

## Market Report – September 13, 2005

USDA released the September demand/supply forecasts on Monday, September 12<sup>th</sup>. A general consensus had formed last week among crop forecasters that the '05 U.S. corn production estimate would be decreased after a long hot summer while soybean production estimates would need to brace for a possible increase. One out of two isn't bad.

Corn production estimates for the '05 crop increased 289 million bushels by 3% from 10,350 million bushels to 10,639 million bushels. Average farm price forecast for corn fell 10¢ to \$1.70 – \$2.10/bu. Wheat production estimates were unchanged at 2,165 million bushels. The forecasted avg. farm price range for '05 wheat narrowed to \$3.00 - \$3.40/bu. from \$2.85 - \$3.85/bu. The '05 soybean crop estimates rose 65 million bushels from 2,791 to 2,856 million bushels lowering average forecasted farm price/bu by 45¢ to \$5.15 - \$6.05. The extended forecasts call for rains to move into the Corn Belt next week while Hurricane Ophelia threatens wet weather for the east coast. Dry weather is needed now as producers look toward the harvest. USDA late on Monday said that 6% of the U.S. corn crop had been harvested, down from the five-year average of 7 percent. Most of the corn harvested was in Texas. USDA said 51% of the crop was rated good to excellent, unchanged from a week ago.

By midday Tuesday both the SEPT '05 and DEC '05 corn futures were down 1¢ and 1.4¢ to \$1.972 and \$2.10 respectively. This was due in large part to spillover pressure from the surprisingly large USDA crop on Monday. Seasonal harvest pressure also is weighing in on price. Midwest and Atlantic cash basis bids for corn early today remained weak amid ample supplies ahead of harvest. Difficulties in moving grain down river and through the export terminals in the Gulf haven't helped price.

On August 5, the DEC '05 corn contract broke through support in a bearish move trading a gap and closing at \$2.374. Fulfilling technical prophecy, the market successfully filled the gap on 8/8 and 8/11 before providing short hedgers significant pricing opportunities in a very bearish price move down. The market closed at \$2.382/bu on 8/11. Sell orders should have been placed around \$2.32 to make sure they were filled as longs liquidated further positions and shorts took profits coming out of the head and shoulders formation. On 8/15 Technical analysts observed what seemed to be a breakaway gap while RSI hovered around 40, open interest was still wide and trading volume spiked. The market failed to fill the gap and the bears now have a very strong hold on price with a most likely measuring gap occurring on 9/9. Price for the DEC '05 corn futures was down 14.9¢ from \$2.310/bu to \$2.162 from 8/12 to 9/9/05. The Technicals show that price may fall to the projection price of \$2.014/bu before a possible exhaustion gap is reached.

Current supply/demand conditions and the Technicals point to energy for a bearish price move toward the measuring objective. Also, Open Interest serving as the “fuel” for the market stands at a whopping 479,983 contracts. The funds and short hedgers are holding their positions waiting to take profits at lower levels while most longs have been stopped out of the market. Upon advice of this report fortunately 50-60% of the crop was forward contracted a long time ago. Producers should be looking for a place to collect LDPs over the next few months. Users of corn should consider locking in at least 50% of their usage. Yes, corn is expected to go lower as harvest nears but remember the basis may narrow as the crop finds an outlet in increased barge traffic as the gulf port reopens.

SEPT '05 and NOV '05 soybeans were down 1¢ and 1.2¢ from yesterday to \$5.74 and \$5.834 respectively. The market was lower despite talk that China may have bought 2-4 cargoes of U.S. soybeans. As with corn, the USDA report, export capability, and the approaching harvest all contributed to lower price. There is still no clear direction as the market is still in a “holding” pattern trading somewhat sideways as basis weakens. USDA rated 54% of the crop good to excellent, the same as a

week ago. USDA also stated that 37% of the crop was dropping leaves, up from 15 percent a week ago and ahead of the five-year average of 31%. For the first time since the delivery period began for the SEPT '05, there were no postings of delivery. Continue to be patient for now as 50-60% of the crop was forward contracted several weeks ago. Shorts should have taken profits on all short NOV '05 futures covering the '05 crop. In addition, shorts should have taken profits on the JULY '06 futures by now covering 30% of next year's crop.

On the Minneapolis Grain Exchange, spring wheat futures jumped higher as funds buying pushed the market into buy stops, traders said. The most active, DEC '05 Wheat on the MGE, was up 8.5 cents at \$3.5125/bu after stops were triggered at \$3.50. The SEPT '05 on the MGE was up 11.5¢ at \$3.755 on thin volume ahead of its expiration on Wednesday. Open interest was down in the SEPT '05 not much ahead of Tuesday's open. Be patient on cash forward contracting any of the '06 crop. Hedgers should be short JULY '06 futures in Chicago on 50-60% of expected '06 production. If the '06 crop is not hedged to this point it would be a good idea to seriously consider being short in that market with sell orders in the \$3.50 - \$345 range so they will be filled.

The OCT '05 Live Cattle contract was off \$0.40 at \$85.25/cwt. while the DEC '05 LC was off \$0.625 to \$87.65/cwt. Profit taking after recent gains and sagging corn prices ran live cattle lower. Recent advances had pushed the 14 day RSI to near 65 in a slightly over-bought market. October/December spreading also added pressure to the DEC '05 LC futures. Feedlot showlists are down and packers are seen paying steady to possibly higher values for cattle again this week. Cash cattle traded at \$84.00 to \$84.50/cwt. last week, up \$3.00 from the previous week and the highest since mid-June. Boxed beef improved with USDA reporting the choice cutout up \$1.79 at \$137.77/cwt. Tuesday. The average packer margin for Tuesday was estimated at a negative \$11.12/head, down from a negative \$3.80 on Monday, according to HedgersEdge.com. Cattle feeders should be short DEC '05 Live Cattle a significant portion of 4<sup>th</sup> quarter marketings.

SEPT '05 Feeder Cattle were off \$0.45 at \$114.90/cwt. and the OCT '05 was off \$0.75 to \$113.125/cwt. RSI values were at 68.169 after noon. Usually anything over 70 is considered overbought. A sharp advance in cash feeder cattle prices, declining feed costs and tight feeder supplies pushed feeder cattle futures higher. Any negative impact from higher fuel prices has yet to be seen. Fuel prices have declined somewhat but not significantly. This is expected to impact price in the future as meals eaten out decline and higher beef prices are encountered. Price met resistance as funds and other longs took profits on Tuesday after a contract high of \$115.35 was established on Monday. Feeder cattle marketers should have closed short hedges last week.

Lean hogs were up \$.10 in the OCT '05 at \$65.15/cwt. December lean hogs were off \$.525 at \$62.15. Futures started higher in reaction to higher cash hog prices and posted contract highs in the April, June, August, and October contracts before profit taking developed. Selling was also prompted by talk that more hogs will be coming to market as supplies of market-ready hogs generally increase in the fall. Also, some packers are saying they may trim Saturday slaughter plans and this may have prompted some selling. The average packer margin for Tuesday was estimated at a positive \$9.60/head. This was down from a positive \$11.10 on Monday according to HedgersEdge.com. Last week's report continued to recommend that all risk should be carried in the cash market while waiting on technical signs to place short hedges while being ready to pull the trigger on a short hedge. That advice is still viable.

### CZ05 - December 2005 Corn



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)