

## Market Report – November 15, 2005

With the release of the WASDE report last week the size of the U.S. corn and soybean crops are out. Market reaction to the production estimates indicates the numbers have been factored into prices. The U.S. corn crop production estimate is up at 11.032 billion bushels with ending stocks now placed at 2.319 billion bushels, up 99 million bushels from October. USDA estimated average farm price for corn was placed down 5¢/bu at \$1.60 - \$2.05/bu. The per acre production estimates for U.S. soybeans is now up a whopping 1.1 bu/acre at 3.043 billion bushels. Ending stocks were placed up 90 million bushels at 350 million bushels. The USDA estimated average farm price for soybeans was also downsized 5¢/bu at \$4.85 - \$5.75/bu. South American soybean production was lowered 55.1 million bushels from last month. World soybean ending stocks shrank some 35 million bushels but still show an increase from the last crop year. The USDA report showed wheat largely unchanged from the last report leaving the average farm cash price estimate at \$3.25 - \$3.55/bu.

**CORN** futures on the DEC'05 rallied up 1.6¢/bu at \$1.972/bu. At one point in the day, spillover technical buying from Friday's close moved the DEC'05 futures above the 20 day moving average of \$1.98/bu to \$1.994/bu. Funds bought 7000 lots by midday. Expecting USDA to report the harvest over 98% complete in the weekly progress report Monday afternoon, floor sources stated "it looks like the harvest lows are in." Weekend export business featured Taiwan buying over 2 million bushels while Japan discovered another U.S. feed grain cargo tainted with Bt-10 corn thus telling the importer to either destroy that portion of the cargo or ship the entire load back to the U.S. Sources said that demand for corn from feed makers in Asia is holding steady despite growing fears from possible bird flu outbreaks in the region. Cash basis bids for corn in the Midwest were steady to firm in the interior but weak at river locations due to higher transportation rates. Corn basis on the east coast showed some strength in most areas while in Virginia all markets showed a cash corn basis improvement from the week before. LDPs were running about 42¢/bu in Virginia with a penny or two variance in other locations. It was suggested last week to make your deal on forward delivery of the rest of the corn crop for January, February or March delivery. That advice still holds. The LDP should have been collected by now as corn price shows some strength having factored in all the news. Hedgers should be short on up to 50%-60% of next year's crop in the DEC'06 futures.

**SOYBEANS** continued to trade sideways in chopping trading on Monday damping the short hedging opportunity expectations of last week. After opening up 1¢/bu at \$5.94/bu from Friday's close of \$5.93/bu, the NOV'05 futures expired off 2.6¢/bu at \$5.902/bu. Early support in the NOV'05 futures stemmed from strong commercial stopping out of over 500 futures deliveries made early Monday morning. The JAN'06 soybean contract closed down 6.4¢/bu at \$5.95/bu. News of the October U.S. crush being at 151 million bushels was viewed as neutral as that was within trade expectations. As with corn markets, traders said the harvest lows may be in for soybeans. Weekly export inspections were down 10-15 million bushels from trade estimates of 30-35 million. Sources at the CBOT say attention now is toward South America crop producing variables. With Argentina and Brazil mostly dry over the weekend and expected most of next week, soybeans in those areas are looked upon as needing moisture for emergence and growth. Conditions are not considered critical yet but worth watching. There were still no reported LDPs for soybeans on Monday. Hopefully for cash marketers over 50% of the crop has long since been contracted for and the small LDP collected. Be patient for now on the remaining portion of the crop. There should be no hedges in place at this time for producers. For users of soybean products, now is still the time to buy in the cash market.

