

Wow! A corn crop of 11.613 billion bushels is nearly 1.5 billion bushels above the prior record crop. I suspected we would see something above 11.0 billion but this gigantic number is above even the highest of pre-report estimates and will push the corn prices down to new lows. Soybean production was pegged at 3.107 billion, a big crop but not above the top end of the range of pre-report estimates. Ending stocks zoomed higher in corn with 1.691 billion and well above the 1.208 billion bushel estimate in September. Ending stocks for soybeans came in at 405 million, a huge increase from the 190 million of September as the increased production numbers largely translated to parallel increases in ending stocks in corn and in soybeans.

December corn futures traded below \$2.00 in Tuesday's session. There will be talk by the market bulls about increased usage in ethanol, etc but there is no label other than "bearish" that fits this report. There is very little to do in terms of price risk management. Producers with short hedges in place should lift them as the corn is harvested and either sold or put into on farm storage if the basis levels are unusually weak in your area. If you lifted short hedges and are holding the corn as a speculator in the cash market, there is little reason to do anything here. The same holds for long hedgers. I have been saying you can stop and place long hedges out through 2005 when the December 2004 contract is down around \$2.00 and that advice still holds. This market closed off the lows in the Tuesday session and is likely to rally a few cents to close chart gaps and then drift lower since I doubt usage increases will be enough to push the December much above \$2.00.

Essentially the same advice is relevant in soybeans. The November traded down \$.30 in the Tuesday session but closed off the lows, down about \$.25. The bigger percentage break in soybeans suggests the market had done a better job of anticipating the huge crop in corn than the large crop in soybeans. The November contract will go to \$5.00, perhaps lower, and that will price soybeans at harvest down toward \$4.00 in some parts of the Midwest where harvest period basis levels can be as weak as -\$1.00 per bushel. There is not much to do in this market except harvest and make the storage decision using local basis levels. Remember the rule: Only store and hedge when the possible basis improvement between now and next March or May exceeds the costs of storage.

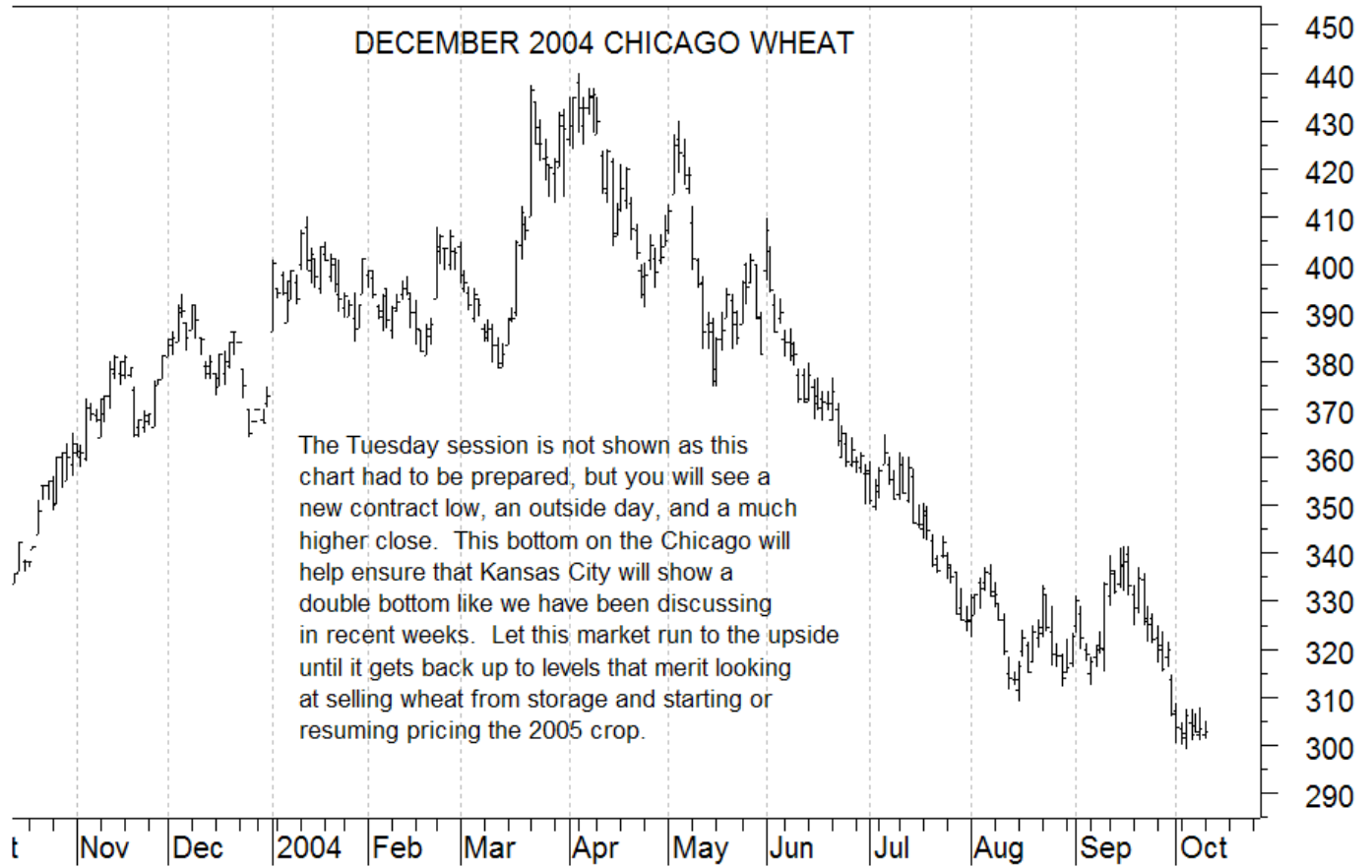
The wheat markets are faring better with no major bearish numbers in the reports and the December Chicago actually recorded a key reversal bottom (see the chart this week) in the Tuesday session. Wheat is weathering the price plunges in corn and soybeans without parallel price weakness, and the post report rally in corn and soybeans that is almost a certainty will help the wheat market build a rally. After a bearish report, the corn and soybean prices will likely decline for about 3 days and then stage a modest rally and try to close the chart gaps left as prices plunged following the report. If that happens, we could get some relief on the wheat market and allow wheat to maintain a rally. Our next job here will be, hopefully, deciding when to sell stored wheat and to start or resume pricing the 2005 crops.

