

Market Report – November 22, 2005

Weekly export sales and shipments from last week seem to be helping a lot of folks get optimistic about near-term price rally opportunities in corn and soybeans. The numbers do show somewhat bullish but this writer's belief is that the markets have already factored that news into prices. Corn and soybeans did show some improvement by the end of the trading day while wheat lost its luster. Trading in the pits on Monday seemed to answer the question by some, "Will export sales be enough to garner buying interest?" Both the DEC and JULY futures on the CBOT proved ready enough to post new lows. Bird flu reports from China sent the soybean complex down by mid-week last week but also seem to be factored into this pre-holiday market. Couple this with large supplies of corn and soybeans that will be on hand for the next marketing year and prices will continue to be challenged.

CORN futures on the DEC'05 settled with little change as earlier gains based on light covering gave way to thin fund selling and spillover weakness from new lows from wheat. The DEC'05 closed up 0.2¢/bu to \$1.914/bu after opening the day up 0.4¢/bu. Sources on the floor at the Chicago Board of Trade said there just wasn't a lot for longs to get hold of prior to the Thanksgiving holiday. Basis levels in some areas have strengthened to provide support under the market but overall, there is not much to talk about by the bulls. The main attraction at the markets today was the continued rolling of DEC '05 positions into the MAR'06 ahead of the holiday and next week's first delivery notice for the DEC'05 Corn contract. Some concern was expressed among traders after China's 16th and 17th announced confirmed cases of bird flu. This news added some downward concerns about the possibilities of freed up corn demand. The market seemed tired of making new contract lows daily and poised for some kind of bounce but could never gain much price traction. Corn basis held steady to lower in Virginia with quoted LDPs running in the mid 30¢/bu range. In light of the carry of un-priced corn in storage that the LDP has been collected on, it is now time to price the rest of what is in the bin if you haven't done so. Considering the '06 crop, the DEC'06 futures closed up 0.2¢/bu at \$2.406/bu. Hedgers should still be short on up to 50%-60% of next year's crop in the DEC'06 futures.

SOYBEANS on the nearby JAN'06 futures closed up 2.4¢/bu at \$5.722/bu while the distant NOV'06 soybean futures contract closed up 3.2¢/bu at \$5.982/bu on Monday. There was a light, short-covering bounce in the market before the end of trading on Monday. The market rebounded after falling to a 30 day low on Friday. A new find of soybean rust coupled with bird flu price influences still weigh on price. Weather in Brazil showed some improvement however news from that country shows a contraction of soybean acres due to three major factors: producer credit problems, the weakening exchange rate, and rising input prices. Spot cash bids were steady to firm in the Midwest on Monday but continued to weaken in the eastern Atlantic states. All this contributes to reflect slow soybean movement. There were no reported LDPs for soybeans on Monday. Hopefully for cash marketers over 50% of the crop has long since been contracted for and the brief, small LDP collected. Consider forward pricing the rest of the crop at this time.

WHEAT futures for the DEC'05 wheat futures on the CBOT closed down 3.4¢/bu at \$2.984/bu. All wheat markets in Chicago, Kansas City, and Minneapolis showed price slides. A new contract low on the DEC'05 wheat futures at the CBOT helped to keep corn well grounded as these prices broke through psychological support at \$3.00/bu despite the technicals showing an oversold market with the RSI finishing at 29.91. An RSI below 30 is considered an oversold market. The funds were accumulating record short positions in Chicago while liquidating some positions in the other exchanges. The market is expected to remain weighty unless the fundamentals show something to the market. Export news showed inspections in line with the expected 30-35 million bushels dragging down prices amid news that India would not need to import wheat this year after six years of exports. The USDA report late Monday placed the U.S. winter wheat crop condition at 76% good-to-excellent amid lingering concerns about the Texas

