

Frost is out of the forecasts and the weather is looking better for crop development. We are seeing private estimates of soybeans push up toward 2.9 billion bushels and estimates of corn are near 11.0 billion bushels. The hurricanes have done little damage to the crops and the bears appear to be in control with sharp losses last Friday and again in Tuesday's session. The buy signal with the close above the trend line on the November soybeans gave us a rally to \$6.52 on September 1 but the bearish fundamentals have taken over with the change in the weather forecasts. We will probably see a retest of the August 11 low of \$5.52 on November soybeans and the two lows on December corn from early August at the \$2.25 level. I had suggested that if the weather continued favorable we would see the December corn go through the \$2.25 lows, matched again in Tuesday trade, and head down toward \$2.00. It appears we are seeing the possibility of lower prices develop this week in front of Friday's USDA report that will give us the latest estimates of crop size in corn and in soybeans. I think we will need a report that shows lower estimates of corn production than the 10.923 billion bushels in the August report to avoid a dip toward \$2.00 by the December futures.

In corn, I have not pushed buying back short hedges but if you did buy back on the August 16 dip toward the \$2.25 lows, then I suggested that the short hedges should be replaced on a rally toward the recent highs across \$2.45. We reached \$2.45 as the high of the day last Wednesday and producers should hold short positions in this corn market until we see how big the downside move will be. Users of corn, I have been suggesting, can relax and not worry about huge moves up in corn costs with an expectation that the \$2.00 level is likely to be challenged by the December corn and that we will likely see prices below \$2.00 if the crop estimates start to exceed 11.0 billion bushels.

The trend line break in soybeans came on a short covering rally and I had suggested that more conservative hedgers might just hold short positions. The rally was on the forecast of frost and we rarely see early frost be a major factor in yields and crop size. If the price plunges that showed up on Friday and then again on Tuesday after the long weekend are an indication that the outlook has changed again, and I believe it has, then we could see the \$5.52 lows on the November futures challenged again. The soybean markets are being hit this week by rumors of payment defaults on soybeans headed to China so all the news looks bearish at the moment. Hold short hedges here if you did not buy them back. Be prepared to replace them on any corrective rally back up toward \$6.00 if you bought back short hedges and did not replace them on the recent rally to \$6.52. I do not expect that many producers replaced short hedges on the rally to \$6.52 since the market did not reach any recognizable resistance planes across recent highs, etc. before turning lower again.

Yields are good in spring planted wheat as the fall harvest starts and the sector is being buffeted by the bearish developments in corn and in soybeans. Last week's rally on the December Chicago reached \$3.31, only \$.02 per bushel below the August 23 high at \$3.33. Pressure from corn and soybeans is likely to prompt a test of the contract low on August 16 at \$3.09. If the corn and soybeans markets are showing some stability by that time, buying back short hedges on wheat you are holding in storage near \$3.09 on the December Chicago is a move worth considering. The August 16 low on the December Kansas City is near \$3.24 and buying back short hedges there on a dip to that level might also work.

Harvest pressure on corn and soybeans will likely prompt a test of the lows in wheat but the pressure should then subside and the wheat market should be able to rally. .

At the end of the week, \$81 was the best prices to be found in the fed cattle market and some prices slopped below \$80. The culprit was boxed beef values which were down \$5 to \$6 during the week and this came in the face of expectations for increased numbers of cattle on the show lists and talk of less than aggressive movement of beef into consumption over the long weekend. Weather was a factor in some parts of the county and grilling plans had to be postponed or abandoned. The October live cattle futures are above \$82 in Tuesday's session and \$82 is showing some premium to late week cash, but cash trade could be better this week if data on the Labor Day beef movements are positive. Choice boxed beef values are up on Tuesday morning and that is a good sign and, indirectly, suggests that movement over the weekend was decent. Still, it is a matter of holding short hedges in October live cattle and in October feeder cattle until the trends in boxed beef values and in cash cattle prices become clearer. There continues to be hope that the Japanese market can be opened before the end of the year, and if that happens, we are likely to see a jump in the beef complex in anticipation of being able to sell again in the biggest export market for the U S beef sector.

October lean hogs completed more than a 50% correction of the price break from \$71.00 on August 9 to \$62.50 on August 25. With the October market now in the \$65.50 area, I would want to be short as a selective hedger in fall and winter hogs on even a modest rally. I do not see the full seasonal decline in prices that I had expected and any word that beef shipments to Japan will return will hurt the export demand for pork. With daily slaughter levels tending to run above expectations based on the latest USDA inventory reports, I see the next move in this market to the downside. I think we should expect that the August 9 low at \$62.50 could be taken out and prices dip to \$60 or below as the full seasonal increase in daily slaughter levels reaches the market as we move into October and November.

NOVEMBER 2004 SOYBEANS



The frost forecast pushed the market up through the trend line and gave a false buy signal. Holding short hedges was right. Now, the market could challenge the \$5.55 low again.