Market Report – December 6, 2005

Grain and soybean bids were slight to moderately higher on Monday. Wheat saw slight gains as the higher corn and soybeans offered support. Corn found momentum from the higher soybeans. Both corn and soybeans found firm cash markets. Weather reports seem to dominate the news now. It is dry across much of the lower portion of the U.S. wheat belt slowing or damaging wheat crop progress. No significant moisture is in the forecast for those areas hardest hit. The below normal temperatures are increasing heat energy demand and likely prices too. Livestock health and feed intake is expected to suffer. Additionally, this weather is expected to disrupt transportation channels for both grain and livestock. The weather is also impacting South American crops giving much needed moisture.

CORN on Monday at the Chicago Board of Trade (CBOT) was called slightly higher as corn futures were trying to come together above most recent contract lows. The DEC'05 corn futures opened higher from Friday's close by 0.6¢/bu to $1.902/bu and quickly rose to 1.2¢/bu higher at $1.9 1/bu. Prices rose on support from last Thursday's key reversal up. The DEC'05 corn futures closed up 3.6¢/bu at $1.934/bu. News that exports of over 4 million tonnes (157.7 million bushels) of corn from China were authorized for shipment out by the end of February failed to dampen the market. Futures quickly rose early from last Friday's oversold RSI below 30 to close at 33.58. Corn cash basis bids were steady to firm in the U.S. Midwest due to slow farmer sales. Producers are waiting for futures to rise hoping it will lead to higher prices in the cash market. Loan deficiency payments for corn were down to 25¢/bu in most places. The drop was contributed to slow sales which are expected through the holiday season as producers seem to be showing they do not need to move anything for now. The market is waiting on fresh demand information as barge freights rise along major river routes while some Mississippi River ports prepare to close for the winter. Most analysts agree that the corn market will struggle to move price up in light of large carryover expectations. Primary support is at $1.861/bu. Last week's report urged producers to contract for the rest of the '05 corn crop in storage for February delivery. That advice is still valid. Hedgers should take a look at protecting next year's crop to 50% - 60% as the DEC'06 futures was up 2¢/bu at $2.41/bu. In light of the expectation of large ending stocks in corn, some of the best opportunities to price next year's crop may be at this time. Technical support for MAR'06 futures stood at $2.378/bu.

SOYBEANS on the nearby JAN'06 futures opened up 3.4¢/bu on Monday at $5.66/bu and quickly advanced to close up 10.4¢/bu at $5.732/bu. The technical gains were the result of short-covering after some funds got caught holding larger-than-expected short positions. Upward movement accelerated once the JAN'06 futures broke resistance filling the gap established on November 25 at $5.607/bu taking a break from lows established last week. Cash bid levels, rumors of China buying U.S. soybeans and a break through in export inspections gave strength to the market. However, floor sources said the upward move was purely a technical matter as large supplies and lagging exports will dampen any hope of a prolonged rally. Even though price rallied amid some good news, traders are showing a reluctance to establish short positions amid ideas that index fund positions will reallocate into soybeans setting off a rally after the first of the year. The MAR'06 soybean futures closed up 9¢/bu at $5.794/bu after opening at $5.724/bu. Trading gaps down in the JAN'05, MAR'06, and the NOV'06 soybean futures were established on Friday, November 25. Since all markets attempt to fill pricing gaps and the fundamentals are in place for lower prices, could this recent price-positive activity be an attempt to fill-the-gap before turning lower? If so, could this be a breakaway gap? The measuring objective for JAN'06 and MAR'06 soybeans could be in the neighborhood of $5.537/bu and $54.222/bu respectively. The measuring objective for NOV'06 soybean futures is calculated at $5.549/bu. Since market direction is mostly driven by fundamentals and technicals indicate when to pull the trigger on a trade, watch for any downturn in the RSI and Open Interest. It is not expected that these markets will rise significantly while posing such a potential for downside risk. There were no reported LDPs for soybeans on Monday. Cash marketers should have at least 80%-90% of the '05 crop priced at this time. A cash strategy that may be useful for the ‘06 soybean crop would be to price some a portion of the new crop beans now and manage the LDP at harvest time. The market is suggesting that the there is a good chance prices for the ’06 and ’07 crops could fall to multiple year lows. Hedgers are encouraged to considering being short NOV’06 futures up to 50% of the ’06 crop.

