

Corn and Soybeans

Outlook

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Short-term price support in the grains markets

Dr. Rami Reddy, Associate Professor & Extension Economist, UW-Platteville

During the past two weeks the markets have witnessed a short term support in the prices but the long range fundamentals still indicate to the bearishness in the grains markets.

Over the last two weeks, in the cash markets the producer sales are limited due to good LDP's taken for corn and expectation of improving prices into the New Year. There was not much fundamental news during last two weeks with a long weekend. The trade is relatively slow during the holiday season.

The following table shows the prices at select markets in the nation along with changes and year ago prices for corn and soybeans.

	DATE	CHANGE	YEAR AGO	
TRUCK BIDS:	12/27/05	12/23/05		
12/28/04				
Corn, US No 2 Yellow:				
Kansas City	1.91	up 2	1.82	
Minneapolis	1.81 1/2	up 1 1/2	1.85	
So. Iowa	1.96-1.97	up 2	1.91-1.96	
Omaha	1.93-1.94	up 2	1.77-1.80	
Soybeans, US No 1 Yellow:				
Kansas City	5.98	dn 1	5.33	
Minneapolis	no bid	n/a	No Bid	
So. Iowa	5.90-5.92	dn 2-1	5.34-5.36	
Cent. Il Processor	6.09 1/2-6.16 1/2	dn 1 1/2	5.38 3/4-5.56	
FUTURES:				
Chicago	(Mar) Corn	2.15 1/2	up 1 1/2	2.07
Chicago	(Jan) Soybeans	6.11 1/2	dn 1 1/2	5.46

Source: DTN.

Corn Market Action

In WI the cash prices across several locations ranged \$1.65 to \$1.90 per bushel. Most of the markets have seen the prices in \$1.70-\$1.75 per bushel.

In futures markets, during the last two weeks the futures prices kept crawling up with the nearby futures, March 2006 contract, currently trading at \$2.15 per bushel. The corn futures prices have moved to the highest level since October 17th (see the graph 1 below).



Graph 1: March 2006 corn futures prices (CBOT).

In futures markets, speculators (non-commercial traders) are still holding massive net short positions. A break in the resistance levels will trigger buying action and will send the futures prices to high levels.

Basis:

The corn basis levels become better across the country. The corn cash bids are well above this time compared to over a year ago. Producers are selling slowly that is supporting the cash prices and giving strength to the basis. Many farmers took advantage of large LDP's during harvest and are not pressed for cash. Producers have moved 8.73 billion bushels through the LDP program since harvest. Producer selling will pick up after the first of January into the New Year.

Even though cash prices have moved higher over the past few weeks there were no significant changes in the demand picture for corn. Commercial traders or end-users are still bearish in the corn market as the supplies are abundant during this crop year. Speculators are still holding net short positions in the futures markets.

Export situation:

The weekly corn export inspections came in at 31.1 million bushels which is considered to be low. The cumulative shipments have reached 30.2% of the USDA forecast which is better than 26.5% on average over the past 5 years. The export picture for corn seems to be promising.

Some other factors that will support the prices for corn into the new year are as follows:

In cattle markets, cattle on feed numbers for November month have increased sharply.

Hong Kong has followed Japan in lifting its two year old ban on importing beef from USA. Many other countries will follow this trend.

The feed grain usage had increased in China as the bird flu fears are diminishing.

In 2006, if the index fund managers get active there will be drive up of commodity futures prices as billions of dollars shift into buying commodity contracts.

President Bush's energy bill included renewable fuel standards and starting on January 1 of 2006, it requires a doubling of ethanol fuel use from the current 4 billion gallons to 7½ billion gallons by 2012.

Ethanol production is increasing with usage projected to increase over the years. October US ethanol production rose to 269,000 barrels per day, up 8,000 barrels/day from September (and a new record) and up 43,000 barrels/day compared to a year ago. Total October production rose to 8.335 million barrels, up from 7.841 million barrels in September and compared to 7.007 million barrels a year ago.

In one more related news, the richest man in the world, Bill Gates is investing \$84 million in Pacific Ethanol Inc., to support corn-based fuel, ethanol. Gates investment was a sign that ethanol can be a viable alternative to oil at a time of see-sawing gasoline prices and concerns about global warming and climate change.