**WHEAT** futures for the DEC'05 wheat on the CBOT closed up 0.2¢/bu to at \$3.116/bu. The MAR through JULY'06 contracts were all off 0.2¢/bu to 0.4¢/bu. The DEC'06 Wheat futures closed up 0.6¢/bu at \$3.644/bu on the CBOT. Helping to continue a choppy market, weakness in the Kansas City futures

bound prices amid spillover buying from Friday's supportive action. The market was disappointed no shipments to Iraq were reported in USDA's weekly export inspections summary. USDA export inspections for last week were off 4-9 million bushels from expectations to 15.1 million. Jordan re-tendered to purchase over 3.5 million bushels from any source. Also, South Korea bought just over 500,000 bushels. In other disappointing news for U.S. wheat exports, Australia has been reassured that its exports will still be expected for delivery despite a recent UN report that it was involved in the Oil-for-Food kickback schemes. Advice from last week's report that Selective Hedgers should be out of the DEC'05 market and should not be short as the market trades sideways still holds. Hedgers may want to sit on the forward contract of 10-20% of the '06 crop. It is still considered prudent to hold off pricing any more of the '06 crop until December or January.

**LIVE CATTLE** in the DEC'05LC closed up \$0.65/cwt at \$91.0750cwt while the FEB'06LC was up \$0.50/cwt to \$93.95/cwt. Higher cash prices on Monday helped sustain the rebound from Friday's close. USDA reported the choice cutout up \$1.91/cwt at \$147.63/cwt. The select cutout was up \$2.36/cwt at \$136.82. The FEB'06LC received late support from spreading in the FEB/DEC numbers considered to be remnants of the Goldman contract roll that occurred last week. The "Roll" is the common name for the Goldman Sachs Commodity Index using spreading to move its long positions to the deferred contract. Funds on both sides of the December were moderate. It is a good moment to remember a point well taken from the Grimes & Plain report issued last Friday. Lower feed prices will continue to be positive to feeder cattle prices. A 10¢/bu decline in corn price will increase the value of a 400-pound calf by \$1.25-\$1.50/cwt and a 750-pound yearling by \$0.65-\$0.75/cwt with all other factors held constant. It is reported that many commercial feedlots are at or near capacity but it is expected that high prices will clear some pen space. Midweek feeder cattle cash auctions realized some support from the slaughter cattle market which is expected to continue through at least Wednesday of this week.

**FEEDER CATTLE** on the NOV'05FC and the JAN'06FC were both up \$0.75/cwt at \$115.80/cwt and \$113.725/cwt respectively. The markets largely followed live cattle prices higher as most of the trading was dominated by local traders, CME floor sources said. The latest CME feeder cattle index price was up \$0.04/cwt at \$115.68/cwt. This time of year is not the normal time for strength in the wholesale price of beef as meat retailers are more focused on turkey and pork. Live cattle feeders should continue to protect year end and 1<sup>st</sup> quarter '06 sales in both the DEC'05 and the FEB'06 market. Feeder cattle producers are still be stopped out of the JAN'06 and MAR'06 futures but should be ready to place short hedges in the \$112.0/cwt area of the JAN'06FC futures. The 4-day moving average has turned lower after an intersection of the 10 & 20-day moving averages. Also, the RSI for the JAN'06FC has trended downward standing at 55.64. All these signs plus seasonal fundamentals could portend a bearish opportunity as the market may be poised to break.

**LEAN HOGS** on the DEC'05 Lean Hogs (LH) futures finished at \$63.35/cwt, off \$0.075/cwt. The FEB'06LH futures was off \$0.50/cwt at \$66.80/cwt. The DEC'05LH went lower after being higher early due to some fund activity amid light trading for the latter part of the open outcry. The FEB'06LH was kept under pressure with local selling. Cash hog markets were steady to lower on Monday as sources expect steady markets over the next few days. Producers and packers are still enjoying a decent profit margin. Continued firmness in price is a good sign that prices will hold. The 10 and 20 day moving averages did intersect late Tuesday after last week's report was posted. It was recommended last week to consider being short in the FEB'06LH around the \$65.00/cwt level to protect 1<sup>st</sup> quarter sales. In light of the continued trend of the RSI, Open Interest, and Volume constancy ... and ... the 4-day moving average still holding a steady path, last week's recommendations still hold.

## January Feeder Cattle 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](mailto:mrob@vt.edu)*