

**CORN** futures on the CBOT MAR'06 corn contract closed down 2¢/bu at \$2.186/bu with the DEC'06 contract finishing lower 0.6¢/bu at \$2.562/bu. Technical selling by the funds amid huge U.S. corn stocks along with declines in wheat and the soybean complex pressured price. Funds sold up to 3,500 lots while rolling out of MAR'06 positions. Funds have been attracted to corn as they are generally seen as undervalued at this time. New ethanol production capacity coming on line faster than expected is fueling interest by diversified funds pushing them to bullish positions in the corn market. While ethanol production increases are good, one must realize that ethanol production will not take as much corn out of this market as might be expected. It is good to remember a by-product of ethanol production is brewer's grain. For every bushel of corn ethanol uses it puts back two-thirds of that same bushel into the feed grain market. Cash basis bids for corn were mostly flat in the Midwest and the Mid-Atlantic coastal states. The La Nina syndrome still gives rise to some concern for below-trend yield potential in the '06 corn crop due to dry conditions in key areas of corn producing states. The odds of a La Nina persisting now are placed at 70% by Elwynn Taylor, an extension climatologist at Iowa State University. At present, Taylor also puts the chance of below-trend yields for U.S. corn at 56%. The corn market has already built in a large weather premium with DEC'06 corn at \$2.56/bu and is carrying that risk at this time. Cash sellers should consider forward pricing up to 50% of the '06 crop. Hedgers should look at December put options in case prices turn bearish.

**SOYBEAN CBOT** futures on the MAR'06 bean contract closed down 1¢/bu at \$5.832/bu with the NOV'06 contract down 3.4¢/bu at \$6.156/bu. Bearish fundamentals, including ending stock projections, do not have much of a bearish pull to the market right now. Sellers are watching for buying by the commercials to pick back up. The market was supported fundamentally by bullish crush statistics and concerns of arid conditions in the Argentine soybean growing region. No rain is expected in Argentina over the next 5 – 7 days with hot weather likely by the weekend. Brazil is expecting rain in the next 5-7 days. Cash bids for soybeans were mostly steady to slightly lower in most places but the river terminals due to export demand at the U.S. Gulf ports. Technically speaking, the NOV'06 chart has formed a symmetrical triangle. Four price reversals have occurred since 12/7/05. The chartist must be careful here as this pattern could be the signal for an impending downtrend considering the present fundamentals or a price reversal up given overall bullish tendencies providing price support at this time. Seventy-five percent of the time a symmetrical triangle will be a continuation pattern. That means twenty-five percent of the time a symmetrical pattern is signaling a price reversal. That is why sellers should be wary at this point. On an upside breakout, the volume should increase. Due to the indecision as prices move up and down in a narrowing trading range within the triangle, volume usually will contract during its formation as we've seen. The Relative Strength Index (RSI) for the NOV'06 bean contract closed at 51.05, well within mid-range values. A market is considered oversold at 30 and overbought at 70. A trading strategy to take advantage of an anticipated breakout from a Triangle, especially if the overnight news implies an upside breakout, is to place a buy order at the previous day's high "or better." The breakout from this Triangle should be in the direction of the next intermediate price trend, and thus it would be nice to see an increase in the "fuel" to sustain the move. This is a hard place to make suggestions. However ... cash sellers should think about pricing up to 35-40% of the '06 crop at this time. Hedgers should think about maintaining short hedges on 45% of the crop and buying an out of the money call in case prices break out to the upside.

**WHEAT** futures on the CBOT for the MAR'06 contract closed down 0.6¢/bu at \$3.472/bu today with JULY'06 futures up 0.2¢/bu at \$3.69/bu. All deferred months, except for the JULY'06, followed Kansas City and Minneapolis lower amid concerns that Iraq is shunning a U.S. tender for 1.0 million tonnes. Iraq says U.S. wheat is priced way too high and so is seeking other suppliers, including Canada and Europe. Forecasts for needed moisture in the Plains dry areas also weighed bearish on the market. Trading was

