

December corn futures are making new contract lows daily and the November soybeans dropped down through what I thought would be strong support at the year's low at \$5.52. Improving crop conditions, improving weather outlook, and better than expected early soybean yields are all bearish. Wheat prices are trying to rally in the face of lower corn and soybeans and I do like what I see in Tuesday's session as the December contracts in Chicago and in Kansas City are turning higher after losses on Monday.

I had mentioned using a sell stop under the \$5.52 on November soybeans if you bought back short hedges on a dip toward that level. The losses on Monday was at least partly because there were lots of sell stops in the market around \$5.50 and \$5.51. These orders become market orders when touched from above and selling pressure was strong. Producers who lifted short hedges and did not put in sell stop orders should still be okay. I do not expect any dramatic drop in soybean prices from here. If you are highly leveraged and do want to get short hedges back in place, then use the bottom of the chart gap from Monday that is around \$5.48 as a place to put limit price sell orders on a GTC or "good till cancelled" basis.

We are likely to see 11.0 billion bushels of corn in the October or November reports. The 10.961 billion estimate in the September report is close. Lest we forget, this market had the December futures as high as \$3.41 in early April and above \$3.20 again in early May and early June. I had been pushing pricing at prices well below those peaks much earlier in the year and there was lots of resistance at the producer level. The big mistake that we make in these high priced years is forgetting that economic rents, prices above costs of production, will never last in these commodity areas. This year, good weather that promises good yields slammed the profit door in corn shut within the year. But after record high corn prices in the summer of 1996, we had cash prices well below \$2.50 by early fall of 1997 and below \$2.00 by early fall of 1998. If you are holding short hedges, keep them in place as the December heads toward \$2.00. Users of corn still have no compelling reason to place long hedges unless you just want to tie down costs with the markets heading toward historic lows and move on to some other management need.

The wheat charts are showing some resiliency and I like that. The price break of Monday is being reversed in Tuesday's session and I see a head and shoulders bottom on the December Kansas City that projects back up toward some prior highs near \$3.88. I am showing that chart this week and see a rally toward the \$3.80s as a chance to sell cash wheat you are holding in storage and to take a look at the 2005 crop. The Chicago charts do not look quite so positive but we will see a rally in soft red winter wheat if the Kansas City hard red winter contract can rally.

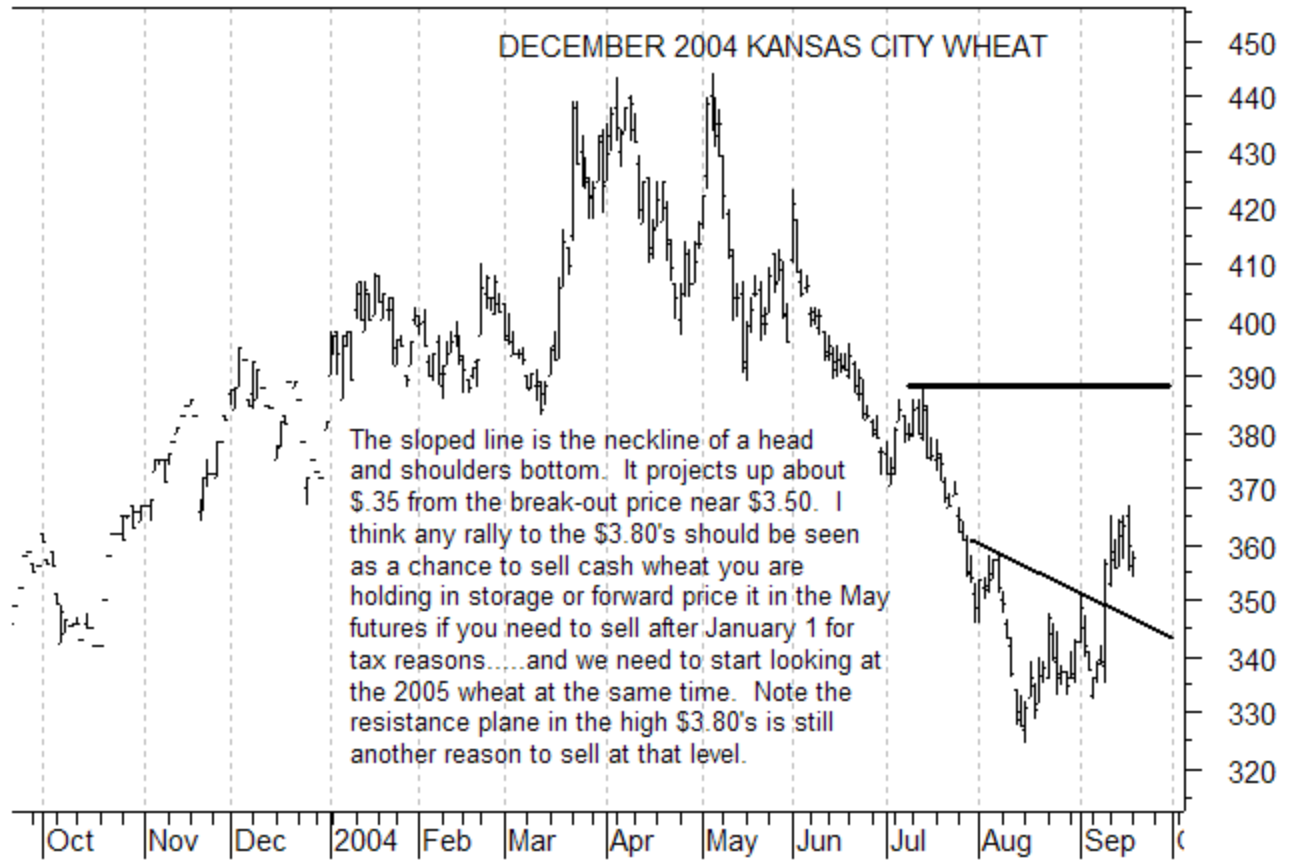
I missed the call on the October lean hogs when I said I did not see a reason for that contract to rally from \$68 as we move into the highest daily slaughter levels of the year in October and November. Riding strong demand, cash prices have boomed again in a contra seasonal fashion and are up to a weighed average of \$77.71 Tuesday morning. It is always harder to see demand and see why prices are moving up when slaughter is up significantly from last year, but it has to be demand that is bringing the moves. I suspect a big part of it is still coming from the export side of the equation as beef shipments are