WHEAT futures at the CBOT were mixed on Monday with DEC’05 wheat closing up 1¢/bu at $3.044/bu and the JULY’06 wheat futures contract up 1.2¢/bu at $3.384/bu. Buoying the market were solid U.S. cash wheat basis bids and rising export inspections amid hopes of future Iraqi wheat purchases, floor sources said. Cold weather did not seem as negative on price as reports of continued dry weather in the southern and western U.S HRW producing areas. DEC’05 wheat in Kansas City closed up 1¢/bu at $3.67/bu and the MAR’06 wheat contract was up 0.5¢/bu at $3.707/bu as fund buying contributed to price support. At the Minneapolis Grain Exchange, DEC’05 futures closed down 2.5¢/bu at $3.69/bu and the MAR’06 futures down 0.5¢/bu at $3.745/bu as 1500 lots were delivered. Cash spot bids were steady to firm Monday. Primary support for JULY’06 is just above the contract low of $3.264/bu at $3.28/bu. Cash marketers have long since sold the ’05 crop but might want to consider forward pricing a portion of the ’06 crop on the JULY’06 contract while considering a Call option for upside potential. A $3.70 Call option cost was at 13.4¢/bu on the CBOT. Hedgers have been stopped out of the market and should be patient for now..

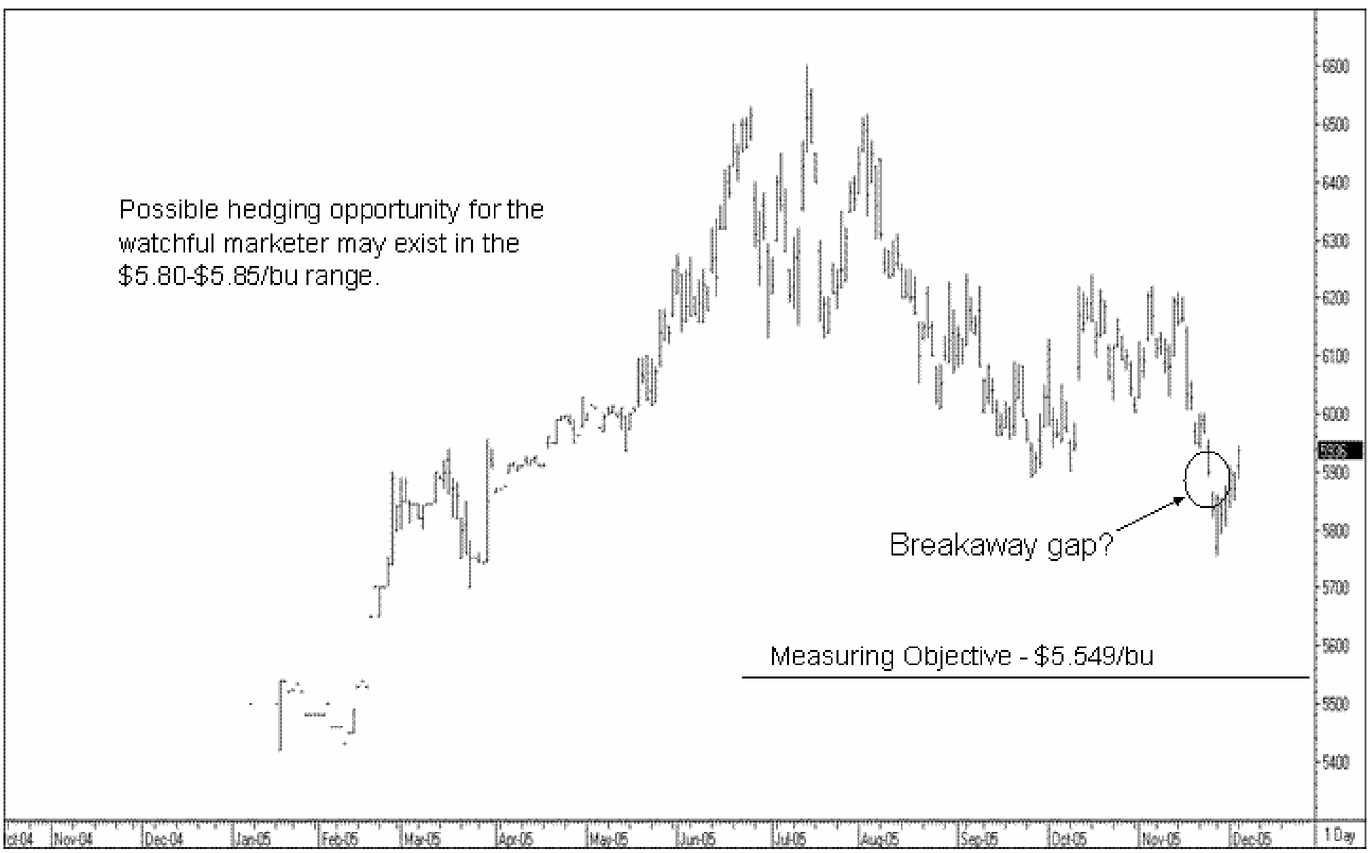
LIVE CATTLE on the CME closed down on Monday in mixed trading. The DEC’05 live cattle (LC) futures were off $0.175/cwt at $92.85/cwt while the FEB’06LC was off $0.075/cwt at $95.75/cwt. April finished up on most April/February spreads. Bearish worries of light cash cattle sales near $92.00/cwt last week were offset with Japanese export potential. Feedlots were asking for $94.00/cwt yesterday. In light of low sales in the cash markets fresh news was limited on Monday causing futures to drift. It was reported that packers could keep prices firm if they are willing to hold kill numbers up despite negative margins. The choice cutout was up $1.02/cwt by midday at $151.69/cwt. According to Hedgers.com, the average estimated beef plant margin on Friday was down from a negative $17.90/ head at a negative $29.35/head. Funds and other traders were still very long in the market as they started to roll February into April effectively holding the FEB’06LC in check while propping up the APR’06 futures. At least for now, cash sellers should keep marketings current at the proper weights and not take the bait to sell lighter cattle. Live cattle feeders stopped out of hedges should continue to be watchful of the short FEB’06LC opportunity on 1st quarter marketings. The market seems to be 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. If cattle numbers ring true to those predictions there may represent short hedging opportunities soon.

