

## Market Report – October 4, 2005

Fresh from the 2005 Southern Ag Outlook Conference in Atlanta, GA brings good news. The Fed thinks there is good reason to believe that Strong, Sustainable Economic Growth is still possible. There were three main questionable areas to be watched regarding this growth: 1) Is there a housing bubble?, 2) What is the impact of Katrina?, and 3) What is the impact of higher energy prices? Yes, this is a marketing report but these factors weigh heavily into the future of interest rates and economic growth, both of which affect disposable income and agricultural markets. The housing bubble issue gives indication of a superheated economy and if it bursts, land values will come down. Katrina's impacts on exports and markets have been felt from the beginning and only time will tell where the markets go. Energy prices are expected to top \$70/barrel in the short run and many report they expect \$100/barrel oil. These prices could affect the profitability of many grain and livestock operations therefore altering demand/supply fundamentals. If energy inputs get to high for corn to be profitable, acres may shift to soybeans, an already supply stressed market. Cotton is not usually discussed in this report but is worth mentioning since corn acres will most likely NOT shift to cotton because of profitability issues surrounding that market and expensive start up costs for non-cotton farming grain producers. Having said all that, it is worth saying again how very important it is to have a strategic and decisive marketing plan in place for both new and old crop commodities.

**SOYBEANS:** The NOV '05 soybean futures opened 1¢/bu lower trading quickly down to 2.6¢/bu lower to \$5.704 in early trading Monday. Soybean futures found support in commodity fund short coverings and closed up 8.2¢/bu at \$5.814/bu by the end of the day. While the soybean Open Interest for Friday's close in beans was not the contract high, it was still very high at 159,463 open contracts with the RSI closing at 34.08 indicating a somewhat oversold market. Friday's reaction filled the downward trading gap established 9/27/05. Traders were expected to remain on guard for signs of follow-through buying from Friday's speculative-led gains, analysts said. Spot basis bids for soybeans fell early on Monday. River bids for soybeans strengthened after a drop in barge freight costs and higher bids from exporters at the U.S. Gulf port. Spot soybeans fell up to 5¢/bu as combines rolled and farmers sold more new-crop beans into the market. Virginia soybean basis strengthened from last week ranging from -22¢/bu to -7¢/bu averaging 15¢/bu in most markets. There were no reported LDPs for soybeans available as of 10/03/05. With soybean harvest in the U.S. underway and the realization that the Southern Hemisphere crop is just ahead, soybean prices are expected to continue to go lower with overhead resistance at \$5.85/bushel. It would not be surprising to see a test below \$5.50 in NOV '05 soybeans before a harvest low is established. Support is seen at \$5.65, Friday's low, and then at \$5.56, last week's low. The \$5.28/bu measuring objective is still very much in the ball game. Hedgers should think seriously about establishing short positions on up to 20-25% more of this year's crop in the \$5.70 area to get filled if they haven't already. Advice to cash marketers has been to contract 50-60% of the crop long ago. Cash marketers should continue to be patient if storage is available. LDPs are still not out of the question.

**CORN:** Corn stocks in all positions totaled 2.11 billion bushels, up 120% from September 1, 2004. This is the highest Sept. 1 stocks level since 1993. Of the total, 821 million bushels are stored on farms, up 87% from last year. June – August 2004 indicated disappearance is 2.21 billion bushels, compared with 2.01 billion bushels during the same period a year ago. While ending stocks were not quite as large as expected, a most bearish supply condition has been blended into the market. Current cash prices are well below the expected average for the year. Some analysts think the market should be nearing a bottom but the price objective of \$2.08 / bushel is still a reality with support at \$2.05/bushel. Keep in mind that grain bottoms take longer to establish than tops. Technically, a DEC '05 corn close above \$2.10/bu is necessary to confirm a near-term bottom. DEC '05 corn closed up 3¢/bu higher at \$2.084/bu on follow-through from Friday's firm close and oversold technical signals following contract lows last week. Volume started strong on Monday after Friday's spike from 38,184 trades on Thursday to 90,783 trades

on Friday. OI remained strong as the RSI hovered near oversold status. The overnight export business was quiet but exporters reported the sale of 176,784 tonnes of corn for delivery to Japan for the 05/06 marketing year, the U.S. Agriculture Department said Monday. Weather conditions show partiality to good harvest conditions across most of the Corn Belt although weekend showers stalled field work in some areas. Funds added to their net short positions in CBOT corn futures and options last week. Basis bids in most areas, including Virginia, were mostly steady with some harvest sales over the weekend. Cash positions should collect LDPs on the entire crop within the next 1-2 weeks. LDPs in Virginia were 48¢/bu last week and opened down 1¢/bu to 47¢/bu on Monday. Hedgers should consider short positions in DEC '06 futures on up to 30% of the 2006 crop.

