

Market Report – January 17, 2006

The news is that the USDA World Supply/Demand Projections are expectedly bearish for corn and soybeans while not affecting wheat so much. An increase in U.S. '05 corn, soybean, and wheat production was noted from the December '05 report. As production increased, so went ending stocks.

CORN at the Chicago Board of Trade (CBOT) on the 5 nearby contracts opened 0.5¢/bu to 1.2¢/bu lower in early trading before sliding to 2.2¢/bu to 3.2¢/bu lower by midday. The MAR'06 closed down 4.6¢/bu at \$2.086/bu with the DEC'06 closing down 3.4¢/bu at \$2.452/bu. Has the possible high for this corn market forecasted last week been established? Fundamental and technical signs say yes. Avian flu worries, rainfall in South America's Corn Belt, the latest USDA WASD report, and routine exports all proved too much for the bulls. U.S. corn production is now placed 80 million bushels higher from December's report at 11.112 billion bushels amid increased corn acres harvested even though the yield-per-acre average was reduced ½ bushel to 147.9bu/ac. Beginning stocks were raised by 82 million bushels while use numbers increased 75 million bushels along with lower export expectations. China's corn production estimate was increased boosting World Ending stocks. Asian trade sources reported on Monday that Chinese corn exporters were unlikely to use up the latest corn export quotas despite help from the Chinese government. Captivatingly though, the USDA raised its estimate for farm price 15¢/bu to \$1.75 on the lower end to 5¢/bu at \$2.05/bu on the high end. Cash basis bids for corn in the Midwest on Tuesday were steady in slow farmer selling over lower cash prices. For the DEC'06 contract, primary support of \$2.449/bu was broken today. The new support level is at \$2.445/bu. Last week this report recommended that all '05 crop sales should be completed. Hopefully that advice was taken. Cash sellers should be talking to buyers about pricing the '06 crop especially if there is a price advance this week. Hedgers should sit tight on short positions of 50% of the '06 crop already in place and consider this week a pricing opportunity for up to 15 – 20% of the '07 crop. My "Pepaw" used to say, "He who hesitates is lost in love and war." Add that to market timing.

SOYBEANS: Last week the statement of exclamation was, "What a difference two weeks can make!" Now make that times two. The USDA WASD reported an increased production estimate of 43 million bushels to 3.086 billion ... with a "B" ... bushels! This market is finding it very hard to find something positive about the report. Overall soybean use numbers declined due to lower export activity amid increases for crushings and residual use. Ending stocks for U.S. soybeans were reported higher from last December's report by 100 million bushels, now at 505 million bushels. The season average farm price estimate was increased 10¢/bu on both ends with the range now at \$5.10/bu to \$5.80/bu. The MAR'06 bean futures opened the session down, rose to a level above last Friday's close before sliding 5.2¢/bu on the close at \$5.712/bu. The NOV'06 bean contract rallied to close down 4.6¢/bu at \$6.004/bu after being down as much as 6.6¢/bu on the day. Futures played defense clutching to losses in the absence of fundamental support. As with corn, moisture in South America improved crop conditions across Argentina fixing the background for price moves down. With the exception of some speculative buying buoying price at times, this lower theme has been consistent. If you haven't sold the '05 crop by now it is time to catch up. Cash sales on the entire '05 crop should have been completed. Cash sellers should also have at least 20% – 25% of the '06 crop forward priced. Hedgers should now be aggressively short up to 45% of next year's crop in the NOV'06 bean contract.

