

## Market Report – August 23, 2005

Much has been said about ending stocks and production levels affecting corn in what should have been a price-friendly manner. Ending stocks may be getting too much attention in the reports. Why? Because the question has now become in the trading pits, “Is the corn crop likely to get smaller in upcoming estimates?” The answer is most likely yes. Another factor affecting the corn market is that the funds are still adding volatility to the market. Weather is moving to the background for corn while still affecting beans.

Corn futures at the Chicago Board of Trade closed higher Monday on spillover buying from a relatively strong recovery rally. Not much to talk about but some “bouncing a little here and there” a trader said. The corn and soy markets are trying to undergo a technical rebound after last week’s tumble to a three-month low for corn and near a six-month low for soybeans. Both markets were left floundering in technically oversold areas by fund selling and longs taking their losses. New crop DEC ’05 corn closed 2.5¢ per bushel higher to \$2.26. The advice of last report that shorts should be aggressively closing their positions at this very unusual support plane still holds. Cash marketers should stay about 50-60% contracted. From now until harvest is complete, the next thing to do is to pick a bottom to collect LDPs.

NOV ’05 soybeans closed 9.75¢ higher on Monday’s close at \$6.1725 per bushel, up from Friday’s close at \$6.0750. This was only 2.4¢ lower than last Monday’s close but a whopping 51¢ lower than Monday, August 8<sup>th</sup>, just two weeks ago. As predicted, support was broken at \$6.60. Local basis was steady to firmer. Local cash contracts ranged from \$5.87 to \$6.12 on Monday. If yields stay in line with USDA projections, prices could make further declines. The lows in the bean market will likely come later than in corn and the volatility is most likely to be higher. Continue to hold short hedges already in place and add to them or cash contract sales if little pricing had been done to this point.

All wheat production is now pegged above last year’s total. The 05/06 carryover estimate was lowered to 634 million bushels driving price toward the \$3.17 level. Monday’s close of \$3.39 would seem to go against logic. However, demand is strong and carryover could drop over the next few months. This may point toward hedging opportunities in July ’06 wheat futures. It may be a good idea to sell this year’s entire wheat crop. The July 2006 futures price may present some opportunities for wheat growers. If stocks don’t drop over the next couple of months, wheat producers should consider placing short hedges on the July contract this fall in pricing the 2006 crop. The contract high near \$3.83 for July ’06 Wheat on July Chicago might be worth watching if we get a better rally. Remember, basis determines whether storage will work or not.

Chicago Mercantile Exchange live cattle traded on both sides of unchanged on Monday before ending lower on profit taking after Friday’s gains. August LC closed \$.225 lower from Friday to \$80.25 per cwt while October LC closed lower from Friday’s close by \$.30 to \$81.80. The expected boost on Monday in futures did not happen. Feeder cattle partly followed but generally traded higher on continued support from the discount of

futures to the CME Feeder Cattle Index. Friday's cattle report showed the August 1 feedlot cattle supply at the low end of expectations with July placements down 2 percent and at the lowest level since the current series began. However, traders said gains on Friday priced in much of the report's bullish numbers. A lot of cattle moved to packers last week and that should encourage feedlots to hold firm price levels this week. The average packer margin for Monday was up \$2.20 per head from \$14.50 to \$16.70. Fund selling was noted. October feeders are trading sideways while October Live Cattle have some price support and are coming off a double top. Some short hedges should still be considered for 4<sup>th</sup> and 1<sup>st</sup> quarter marketings. Continue to carry risk in the cash market on feeders.

This week's inspected hog slaughter was up 3.8% from a week ago just 9,000 short of 2 million head. This was not much of a surprise but what is a surprise were the stronger than expected cash and wholesale pork prices. Some expected a neutral to slightly bearish reaction to the government's 50.254 million pound end July inventory number released Monday. October lean hogs were up \$.275 at \$62.425 per cwt. and December up \$.525 to \$60.40. Higher cash hog and pork prices produced gains in futures. Cash should trade steady to higher. August pork bellies were off \$.225 at \$71.350 per cwt. and February was off \$.45 at \$83.45. Late selling pushed pork bellies down while some of the selling was thought to be long liquidation ahead of the USDA Cold Storage report. The report is expected to show large stocks despite a fairly large decline in July. Hedgers should have sold October futures to cover 25% of 4<sup>th</sup> quarter marketings.

SX05 - November 2005 Soybeans

