

## Market Report – March 28, 2006

**CORN** on the CBOT MAY'06 contract closed up 3¢/bu at \$2.216/bu. The higher finish on Monday is due in part to fund buying, some position-squaring, gains in the soybean complex, and bullish news that Taiwan would be seeking U.S. corn and soy products on Friday. Even though corn fields received much needed rain in places, there was early concern that newly emerged plants would suffer some frost-burn by freezing temperatures. Except for areas under irrigation, many areas of Texas, the Upper Coast, Coastal Bend, and the Rio Grande Valley remain unplanted due to dry soil moisture conditions. Also undermining gains were an oversold market with the MAY'06 and DEC'06 9-day Relatives Strength Indices (RSI) both trending to oversold status at 38.42 and 40.59 respectively. The 9-day RSI for May was at 34 prior to the open on Monday. A market is considered oversold at 30 or below and overbought at 70 and above. Monday's rally was partly based on the technicals showing opportunities for longs. CBOT corn futures closed up a range of 1¢/bu to 3.2¢/bu with DEC'06 futures finishing the highest on the day at \$2.636/bu, up 3.2¢/bu. Funds rolling out of the MAY'06 contract were thought to fuel heavy overnight trading activity amid unusually high volume in the MAY'06 contract (12,515 lots) and the JULY'06 (11,600 lots). Friday's CFTC Commitments of Traders report for futures/options combined placed large speculators as of last Tuesday in 201,554 lots long and 118,853 lots short. Longs were down 35,197 lots from the previous week. Local cash bids in the Mid-Atlantic region were steady-to-lower, cash bids for corn in the Midwest were firm as dealers tried to dislodge country corn supplies. If you have any of the 2005 corn crop left it should now be sold. Unless something very major happens, that corn will most likely never see anything higher than today's price. Last week it was recommended that cash sellers be forward priced in up to 50% - 60% of the 2006 crop and consider pricing 20%-25% of the 2007 crop. That advice still holds.

**SOYBEANS** futures at the Chicago Board of Trade (CBOT) closed well below the day's highs amid technical fund buying. The MAY'06 soybean futures on the CBOT broke through resistance at its 20-day moving average of \$5.863/bu as buy-stops were hit. Buying waned just above that price before the market retreated at the close amid the lack of any major weather news letting the bullish momentum run out of steam. The MAY'06 futures closed up 5.6¢/bu at \$5.794/bu. The NOV'06 contract finished at \$6.080/bu, up 4.6¢/bu. Friday's CFTC Commitment of Traders report for soybean futures and options combined showed funds were long 50,361 lots, down 2,921 from last week and short positions gaining 15,476 at 79,950 lots. This early surge in the soybean complex triggered increased farmer selling. A farming colleague intending to plant soybeans this year started calling for local cash bean prices at 5 minutes after the markets opened and continued to check price advice with me about every 10 minutes until about noon, EST. At that time, he sold half his production for 3¢/bu lower than what he was quoted at 10:00 a.m., EST. Good move but his need for a net 6¢/bu more than he settled for cost him with every minute that ticked by. He's a friend so he simply shook his head and smiled when I said those oh so familiar words, "Cash speculating again, huh?" He still made a good move making sure his Total Production Costs are now covered. The rest is gravy. Like so many of my callers I hope that an unpriced, 2005 soybean crop is not still looking at you from your on-farm storage. Those beans should have been long gone. Cash sellers should consider having up to 50% of the '06 crop priced at this time. Hedgers should maintain short hedges on up to 50% of the crop as well. For those who are optimistic that price will rebound an out-of-the money call on NOV'06 bean futures could be purchased.