WHEAT found some positive news in the USDA report. Even though U.S. wheat production for the '05/'06 marketing year now stands 7 million bushels above the last estimate, the season average farm price estimate was left unchanged from December. Ending stock numbers were left unchanged at 542 million bushels for the '05/'06 year with production estimates now at 2.105 billion bushels and increased imports. That news was not enough to offset the sharply lower close on the CBOT of 6.0¢/bu on the MAR'06 at \$3.286/bu. The rest of the nearby "5" in Chicago were down a range of 5.4¢/bu to 6.4¢/bu

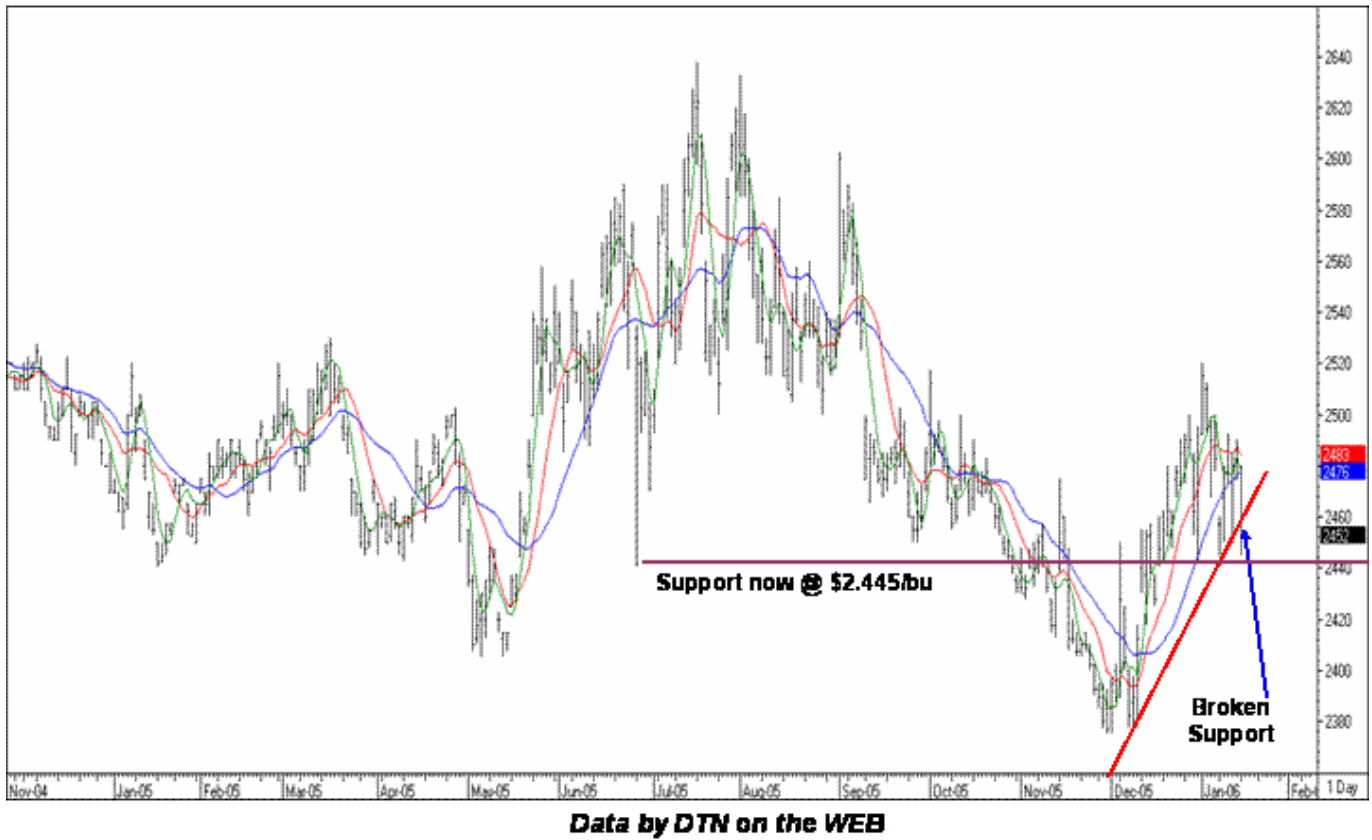
with the MAY '06 down 6.4¢/bu at \$3.386/bu and the JULY'06 down 5.6¢/bu to \$3.48/bu. In Kansas City the MAR'06 closed down 8¢/bu at \$3.75.3/bu while the MAY'06 finished down 7.5¢/bu at \$.377/bu. Volume on the CBOT, the KCBT, and the MGEX was light to moderate as technical sell-stop orders by the funds drove prices lower. Funds had sold 3,500 contracts by noon as sales accelerated with sell-stops in the MAR'06 below \$3.31/bu. Friday's CFTC trade data for the CBOT showed lower net short positions of large speculators in futures/options combined. New-crop JULY'06 was supported by increasingly dry weather in the Plains and bullish holdover action from last week's USDA report of lower planted acreage. The actual call for export inspections disappointingly showed exports down a range of 3.2 – 7.2 million bushels from trade estimates. News that Egypt bypassed U.S. wheat for wheat from France, Austria, and Russia while Algeria bought 5.5 million bushels from the EU facilitated resistance. The bright spot was that on Wednesday South Korea made an offer to buy 750,000 bushels of U.S. wheat. The Texas and Oklahoma wheat crops remain under unrelenting stress amid above normal temperatures and more dry weather in the forecast. The '05 crop has been sold for some time now. Hedgers should consider forward pricing up to 25% of the '06 crop in the JULY'0 Wheat futures.