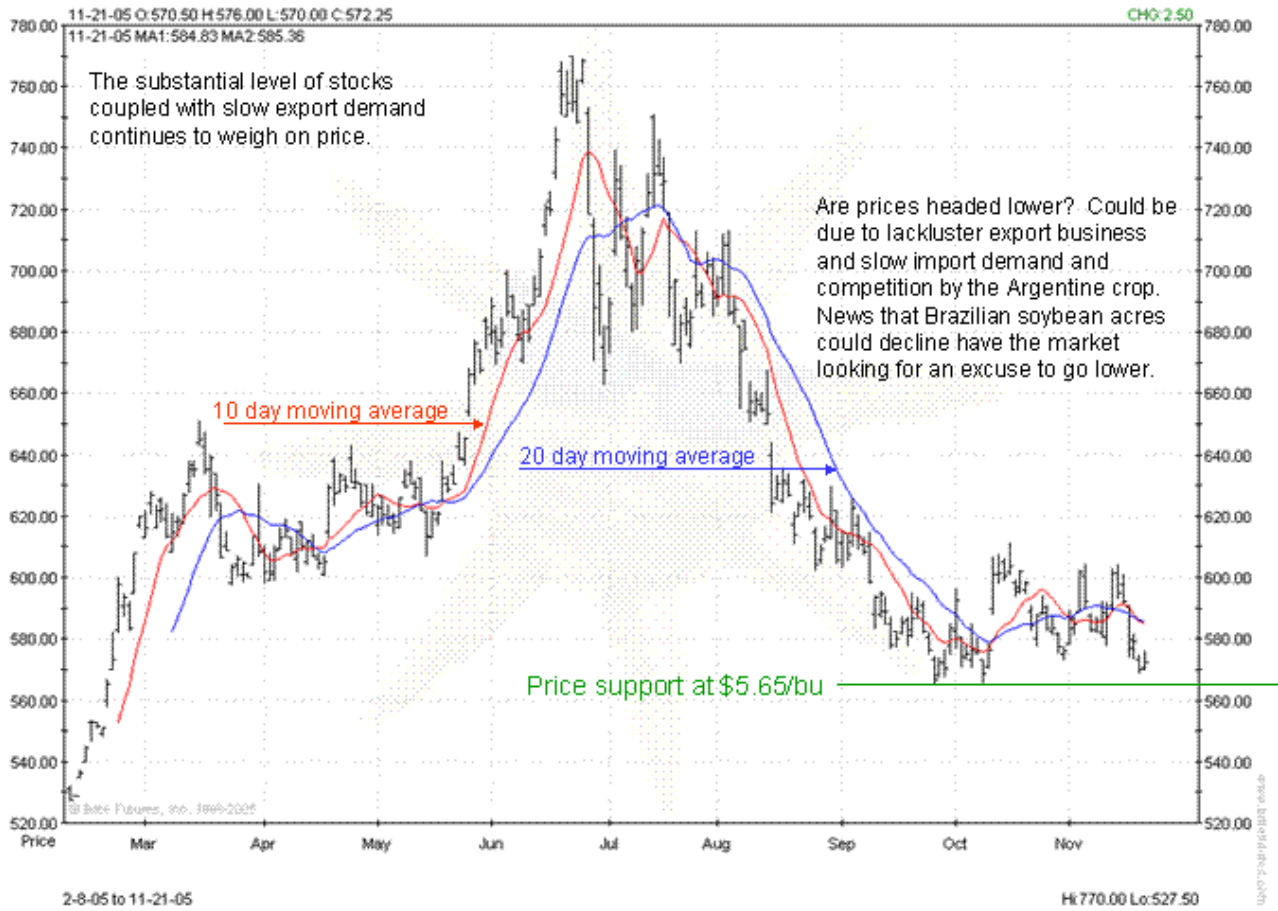
and Oklahoma crops. Cash spot prices in Virginia showed the same trend with steady to weaker spot prices on the Monday morning opening. Some traders tried to be optimistic noting some support from ideas that springtime wheat plantings might be reduced following last year. It is more important than ever to have tallied your breakeven production costs for next year and to have a marketing plan in the works. Some analysts think that unless there are weather problems next spring or summer, it is quite possible that the best prices for next year's crop will occur between now and February '06. Hedgers should be out of the market but want to watch for a chance over the next two months to increase the forward contract level for next year's crop to the 30-35%. A Put option may become more attractive for some downside price protection.

LIVE CATTLE on the Chicago Mercantile Exchange started futures lower on Monday after the USDA report on Friday showed more cattle than expected in feedlots. The report showed feedlot supply as of November 1, 2005 at 101% of a year ago. October placements stood at 103% of a year earlier while October marketings were 97%. Average trade estimates were 100.6% for on-feed, 100.3% for placements and 96.5% for marketings. Lower cash beef prices in early trading while futures breached technical support helped speed the selling to send the contracts considerably lower with the DEC'05LC trading fast at times. The DEC'05LC futures closed down \$0.725/cwt at \$90.30/cwt while the FEB'06 was down \$1.025/cwt at \$92.725/cwt. Funds had been supporting the market in a narrow trading range until they started to sell today. The USDA also reported on Monday that the cutout value for choice beef was down \$0.77/cwt at \$150.82/cwt from Friday. The select cutout was also down \$0.89/cwt to \$140.73/cwt. Live cattle feeders should continue to protect year end and 1st quarter '06 sales in both the DEC'05 and the FEB'06 market.

FEEDER CATTLE on the JAN'06FC closed off \$0.925/cwt at \$112.675/cwt while MAR'06FC futures were down \$0.675/cwt to \$111.075/cwt. Feeder cattle followed live cattle lower in moderately light trading volume amid some fund selling. The latest CME feeder cattle index price ran up \$0.19/cwt to \$116.56/cwt. Hedgers that were careful market watchers placed short hedges in the \$112.60/cwt in the JAN'06FC futures upon last week's advice to watch for this trend. Fundamentals in the JAN'06FC still show good short pricing opportunities while the MAR'06FC still tries to make up its mind when to turn bearish. Cash sellers should keep marketings current at the proper weights.

LEAN HOGS for the DEC'05 futures contract closed off \$1.975/cwt at \$60.65/cwt while the FEB'06LH was down \$1.925/cwt to \$60.625/cwt. Lower cash hog prices in the Midwest markets coupled with fund selling sent futures sharply lower with the DEC'05 contract trading down the 2-cent limit at times. Backlog slaughter concerns due to a Cargill pork plant being down last week gave traders some jittery moments. A worker was killed at the plant following the failure of a conveyor system last Wednesday. Some hog slaughter is expected to resume at the Ottumwa, Iowa abattoir with normal production hoped for by the Wednesday before Thanksgiving. Early selling concentrated on the DEC'05LH and took FEB'06LH futures with it. The latest CME hog index was off \$0.35/cwt at \$61.60/cwt. Residual pressure on price from Friday's USDA report that the pork cutout value was down \$0.51/cwt from Thursday to \$65.50/cwt was considered a factor in the market. Hedgers taking last week's advice to be short in the \$65.00/cwt range should consider staying the course. Primary support in the FEB'06LH futures stands at \$64.33/cwt with secondary support at \$62.625/cwt. Cash sellers should be sure and keep marketings current. Cash buyers of pork should not be in a hedging position at this time as the market looks for the bear.

SF06 - January 2006 Soybeans



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