Soybeans Market Action

With record soybean production this year, 2005 the fundamentals look weak. It is expected that the soybean production for 2005 could be revised higher in the next crop production report that is due Jan 12th, 2006 by 40-50 million bushels.

It is also expected that the US producers will plant 2-3 million more acres to soybeans for the 2006/2007 season due to the sharp jump in variable costs for planting corn relative to soybeans.

In WI cash markets the soybean prices ranged \$5.50 to \$5.70 per bushel. There are some bearish factors that will limit the price move in soybeans.

In futures markets, during the last two weeks the futures prices went up with the nearby futures, January 2006 contract, currently trading at \$6.11 per bushel (see the graph 2 below).



Graph 2: January 2006 soybean futures prices (CBOT).

Soybean futures have gapped higher this month despite fairly weak demand and ample supplies. The futures spread between nearby and distant contracts are increasing. This indicates the bearishness in the soybean market.

Basis:

Soybean basis is on the decline in many locations. The rally in the futures has caused the weakness in the basis. Soybean futures rallies have sparked sizeable cash sales causing the soybean basis to become weak in many parts of the country. Many producers are waiting to see if the rally would continue and some are selling in the cash markets with each rally in the futures prices. Processors in many areas dropped basis levels after buying enough soybeans to cover holiday needs.

The average basis in Iowa dropped a penny this month, averaging -37 cents across the state. Illinois saw a more dramatic decline, with basis down 7 cents from last month. Basis in these states remains below last year's basis and with the combination of rising futures and significant stocks, it seems unlikely that basis will climb to last year's levels any time soon.

Export situation:

Past two weeks has seen less export activity in soybean market. China may buy Argentina's beans as the prices of Argentina beans are lower priced relative to US soybeans. Argentina prices are more competitive at present and it has carryover stocks available.

Export inspections this week were on the low end at 21.53 million bushels. Analysts were expecting between 18 and 26 million bushels. The pace of exports for the season still remains roughly 10 percent behind the 5 year average.

Cumulative US export sales for soybeans for the marketing year have reached just 49.2% of the USDA forecast as compared to 69.7% on average over the last five years.

The slow demand pace could hit exports by 50-75 million bushels, and the crush pace is also slow due to low crush margins. These factors could boost ending stocks for the upcoming January 12th crop production report.

With Japan lifting the ban on importing US beef on Dec. 12th the beef trade is buzzing with activity. Today, Dec 29th 2005, Hong Kong partially lifted the ban on US beef imports. Imports of boneless beef from cattle less than 30 months of age will be allowed. It is expected that this trend will continue with other countries. This will bode well for the US grains as the feed lot operators will increase their placements as demand will emerge.

South American weather, especially in Argentina seems to be dry. Brazil growing conditions look favorable. However, more rain is needed to maintain favorable conditions for both corn and soybeans in Brazil and Argentina. Without any major drought threat in the South American countries the supply and demand fundamentals seems to shift in to bear camp for soybean complex.

Since the release of crop production report on December 9th the action in the futures pits is lot more technical. There is some short covering by speculators and fund managers started buying contracts. From the commitment of trader's reports, the speculators have reduced their short positions but still hold lot of net short positions.

Without any major reports released from USDA the fundamental news is limited during the last two weeks. The action seen in the futures market is lot technical. With lack of fundamental news to support the market the market may be vulnerable with sideways trade for the coming weeks.

There is optimism that the prices for both crops will strengthen as the demand fundamentals kick in at the beginning of new year, 2006 and will reward those producers who have stored the crops for the next year sales. Few factors such as the possibility of fund managers buying commodity index funds in the next few weeks with the beginning of new year will be seen as a bullish factor. The demand for grains in china for next year is expected to increase. This statement comes from the China's Ministry of Agriculture, which can be considered as bullish factor for corn and soybean prices.

Next major reports such as monthly crop production, annual crop production for the year 2005 and grains stocks reports are due on Thursday, January 12th 2006 from USDA. Pre-report release action (mostly speculative) will be seen in the futures market in the coming two weeks.

I Wish You Happy and Prosperous NewYear-2006.

Next bi-weekly report will come on Monday, January 16th, 2006.