LIVE CATTLE futures closed higher for the third straight time with market action fueled by higher beef prices, a decline in the market-ready cattle, bullish export news, and technical buying by the funds. Supported by February/April spreading, the FEB'06 finished \$0.975/cwt higher at \$96.55/cwt. The APR'06 gained \$0.55/cwt to close at \$94.95/cwt. The FEB'06LC has now taken back what it lost during last week's sharp decline. Early commercial buying advanced quotes past key resistance moving average lines. Seeing a South Korean import resumption of U.S. beef in late March, total live cattle futures open interest climbed to another record Tuesday morning. Open interest is the number of contracts that have not completed the full turn in the offsetting position. With Showlists down, trader talk circulated that cash cattle could trade at \$96/cwt or more this week after last week's lower price of \$94.50 to \$95/cwt. Choice boxed beef was priced up \$1.00/cwt from Monday at \$156.10/cwt early Tuesday. Even though USDA shows beef production shows up by 5.6 % in the 1st quarter and up 8.6% during the 2nd quarter compared to a year ago, sources say that market-ready cattle supply will be controlled by management decisions through the spring. As always, cash marketers should keep sales current. Live cattle feeders should consider maintaining short hedges in the FEB'06LC on 1st quarter marketings and the APR'06LC for 2nd quarter marketings.

FEEDER CATTLE on the CME, JAN'06FC closed down \$0.20/cwt at \$112.27/cwt. The MAR'06FC closed up \$0.475/cwt at \$112.45/cwt. As with live cattle, some of the ground lost last week has been recaptured. Prices followed live cattle higher supported by lower feed prices. The JAN'06FC was pressured lower on the close by lower cash sales on Monday and by expectations that the feeder cattle index on the CME will lose ground in the near term. As predicted last week, drying up pastures provided movement to market by young cattle. March/January and April/January spreading added pressure to the January contract. The CME feeder cattle index for Thursday was down \$0.51/cwt at \$113.48/cwt. Feeder sellers should be short in the MAR'06FC on a significant portion of 1st quarter sales.

LEAN HOGS on the Chicago FEB'06LH contract closed up \$0.475/cwt at \$59.475/cwt with the APR'06LH closing down \$0.25/cwt at \$64.625/cwt. February/April spreading moved the FEB'06LH contract higher amid talk of higher cash hog prices this week. Ample supplies of cash hogs have pressured cash price lately. Traders said locals were putting on long-February, short-April positions after closing April/February positions earlier in the day. Gains in futures surprised some traders who expected a lower market in light of recent cash hog declines. The latest CME lean hog index was off \$0.97/cwt at \$56.59/cwt. Hedgers should be short in FEB'06LH and JUNE'06LH futures protecting a portion of 1st and 2nd quarter marketings. Cash sellers should keep marketings current.

December Corn 2006



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 or 804-733-2686.