**WHEAT** settled slightly lower on Monday amid light spillover from corn and soybeans, mild fund selling, and no fresh fundamental crop news. After starting out well, lack of additional buying interest contributed to gains that evaporated rather quickly. Both MAY'06 and JULY'06 CBOT wheat futures closed down 2.6¢/bu at \$3.396/bu and \$3.516/bu respectively. This was considered a reaction to news that Egypt had purchased 120,000 metric tonnes (4.41 million bushels) of French wheat. Export estimates were within expectations. The market is viewed as not being able to muster any significant momentum

until after the USDA acreage and stocks report is issued. Additionally, adequate moisture for the hard red winter wheat crop in the wheat belt with prospects for more by the end of the week is keeping speculators out of the action. Large financials finished the day's activity in net short positions as longs combined to buy 2400 lots and shorts sold a total of 2600 lots in MAY'06 CBOT wheat futures. Wheat in Kansas City didn't do much differently with the MAY'06 KCBT wheat contract finishing 4¢/bu lower at \$3.974/bu and JULY'06 KCBT wheat futures off 2.8¢/bu at \$4.024/bu in light spreading between the CBOT and KCBT contracts. As one floor source put it, "The weather premium just keeps slipping away." The 9-day RSI on the MAY'06 CBOT showed as 28.10 at the end of the day. Technical traders view this as oversold. The CFTC Commitments of Traders report of last Friday showed long speculators down 4,591 lots at 42,718 and short speculators up 1,051 lots at 4,899. Cash bids were quiet ending somewhat lower on Monday. Cash bids for HRW in Virginia were lower by 1¢/bu in early bidding on Monday. Several states are scheduled to release weekly wheat crop conditions, including Kansas. As of March, 38% of that state's crop was rated in very poor to poor condition while 19.24% was rated in good-to-excellent condition. Hedgers should consider short positions in CBOT JULY'06 wheat futures at \$3.50/bu and/or KCBT JULY'06 wheat futures \$4.00/bu. Cash sellers should now consider pricing up to 55%-60% of the '06 crop. If sales are still at or below 25% of the 2006 crop, catch up sales can be placed on any short-term rallies.

**LIVE CATTLE** in Chicago (CME) set contracts lows on Monday amid fund selling and a bearish cattle report. The APR'06LC closed down \$0.60/cwt at \$81.875/cwt with the JUNE'06LC following at \$76.075/cwt, down \$0.825/cwt. Early short covering gains quickly faded under the bearish weight of the USDA report. Traders are looking forward to record large (feedlot) supplies that will continue to work into the market. Friday's USDA Cattle on Feed Report placed supplies at 108% of last year. The last 3 month's supplies showed record levels each month. February placements at 105% of last year were near the high end of estimates amid record-low February marketings placed at 99% of last year. The outlook for live cattle prices looks bearish at this time with some analysts expecting prices in the mid-\$70 range by summer. Lower choice beef prices added to chart based selling and sell stops as packer margins remained in the red. USDA on Monday reported choice boxed beef at its lowest level since October 3, 2005, off \$0.31/cwt to \$140.42/cwt. The average beef packer cutout margin for Monday settled off \$7.00/cwt at a negative \$29.80/cwt, down from a negative \$22.80/cwt last Friday and off \$19.80/cwt from a negative \$20.00/cwt a week ago, according to HedgersEdge.com. Trading in cash cattle was mostly inactive in all major feeding areas on Tuesday amid light buyer query. Last week sales ranged from \$85.00/cwt to \$86.00/cwt live basis and from \$135.00/cwt to \$137.00/cwt on the rail. Direct slaughter numbers were down in the Five Major Marketing Areas of Texas/Oklahoma; Kansas; Nebraska; Colorado; Iowa/Minnesota on Monday. Cattle slaughter under federal inspection on Monday was estimated at 112,000 head, up 20,000 from a week ago and up 12,000 head from last year at this time. As of Tuesday morning, the 14-day RSI for the APR'06LC and the JUNE'06LC were in much oversold territory at 24.64 and 17.05 respectively. A contract RSI lower than 30 is said to show an oversold market while an RSI of 70 or higher indicates overbought conditions. These RSI levels indicate that some upside potential still exist. On the other hand, supply fundamentals are saying that there are way too many cattle out there to support these prices much longer. Even though bird flu has not been scientifically proven at this time to easily infect humans, the first reported case in the U.S. will likely influence consumers to switch from poultry to beef and pork for their protein sources. Amid current bearish technical signs and impending fears of the first U.S. bird flu report, it is this writer's opinion that beef prices will rally (at least in the short run) overcoming bearish pressure high cattle numbers may have on futures. Hedgers who found profits last week cashing in on short positions may consider placing sell orders in the APR'06LC and the JUNE'06LC in the \$81/cwt and \$76/cwt levels respectively. If short positions are placed, watch for the 4-day moving average and the 14-day RSI in either the APR'06LC and the JUNE'06LC futures to diverge from the downward slopes of price, the 10-day moving average, and the 20-day moving average in those contracts. If that happens, it would be a sign to pull the trigger on