**WHEAT:** Follow-through buying was extended to Monday after Friday's sharply higher close on a smaller-than-expected U.S. wheat crop reported by the USDA on Friday. All-wheat crop production was lowered to 2.098 billion bushels from its August outlook of 2.167 billion bushels. Wheat in all positions on September 1, 2005 totaled 1.92 billion bushels, down 1% from a year ago. The CTTC's *Commitments of Traders* report showed large commodity funds trimmed their heavy net short positions in CBOT wheat futures and combined futures and options last week. On Monday, DEC '05 Wheat opened up 4.2¢/bu at \$3.504/bushel. The DEC '05 wheat closed up 3¢/bu at \$3.492/bushel. A pennant in an upward trending market preceded by a breakaway gap began on 9/22/05. A cluster of buy orders was established in the \$3.45/bushel range. Consequently, the market gapped bullishly up on Monday. Additionally, Volume and the RSI expanded on 9/22/05 with volume settling somewhat as the market tried to fill the gap. The market failed to fill the gap and with substantial OI fueling the market, Volume, RSI, and Price are up on Monday with aggressive fund buying. Resistance at \$3.507 held on Monday but was broken briefly on Friday with price closing below resistance at \$3.462/bushel. Cash bids strengthened on Monday with basis in Virginia strengthening to -10¢/bu to -12¢/bu. Technical analysis indicates the next price objective at \$3.527/bushel. Selective Hedgers could be bullish in this market in the \$3.45 - \$3.47 area to get filled. Cash marketers have sold the '05 crop and do not have any of the '06 crop priced. Hedgers should not be short now.

**CATTLE:** Cattle feeders on Monday they expected fed-cattle prices to be higher this week over last, continuing a month-long trend. The key to getting those prices will be this week's slaughter rate and price of beef in wholesale markets. Depressed slaughter rates could ease the pressure to buy while strong rates could send buyers back into the feedlots for more cattle no matter the cast. USDA said cattle traded last week \$86-87/cwt on a live basis and between \$135-137/cwt dressed. The USDA reported the composite value for choice beef at midday up \$1.34/cwt at \$139.41 while select was up \$1.32 at \$127.69. OCT '05 Live Cattle closed up \$0.10 at \$89.225/cwt while DEC '05 LC closed up \$0.225 to \$90.225/cwt. OCT '05 Feeder Cattle established a new contract high, up \$1.10 to \$116.525/cwt. The NOV '05 FC was up \$0.45 to \$115.40/cwt on Monday's close. Profit taking in both markets followed recent highs near the opening. There was talk the markets were near technical highs, which had some traders anxious to sell. Open Interest in Live Cattle is very large. Long liquidation could take hold and force down price. Higher cash beef prices on Friday and forecasts for steady to higher cattle prices this week helped support futures. Futures are supported by tight supply and low feed costs. However, showing overbought conditions, the market is very vulnerable to a sharp price break. Cash producers should be aggressively marketing cattle at the proper weights now. Live cattle feeders should be short DEC '05 and FEB '06 futures to cover 4<sup>th</sup> and 1<sup>st</sup> quarter marketings. Feeder cattle sellers may want to hold hedges on some of the 4<sup>th</sup> quarter sales in NOV '05 futures.

**HOGS:** Friday's USDA quarterly hog and pig report is viewed as neutral to mildly bullish. The data was within expectations and some back-months experienced some measure of support because of surprisingly limited domestic herd expansion. The OCT '05 lean hog futures closed up \$1.025 to \$68.225/cwt and the DEC '05 LH closed up \$1.65 to \$65.00/cwt on Monday. Hog futures started, and continued, higher as

expected in reaction to the USDA report. The report did not show an expanding herd from last year and indicates that producers are not planning to aggressively expand them in the months ahead. As of Sept. 1, the reported hog herd was 100% of a year ago, which matched the average trade estimate. The breeding herd showed 100% or a year ago, down from the expected trade average of 101%. USDA also reported the pork carcass cutout value was \$70.44/cwt, up \$0.24 from Thursday. Many analysts believe there is a good chance the futures market is somewhat optimistic at this time. It is still recommended that all risk could be carried in the cash market while waiting on technical signs to place short hedges. The advice for hog hedgers to consider buying a DEC '05 \$58 put option and selling two DEC '05 \$62 call options is still valid.

### WZ05 - December 2005 Wheat



*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)*