Limited cattle trade in the cash markets shows \$83 live and \$134 carcass as the week's starting points. Packer margins have been negative in recent weeks but boxed beef values appear to have bottomed in the short run last Thursday and have moved up nicely since that day. This will help provide some margin relief at the packer level. Live cattle futures are up slightly in Tuesday's session and I see this as recognition that the cash market can get better this week if the boxed beef values can increase. Feeder cattle futures are up on the better prices in the live cattle pits and the cheaper corn after the early morning corn report. November feeder cattle are around the old

contract high of \$113.40, and I would look at hedging feeder cattle out through January at these levels. We will see some pressure on feeder cattle prices as the fourth quarter cattle coming out of the feed lots continue to show losses. I see resistance across past highs and in old chart gaps on the December live cattle in the \$89.50 to \$90.50 range, and I would be a seller and placer of short hedges on slaughter cattle out through January when December live cattle trades into this price range.

December lean hogs traded as low as \$65.10 last week, well off the September 24 high at \$71.80, and tried to rally in early-week trade. But Tuesday's close was down the daily limit of \$2.00 with the daily average cash hog price in the national direct market back below \$70 again in the face of expectations for continued seasonally high daily slaughter levels. Hold short hedges since this looks like more than a correction of the last price rally. There is support on the December across the lows near \$62 in September plus what I see as major support across the low at \$60.40 from August 25. Don't be surprised if the market challenges one or both of these support planes. It has been strength from export demand that has held this market up in the face of increasing slaughter levels and that one component of demand may not be enough as we move toward November which is usually the month with the biggest daily slaughter levels of the year.

### DECEMBER 2004 CHICAGO WHEAT



The Tuesday session is not shown as this chart had to be prepared, but you will see a new contract low, an outside day, and a much higher close. This bottom on the Chicago will help ensure that Kansas City will show a double bottom like we have been discussing in recent weeks. Let this market run to the upside until it gets back up to levels that merit looking at selling wheat from storage and starting or resuming pricing the 2005 crop.