closing out those short positions with buy-stop orders. Cash sellers of live cattle should not lock in forward prices on either beef sales or feed at this time.

**FEEDER CATTLE** at the CME closed off as the MAR'06FC winds down. The MAR'06FC contract closed down \$0.025 at \$103.425/cwt. Both the APR'06FC and the MAY'06FC were off \$0.85/cwt and \$0.80/cwt closing at \$104.125/cwt and \$104.175/cwt respectively. The AUG'06FC closed down \$0.35/cwt at \$106.70/cwt. The APR'06FC set a 1-½ week low while the MAY'06 set a new two-week low. Some analysts estimate that cash cattle prices will start working lower based upon the past two weeks of steady prices, high numbers of feeders in the last USDA report, and large feedlot supplies on hand. Decreased feedlot demand for feeders last week influenced an easing of the CME Feeder Cattle index and an uptick in demand for feeders to go on grass. The latest CME feeder cattle index for March 23 was placed at \$102.36/cwt, down \$0.33/cwt. Feeder cattle sellers who hedge should have lifted short positions Monday or Tuesday of week before last. Savvy profits were offered over the last two weeks for long positions through this past Tuesday. Hedgers should be on the sidelines at this point looking for some near-term upside potential when it becomes available. Cash sellers should hold cattle to the last possible weight limit with sales outlets lined up in order to take advantage of any upward price moves. Feeders who are feeding some grain vs. strictly grazing are looking for cheaper feed and will not want to forward price corn or soybean meal at this time.

**LEAN HOGS** on the CME APR'06LH finished down \$0.975/cwt at \$57.75/cwt with the JUNE'06LH contract closing off \$0.80/cwdt at \$66.775/cwt as weak cash-hog prices, light fund selling, and spillover from lower cattle prices pressured the market. Prices opened lower on Tuesday as packers had adequate supplies to meet kill needs. Based on USDA projections, increased pork production was seen as continuing. Hogs kept for breeding ranged from 100.6% to 102% of last year while hogs kept for market ranged from 100.8% to 102% over a year ago. USDA on Friday said pork production was a record high for February and is expected to continue based on the number of hogs reported and heavier hog weights, floor sources said. Like beef, hog numbers are also confusing the fundamentalists of the market amid rising numbers at the same time competing with poultry amid lower exports and fear of bird flu. Packers are showing caution in buying despite profitable margins. The average pork packer cutout margin for Monday was up \$3.30/cwt from last Friday's \$4.65/cwt and week ago levels of \$3.60/cwt at \$7.95/cwt, according to HedgersEdge.com. National direct hog trade price based on a 185 lb hog carcass, 0.9-1.1 inches of back fat, a 6 inches square loin, and a 2.0 inch thick cut were \$0.24/cwt lower with prices ranging from \$44.50/cwt - \$59.01/cwt, and a weighted average cash price of \$53.77/cwt. National direct Live-basis (240 lbs – 280 lbs) prices ranged from \$37.56/cwt - \$47.65/cwt with the weighted average placed at \$41.75/cwt. Sellers should be short in the JUNE'06LH and the AUG'06LH contracts protecting 2<sup>nd</sup> and 3<sup>rd</sup> quarter marketings. It is not recommended to forward price corn or soybeans more than near-term needs at this time.

*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.

**Kansas City JULY'06 Wheat (KWNG)** as of 3/28/2006



Data by DTN on the WEB

**Chicago JULY'06 Wheat (WN6)** as of 3/28/2006



Data by DTN on the WEB