

Market Report – December 13, 2005

What happened to grain futures between Friday and Monday? The USDA WASDE report was bearish but prices rallied explosively on Monday! Ending stocks for corn and soybeans were both up while wheat stocks held their ground. Farm prices were tightened lower. The technical traders got into the act and spiced things up a bit as the funds covered short positions! However, that doesn't change the fact that corn and soybean ending stocks were reported above the high end of pre-report estimates. Attention will more than likely now turn to South America variables. I believe these markets will look downward with a bearish eye again.

CORN on Monday at the Chicago Board of Trade (CBOT) opened higher to 0.5¢/bu but saw declines by 11:30 a.m., EST, down 1.2¢/bu from Monday's rally close at \$1.93/bu. This was seen largely due to follow through on Monday's technical buying. Short hedgers are expected to limit upward momentum. The price rise also was reported to goad some corn owners into selling corn but that has tapered off by Tuesday morning as the market did not see \$2.00/bu corn. Heavy December deliveries, 1,284 contracts, were made early Tuesday. Basis is reported weaker across the board Tuesday morning due to increased corn movement and Monday's CBOT rally. Volume and open interest are winding down as the DEC'05 comes to a close tomorrow. Nearby support for MAR'06 corn on the CBOT is at \$2.043/bu while resistance is around \$2.095/bu. The corn in storage should be contracted to at least 75% - 85% of the crop. The LDP fell another 7¢/bu to \$0.20/bu. Hopefully you didn't miss the LDP payment when it was advised to take it. The DEC'06 futures was down 0.2¢/bu at \$2.44/bu by 1:30 p.m. Hedgers should consider protection for up to 60% of next year's crop.

SOYBEANS on the nearby JAN'06 futures was up 5¢/bu cents at \$5.89/bu by 1:30 p.m., EST. Price turned higher after trading sideways all morning. Spillover buying from Monday was supportive but price was vulnerable to price swings as trade was light. Basis was weaker on Tuesday showing increased movement on Monday amid higher futures prices. Market hopes of increased exports to China were supportive. Weather patterns in South America changed little to none with dryness still expected in Argentina. World market fundamentals still show there is a large downside opportunity to this market. Cash marketers should have sold 80%-90% of the '05 crop priced at this time. Hedgers are encouraged to considering being short NOV'06 futures up to 50% of the '06 crop.

WHEAT futures in the DEC'05 at the CBOT were up 1¢/bu at \$3.004/bu while MAR'06 futures were up 1.2¢/bu at \$3.154/bu. Prices were largely following the soybean complex. Cold weather forecasts in the U.S. Plains next week were supportive amid bearish rulings by NAFTA. NAFTA rejected a U.S. wheat tariff that prevented Canadian spring wheat exports. However, price did not react too strongly as traders said tight supplies of Canadian milling wheat would limit imports from there. Spring wheat futures on the Minneapolis Grain Exchange (MGE) were lower in light trade by 2:00 p.m. following the CBOT and Kansas City markets. Fund buying was scaled down held prices. The JULY'06 futures was up 0.2¢/bu at \$3.334/bu. Cash marketers have long since sold the '05 crop but might want to consider forward pricing 20% of the '06 crop on the JULY'06 contract. Hedgers have been stopped out of the market and should be patient for now.

LIVE CATTLE (LC) on the DEC'05LC in Chicago were up \$1.275/cwt at \$93.75/cwt. The FEB'06LC was up \$1.05/cwt at \$96.25/cwt. Massive fund buying fueled the February contract enabling April, October, and December '06 LC futures to new highs. Sources said "the funds don't care about fundamentals." Cold weather forecasts in the Plains next week added strength to news of opening Japanese beef markets. Higher beef prices, fewer cattle, and improved packer profit margins should prompt increased demand for fed cattle. USDA on Monday reported choice boxed beef cutout up \$1.55/cwt to \$155.77/cwt. Next week's Cattle on Feed report is expected to show large November

placements and increased fed cattle supplies. This will provide only limited resistance in deferred months. The average beef plant margin for Tuesday was estimated at a positive \$16.20/head, up from a positive \$2.50/head on Monday while up from a negative \$17.00/head last week, according to HedgerEdge.com. Live cattle feeders stopped out of hedges should continue to be watchful of the short FEB'06LC opportunity on 1st quarter marketings. The market is still ignoring USDA's estimate of a 4% increase in beef production in the 1st quarter and an 8% increased beef production in the 2nd quarter of 2006.

FEEDER CATTLE on the CME JAN'06FC were up \$0.65/cwt late in the day at \$114.82/cwt while the MAR'06FC were at \$114.325/cwt, up \$0.825/cwt. September and November posted new contract highs. Feeders followed live cattle higher amid support from discounts on nearby contracts. There was little resistance even though cash feeders were steady to \$3/cwt lower on Monday. Cash market fundamentals are buoying the market in the near term as sellers keep weights current and resist the temptation to sell light. Cash sellers should continue to keep marketings and weights current while hedgers should be consider short hedges in the MAR'06LC futures.

LEAN HOGS for the DEC'05LH futures contract was up \$0.25/cwt at \$62.375/cwt with the FEB'06LH up \$0.725/cwt at \$66.575/cwt. Commercial selling counted buying by the funds. Gains in futures occurred despite steady to lower price forecasts. Better packer profit margins and improved by higher pork cutout prices supported futures. Some think packers may be short supplies. The average pork plant margin for Tuesday was estimated to be up \$7.40/head from Monday at \$10.45/head. This was down from last week's margin of \$11.15/head, according to HedgersEdge.com. Hedgers should remain vigilant, short in FEB'06LH and APR'06LH futures protecting a portion of 1st and 2nd quarter marketings. Cash sellers should keep marketings current.

Remember, when working with futures, risk is involved. Past performance does not indicate a promise of future results. For comments or questions you may contact Mike Roberts at mrob@vt.edu