thin among the funds amid routine exports and Australia's news that its "just-harvested" crop would be 4% bigger than previously reported. Basis bids for wheat were steady to lower across the country with some eastern dealers dropping their bids up to 10¢/bu due to ample supplies. Farmers are growing reluctant to sell SRW wheat as prices dipped up to 4% in the past two trading sessions. Basis bids for HRW wheat have held steady. Cash sellers should remain at 30% forward contracted in the '06 crop. Hedgers should have placed short hedges in the \$3.78 - \$3.80/bu level on 25% of the crop on last week's advice. Be prepared to add short hedges on up to 10% more of the '06 crop if the JULY'06 contract reaches the \$3.60/bu level. For those who think this market could reclaim some bullish territory in the short run, you may consider an out of the money call option. Just price the appropriate one for your given situation.

**LIVE CATTLE** futures in both the FEB'06LC and the APR'06LC CME contracts closed unchanged at \$91.475/cwt and \$89.10/cwt respectively. Both volume and open interest retreated as the month wears down. The RSI closed at 33.49 nearing mostly oversold status. Funds are expected to start rolling positions into later months. Cash cattle were trading mostly flat amid expectations of more cattle coming into lots from drier areas. The cash market seems to be waiting on the next weather event to see if some moisture can return a little grazing fodder with it. Also, this market has been urging more cattle onto feed and through the system as fast as it can. There just may not be a whole lot of cattle that are at ready weights yet. However, another dry outlook may push those held back up in the system. The weather will have a lot to do with what comes to the feed lot over the next few weeks as the market seems to be herd-building holding heifers. This market still appears as though both live cattle and feeders have reached important tops. If live cattle feeders didn't take profits on hedges in the FEB'06LC on 1<sup>st</sup> quarter marketings and the APR'06LC for 2<sup>nd</sup> quarter marketings last week they should be maintained at this time.

**FEEDER CATTLE** on the CME MAR'06FC closed up \$0.65/cwt at \$108.70/cwt. This was off \$1.05/cwt from last Monday. The APR'06 and MAY'06 both closed up \$0.35/cwt at \$110.05/cwt, regaining all but \$0.40/cwt from last week. Futures traded sideways in choppy trading as the market took a wait-and-see attitude regarding how many numbers will be encouraged into the system by the weather. As with grain, weather markets are always risky trying to forecast direction. This report still recommends short positions in the MAR'06FC on portions of 1<sup>st</sup> quarter sales while looking for short opportunities in the APR'06 and MAY'06 protecting 2<sup>nd</sup> quarter marketings. Despite this choppy trading, this market is still signaling a major top has been reached.

**LEAN HOGS** closed higher on Tuesday on support from seasonal cash influencers and growing weather concerns. The FEB'06 futures remained lightly traded ahead of expiration. APR'06LH finished up \$0.325/cwt at \$62.925/cwt with the MAY'06LH up \$0.20/cwt at \$68.05/cwt at closing. The APR'06 contract closed at its highest level since January. Lean hog futures, including the FEB'06 contract showed strength amid strong cash hog markets and expectations of seasonally tighter hog supplies ahead, even though packer demand has slowed as a result of poor profit margins. Hog prices may hold since recent cold weather concerns may cause a rush to buy hogs, floor sources said. Some pork plants are expected to be anxious to buy hogs ahead of the snow, lifting prices. The average pork packer cutout margin on Tuesday was a negative \$4.55/cwt, down from a negative \$3.80/cwt on Monday and a positive \$1.00/cwt a week ago, according to HedgersEdge.com. The latest CME lean hog index price was up \$1.28/cwt at \$56.58/cwt. Spreading accounted for a large portion of the volume. Terminal markets traded mostly steady, with one location up \$1.50/cwt and another off \$2.00/cwt. Top prices ranged from \$40.00 to \$44.00/cwt on a live basis. Hedgers protecting a portion of 2<sup>nd</sup> quarter sales in the JUNE'06LH contract should have taken profits on Friday or Monday and be waiting to see where this market goes on Wednesday or Thursday. Be ready to reestablish short positions if the market in the JUNE'06LH slides to the \$68/cwt level.

### November 2006 Soybeans



Data and Charts by 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) or 804-733-2686.