. I would be inclined to look at getting short hedges replaced or placed in this market on that type of corrective rally. I think the soybean market will be under more pressure from South American sales across the next several weeks than we are likely to see in corn. Keep in mind that if you've done nothing out into the 2005 year on any of these crops, you might want to look at those possibilities as this rally progresses. I will post simple illustrations of how one might price 2005 corn, soybeans, and wheat on the website in association with this week's letter.

In wheat, I would be aggressive in placing and replacing short hedges in this market near the bottom of the chart gap that occurred on May 10 at the \$3.93 level on the July Chicago contract. The chances to price this crop at next year's 2005 crop above \$4.00 may be gone, and I would be aggressive on a significant rally up above \$3.90 on that July 2004 contract. Keep in mind that this rally is likely to carry the July 2005 back up into the \$3.90 to \$4.00 range, and I think pricing half your expected production for 2005 at those levels is an opportunity too good to pass. If you are worried about managing a margin account for positions in futures over that much time, then look for offers that reflect a competitive basis adjustment in the cash market and price at least 50 percent in a forward cash contract.

In the cattle complex, we were looking at boxed beef cut-out values for the Choice grade above \$160 a few days back, and we are now in the \$151 to \$152 area. That is a loss of about \$10 per hundredweight across the past two weeks. Tuesday morning's quotes show some possible signs of stabilizing at these low \$150 levels. The best cash prices last week were generally around \$87 in most of the direct trading zone and limited trade so far this week is at that level or just below. It appears the efforts across the past week to correct this last price break on the June live cattle futures from \$87.55 down to \$80.40 are complete, because the market's down in Tuesday's session. This correction did not quite reach the 50 percent level, but chart watchers do look for a smaller 38 percent correction as well. That appears to be all we are going to get in the cattle complex. I would want to be short in this market if you are not short, because I suspect we will see continued deterioration in those cut-out values and additional pressure to the downside in the cash market as we move into June and start to see increases in the number of cattle ready to come out of the feed yards into slaughter. Take the same action on the August feeder cattle contract. I

said last week that I didn't think we could hold levels up toward \$105 on these feeder cattle. We actually reached \$106 levels on Monday and recorded \$106 again in Tuesday's session before this market turned lower and closed down over \$100. If you are not short in feeder cattle to protect yourself against the risky July period, in particular, as the corn crop is made, I would definitely want to be short at these levels in this August feeder cattle contract.

You can sketch a trend line across the April 22 low at \$70 and last week's price dip to \$74 on this June lean hog contract. This market is showing signs of not being able to surge to still-higher levels, and it is already above prices that I had expected and stands at prices that are very profitable for producers. The contract high occurred recently at \$77.40, and I would be inclined to sell a rally back up toward that high as I watch this June contract and price early summer and mid-summer hogs at the same time either on a rally to the highs or when we see a close below the trend line on the chart.

