

The devil is said to be in the details, and we are getting into the details on the crops. Between now and September 1, the size of the corn crop will be set, and the important ending stock number will be determined. The first producer survey will be reported in the August 12 report, but the USDA has already made some changes. In the July report, the crop estimate was dropped from 10.985 billion to 10.785 billion bushels based on the weather problems in northern Illinois in particular, and ending stock estimates were down from 2.54 billion to 2.24. Illinois produces about 2.0 billion bushels in a normal year. We could lose 500 million bushels in that state and in Indiana. But the export pace is running behind the levels needed to meet the USDA projections, and a number of variables are at work on the ending stock number. A guess would be about 1.8 to 1.9 billion bushels in ending stocks in the August 12 report, and that number suggests an average cash price for the U S for the crop year near \$2.00 to \$2.10 per bushel with December futures at harvest about \$0.20 higher. The December chart closed the week ready to dip down through a trend line. But crop conditions did not improve as expected and the market is trying to hold above the line with better soybean prices and mixed weather outlooks. I would expect to see lower prices if the soybean rally runs out of steam so hold short positions and stay off long hedges if you have lifted those long positions.

The \$6.60 level on the November soybeans will be an important support plane. The world ending stock picture continues at record levels as the estimations head toward the August 12 report. There is no legitimate reason for soybeans in this country to be trading in the \$7.00 area on the November futures. I would hold short hedges and be adding to short hedges or cash contract sales if you have little pricing done. I talked about getting to 60 to 70 percent priced in corn and soybeans on rallies in recent weeks and I would continue that advice, especially in soybeans.

March wheat is above a trend line hooking the mid-May and the mid-July lows. Be ready to sell a rally toward the \$3.80 high from about 10 days back to hedge wheat in storage. Look at the July contract at the same time. Remember the rule: there is no way that we can hold prices above the average total cost of producing wheat over time. That excess of price over costs is called "economic rent" or excess profits and will only last as long as it takes for the weather to allow a supply response and push price back down toward costs and below. We need to watch for opportunities to lock in profits on stored product and 2006 production, We will see weather related rallies to give us a chance.

It was not hard to find \$80.50 cattle at the end of the week trade, better than the prices we had seen through last Thursday. The possible BSE incident and the bearish numbers from the cattle on feed report are at issue here. Boxed beef was around \$125 for the Choice grades on Monday, and that price is well off the levels we have seen during the spring and summer months. The demand indexes are showing some faltering of the demand compared to second quarter of 2004, but that is not surprising. The pace of demand increase during 2004 was so aggressive that it would have been hard to sustain the same rate of growth. Across the two years combined, demand is up significantly. The worry here is that the industry gets so preoccupied with BSE etc. that the pace of new product development is allowed to slow. New products have helped usher in the

demand increase of over 20 percent since the bottom in 1998. The October live cattle quit at \$84 in early July and Monday's high was within a few cents of that prior high as hedgers and speculators put sell orders under the old high. I like that position in this uncertain market and would hold short positions in the October.

October feeder cattle look as though they are trying to turn down around \$107 in Tuesday's session. I have been encouraging holding short hedges in this market because the prices are at a huge premium to the live cattle futures into early next year and are over \$25 above current cash prices. I continue that line of advice even if it means paying a margin call. We would need a nice increase in fed cattle prices to support feeder cattle prices at these levels. I do not see a reason to argue for a big bull market in cattle at this point in time.

If we see a close above \$60 on the October lean hog futures, we will have a nice head and shoulders bottom in place to open up the possibility of still better prices. None of this fits the normal seasonal pattern. If you are highly leveraged and need to secure some profits, you might look at selling pushes up toward the \$60 level. We have no guarantees that the bottoming formation will be completed since the idea of a bottom runs counter to the normal pattern of seasonal price weakness in October and November where we often see the biggest daily slaughter levels of the year.

