

Monday's price bounce in December corn and November soybeans was a technical rally from an extremely oversold condition. Buying included covering of short positions and this usually means open interest is declining and the rally will be temporary at best. The new low on December corn is the \$2.05 low from Monday and we will see the \$2.00 level shortly unless some unusual harvest period weather pushes prices up a bit. The way this market has traded, I now believe we will see prices well below \$2.00 if the market has to discover prices for a crop above 11.0 billion bushels. In soybeans, the chances of frost damage to yields in a late maturing crop are slipping away. Wheat is having a hard time sustaining any rally with corn and soybean prices under pressure.

Hold short hedges in corn and soybeans. I do not see big moves below \$2.00 on December corn and below \$5.00 on November soybeans as likely, but there are no compelling reasons for these markets to rally. Crop conditions improved again in the Monday afternoon report and early yields in soybeans are generally better than had been expected. Late maturing beans may not show strong yields but that is an iffy base on which to build a bullish posture. Users of corn, soybeans, and soybean meal can monitor and pull the trigger and place long hedges out through 2005 at any time. Corn around \$2.00 and soybeans down toward \$5.00 in the new crop contracts suggest there is not much downside risk from here and any unexpected report or weather development during harvest could prompt a short term bottom in the corn and soybean markets.

I still expect a slow climb in wheat prices. If the December Kansas City wheat can move up from Monday's low just above \$3.48, we will be able to sketch an uptrend line in the wheat market for the first time in several weeks. The Chicago contract looks less positive in a technical sense, but the wheat market has a rally in it when the corn and soybeans quit making new lows. If we can get some help from export movements, the December Kansas City contract has some chance of moving up toward \$3.80 coming out of the head and shoulders bottom discussed last week. If we get that type of rally, it may not be until after the bulk of the corn and soybean harvest is finished so monitoring is the right approach right now. If we do get to sketch an uptrend line on the December wheat charts, a close below the line will suggest we may be heading for a new test of the lows so it will pay to be alert in this market.

The best cash cattle prices late last week were \$84.50 with an occasional load that inched up toward \$85.00. Boxed beef values have worked up to the \$136-137 area for the Choice types, and there were modest positive gains on Monday and again on Tuesday morning. These cutout values were down toward \$130 in terms of weekly averages in early September. Across the past few months, the ratio of cutout values of Choice carcasses to cattle prices has been about 1.65 so \$137 box values would equate to \$83 cattle. Packer margins have been tight recently. The average ratio of cutout values to cattle prices across the past 5 years has been closer to 1.75 and that ratio with \$137 cutout values equates to \$78.25 cattle. But I do not expect \$78 cattle. To get cattle, packers may need to pay \$84 to \$85 again this week. October live cattle futures are around \$84 and the December contract is over \$2.00 higher. If we can see some move up from these early-week levels, and I think that is possible, we will be able to construct an uptrend line on the futures charts to help clarify when short hedges should be placed or replaced.

Feeder cattle prices are helped by cheap corn and hurt by declining live cattle futures. October futures are around \$111.00 and November closer to \$110.00. At these extraordinary levels, I would continue to sell and place short hedges on decent rallies. Contract highs on the November are at \$113.40 and we have seen two rallies in the past 10 days to \$112.40. On an approach to \$112.40, I think short positions are in order. As losses on cattle coming out of feedlots continue to mount, we will see strong efforts to push feeder cattle price lower to restore some chance for a positive feeding margin.

The September 24 Hogs and Pigs report put an end, at least temporarily, to the roaring bull market we have been seeing in hogs. Helped by export movements to Japan where U. S. beef is still waiting for the channels to open again, hog futures had staged a contra seasonal price pattern with December futures climbing from as low as \$60.40 on August 25 to as high as \$71.80 on September 24 before the release of the report. There were no huge surprises in the report numbers. The “kept for breeding” category was near the top end of the pre report range of expectations and lean hog futures from December out through summer of 2005 were mostly down the \$2.00 daily limit on Monday. I have been suggesting being short in this market and holding short hedges even if you had to answer margin calls, and I would hold those short positions. We looking at a very modest supply-side cycle increase that is taking the highs off prices out through 2005 and we will see the beef shipments to Japan open up again sometime in the next several months and that will hurt the hogs from the demand side of the price equation.