FEEDER CATTLE on the CME saw light trading action on Monday amid local and commission house selling and the same bearish worries of light cattle ending up in the cash market, traders said. JAN’06FC futures were down $0.30/cwt at $116.275/cwt while MAR’06FC futures were off $0.075/cwt to $114.925/cwt. As with live cattle, there was not much news from the cash markets to trade on. Feeder cattle futures were kept in a narrow range, in line with the latest feeder cattle index. Fund spreading in the JAN’06FC and MAR’06FC held the JAN’06FC futures in check. The latest CME feeder cattle index for Dec. 1 was up $0.17/cwt at $116.86/cwt. Rallies in the grain markets also put pressure on cattle futures. This still mostly oversold market may see a good downturn at any time. 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 stopped out of the market should remain vigilant for short opportunities in the coming days.

LEAN HOGS for the DEC’05 futures contract was slightly higher on Monday. The market got it back together from Friday’s action after a pointed sell-off following rambunctious highs in that session.

Traders on the floor stated they were waiting on the next move from the funds. Lean hogs (LH) traded up and down before closing up $0.20/cwt at $63.00/cwt. The FEB'06LH wound up at $66.325/cwt, up $0.10/cwt. Hogs backed up from snow last week are now making the abattoir rendezvous. Cash markets were higher to steady in western markets as cold weather there continued to hold down marketings and kept packer profits in the black. The CME lean hog index on Monday was up $0.63/cwt at $59.28/cwt. The average pork plant operating margin for Monday was estimated at $13.00/head compared with $14.70/head on Friday and $17.60/head last week, according to Hedgersedge.com. USDA reported pork cutout on Friday up $0.31/cwt Thursday at $68.65/cwt. April/February spreading was recognized as early positioning for rolling by the funds looking at early January. Even though signs of herd building just aren't there as the market establishes new contract highs, hedgers should remain vigilant to be short in FEB'06LH and APR'06LH futures protecting a portion of 1st and 2nd quarter marketings. Cash sellers should keep marketings current. Even though these markets are not yet oversold, keep watch for bearish tendencies. Over the last two trading days, the 14 day RSI in the both the FEB'06LH and the APR'06LH have diverged (turned down) from upward price direction. This could be a signal for short opportunities.

November Soybeans 2006



Data source DTN on the Web

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