ADM Investor Services, Inc.

AFTERNOON LIVESTOCK COMMENTARY

May 31, 2012 by Brian Brase (312-242-7095 or brian.brase@admis.com)

Live cattle futures were higher on Thursday, posting gains of 65-102 points. October was the upside leader, while June was laggard. Bullish optimism is focused on the last third of the year, when cattle-on-feed numbers drop 5-7% below the year ago levels. In the meantime, June finds the most pressure, concerned about larger upfront supplies and seasonally weaker demand into the summer. Cash cattle trade reportedly got started today, seeing some light trade in Nebraska at about a dollar higher than last week. The higher beef prices have encouraged both the packer and the futures trader, but there are some increasing concerns that Choice prices have reached the level high enough to turn buyers away again. The August contract closed near session highs, but posted an inside day. If cash cattle trade continues to develop at higher money, then it would seem that live cattle futures would push higher to erase this week's losses. That would be only 20 points higher for the August contract to match last Friday's close. Resistance is expected at the 10-day moving average of 119.90. The prospect for seasonal weakness makes it hard to push over 120.00 from my perspective.

Feeder cattle futures were higher, but gained only about half of what was lost yesterday. The session highs for the August contract ran into resistance at the 100-day moving average of 157.66. The highs for the month of may suggest resistance to prices over 160.00 and support to prices below 155.00. Consolidation within seems reasonable as long as live cattle futures chop sideways and the cash feeder market continues to move higher. That is a concern with negative feeding margins. The rainy weather is prompting some relief from a feed perspective. My bias is that feeder cattle futures should trade in the 150.00-155.00 range yet this summer.

Lean hog futures were sharply higher on Thursday. July closed up its 300-point limit, but the electronic trade has backed off of that slightly to suggest no gap higher pool of buys waiting in this market. The July session high was 91.00, clearing the multiple resistance levels laid out yesterday and probably hitting buy stops as each one was breached. The high-range close suggests a bullish bias for Friday. There looks to be little resistance on the chart until the 100-day moving average of 93.22. However, there will be interest in profit taking ahead of the weekend with July having gained over $6 in 5 sessions. Follow-through buying and then long liquidation will make it easy to put a minor reversal top on the chart that may attract even more selling. With tomorrow being the first of June, that means only 10 more business day for the June contract to trade and it is showing almost a $6 premium to the lean hog index. This should attract selling as well. Cash hog prices could easily go up $6 in this time frame, but the real problem is that the pork cutout value shows about a $10 discount, handcuffing packers to push up bids.

Milk futures were lower on Thursday. The early trade was mostly higher, supported by higher cheese prices. The reversal action suggests strong resistance to moving higher. The low-range close suggests a bearish bias for Friday, which is June 1st. June is dairy month, so consumer demand is expected to be strong. The question is will it keep pace with milk production. Futures show a flat market, suggesting a good balance between supply and demand. The odds

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of that holding true are probably slim. The August chart has been consolidating. A move below 15.80 would suggest more of a downward correction. A move above 16.40 would suggest a continuation of May's strong uptrend.