

The weather over the weekend was not kind to the corn and soybean crops and the forecasts call for hot and dry weather across the Midwest. If early week rains do not materialize in Illinois and Indiana, the crops are vulnerable in those two key producing states. If that picture develops, the November soybeans will take out the highs near \$7.00 and holders of short hedges will need to buy back on two consecutive closes above \$7.00 or get ready to answer margin calls. Given the lack of rain across the past week, I would be more conservative if you have not priced at all or have more crop to forward price. The small correction last week was about what I expected and we now have a steep but useful trend line which I show on the chart this week. I would be more inclined to wait for a close below the trend line as the weather outlook in this market starts to look formidable.

Corn was less bullish in Monday trade and the December contract was not able to hold all the price advance of the session and closed in the middle of the range. The late May highs on the December near \$2.45 are \$.10 above current prices and the March high near \$2.50 has not been challenged since the late May rally. I would continue to sell this market on a rally into the \$2.45 to \$2.50 range. If you are worried about margin calls, look to cash contracts and price on a scale up basis. A \$2.20 put option on the December costs about \$.10 and some will go that route and hope the market does move above the \$2.50 resistance. Long hedgers should be careful selling to take profits before you wait to see if the \$2.50 level will stop the market. The unlikely event, \$3.00 to \$3.50 corn, is what you want protection against so do not get caught off your long hedges.

Wheat in Chicago and Kansas City rallied with soybeans and corn on Monday but did not hold the gains and the Chicago contract closed near the low for the day. Hold short hedges in both markets. I continue to expect to see a challenge of the lows just above \$3.00 in both markets as harvest starts to exert more pressure. We would be below \$3.00 already if it were not for what is happening with the weather in the corn and soybean markets.

Another BSE issue in the cattle markets and this may be the first native born animal. The live cattle and feeder cattle broke hard on Monday. The biggest concern is that this new possible case will make it even harder to get the export markets restored. I have been encouraging short hedges in August feeder cattle for several weeks and producers should hold those short positions if you are on short hedges. That contract was down \$2.77 on Monday with a close of \$108.47, over \$5.00 off the high at \$113.92 just a few days back. This market will be pressured even more by the big premiums to the fed cattle market and to summer futures, so look for more down in feeder cattle. Technically, it should be the December and February live cattle futures that are setting value for the summer feeder cattle but this market always tends to trade with the nearby live cattle futures and the current prices in the cash market.

Look for cash trade in fed cattle to develop in the low \$80's this week. There were some trades at \$86.50 late on Friday, above the largely \$85 trade for the week but the BSE issue will not allow those to happen again. The concern about the export restoration being delayed would appear to be valid given the long and laborious processes we have

seen develop in Japan in efforts to restore shipment to that important buying country. Hold short hedges if you have them in the summer and early fall live cattle contracts.

The modest rally on July lean hogs across the past week may be a bear flag. The national cash market is around \$65 coming into the week and the July contrast is just below \$69 at the close on Monday. There may be some more down to come in the futures, so hold short hedges. Don't be surprised if the concerns about getting the beef moving again start to help the cash and futures markets in hogs a bit later. The long rally from mid year last year to the high above \$80 on the July in early April was at least partly because Japan was buying pork since beef could not be shipped into the country.