still blocked to Japan, the talk does not suggest a settlement soon, and pork shipments to fill the void are very strong. If the beef problem in Japan gets fixed unexpectedly soon, then we will see a shock in the hog market to the downside and I continue to suggest short positions in the October and December hogs. The upcoming Hogs and Pigs report is likely to show no significant increase in the breeding herd so the hogs well into 2005 may still have upside potential and I would wait on short hedges into mid-2005.

Cash fed cattle climbed through the low \$80's last week and limited sales on Friday reached \$85. A few sales on Monday and on Tuesday morning have been from \$84 to \$85 and I expect we will see an \$85, perhaps \$86, market develop as the week wears on. Boxed beef values were up slightly Monday afternoon but are up nearly \$2.00 on the Choice boxes in Tuesday morning trade and that is changing the price picture significantly as packers get a bit of relief from the pressure of negative margins. It looks like the post holiday movement of beef into consumption has been decent and the sharpest hit from high gasoline prices that keep people at home and out of the restaurants may be behind us. There is a chart gap on the October from a few weeks back that starts near \$88 and that would be my first upside objective to place, replace, or add to short hedges in this market.

Feeder cattle continue to carry a big premium to the nearby futures, the cash fed cattle market, and to the distant live cattle futures. Cheaper corn and rallying cash fed cattle and live cattle futures market all help feeder cattle, and the October contract is about \$112 with contract highs near \$115. As the losses on cattle coming out of the feedlots starts to increase as we move later into the year, this big premium is likely to decrease as feedlots try to buy feeder cattle cheaper to restore margins----but it will not be easy for them. The cattle inventories are near the lowest levels in many years and any herd building that starts this winter and into 2005 will reduce the number of feeder cattle outside feedlots as heifers are held for breeding. Still, I would definitely sell this fall feeder cattle market if we see the October challenge its highs near \$115.

DECEMBER 2004 KANSAS CITY WHEAT



The sloped line is the neckline of a head and shoulders bottom. It projects up about \$.35 from the break-out price near \$3.50. I think any rally to the \$3.80's should be seen as a chance to sell cash wheat you are holding in storage or forward price it in the May futures if you need to sell after January 1 for tax reasons....and we need to start looking at the 2005 wheat at the same time. Note the resistance plane in the high \$3.80's is still another reason to sell at that level.