Market Watch and Soybean Tech Talk with Alan Brugler
October 2, 2009

Probing For A Harvest Low

Corn had a pretty good rally going at mid-week, thanks to solidifying export interest and an increasing number of locations where the growing season was ended by cold weather before the crops were fully mature. Most of the "fat counties" were missed, but additional freezing weather is expected to move into the western Corn Belt by mid-week and move to the ECB by the weekend. The Wednesday morning Grain Stocks report showed better than expected 2008 disappearance and lower ending stocks. July ethanol production was also at the highest daily rate in history. Selling intensified on Friday, however, with longs reluctant to risk profits over the weekend and commercials doing a little pre-hedging selling to cover weekend harvest receipts.

The wheat market lost another 1.8 to 2% for the week. USDA's All Wheat production number was in line with trade estimates, but large enough to spur talk of 800 million bushel carryover numbers. Export shipments were the largest of the marketing year, but only 43% of USDA's projected sales for the year have been committed. We're usually at 59% by now, and USDA is likely to reduced projected exports in Friday's WASDE report. Would be bulls were also spooked by news that the index funds operated by DB Powershares would be selling off wheat contracts at the end of the month to bring them in line with exchange speculative limits. Based on their known positions, much of the selling would have to be in the July 2010 contract.

Below is a table showing the net weekly changes and 4 week history of selected agricultural futures:

Market Watch	09/11/09	09/18/09	09/25/09	10/02/09	Weekly Change	Weekly % Change
December Corn	$3.20	$3.18	$3.34	$3.34	0.00	-0.15%
December CBOT Wheat	$4.67	$4.57	$4.50	$4.41	-0.09	-1.89%
December KCBT Wheat	$4.78	$4.72	$4.69	$4.60	-0.10	-2.08%
December MGEX Wheat	$4.94	$4.97	$4.87	$4.78	-0.09	-1.80%
November Soybeans	$9.03	$9.41	$9.26	$8.85	-0.41	-4.43%
October Soy Meal	$280.50	$290.00	$289.20	$272.00	-17.20	-5.95%
October Soy Oil	$33.52	$34.68	$34.04	$33.73	-0.31	-0.91%
October Live Cattle	$87.22	$85.55	$86.05	$82.95	-3.10	-3.60%
October Feeder Cattle	$99.33	$97.03	$96.60	$93.55	-3.05	-3.16%
October Lean Hogs	$52.47	$50.80	$49.95	$49.25	-0.70	-1.40%
October Cotton	$59.31	$63.18	$60.60	$59.26	-1.34	-2.21%
December Oats	$2.08	$2.13	$2.19	$2.21	0.02	0.68%
November Rice	$13.52	$13.47	$13.09	$13.11	0.02	0.15%

The soybean complex was lower for a variety of reasons. The main one was the 6% drop in soybean meal prices. Financial problems in the livestock industry are well advertised, and appear to be cutting into consumption or at least the pricing power of the crushers. Increased DDG production and the lower prices for that product are also pulling market share away from soy meal. So, prices have adjusted downward. Soybean oil dropped less than 1%, with Census confirming that soy oil use for biodiesel is still running at very low levels and that more than half of the biodiesel for August was created using other feedstock besides bean oil. The lower product prices pressured beans, as did larger production estimates from FCS and Informa (compared to the September USDA number). Export sales interest is strong, with new crop commitments already at 741 million bushels. On the other hand, only 27 million bushels were shipped in the first 24 days of the month.

Cotton futures struggled for most of the week, and in fact lost another 58 points on Friday. Weekly export sales were again very small (76,600 RB of all types) despite more than ample carryover and new crop inventory. World demand for cotton is still punky, and Asian mills appear to be sourcing more of it from countries that have a freight advantage (closer to the end user). US cotton export commitments YTD are down 38% from this point in 2008. ICAC expects US sales will run 20% below last year for the full year. ICAC did raise projected mill use in China, India and Pakistan from their prior month report.

Cattle futures melted down on Thursday, and continued the sell off on Friday. The loss for the week was 3.6%. Cash cattle prices dropped $1.50 from the previous week, with packers under pressure from sliding beef prices at the wholesale level and feedlots caving in because of currentness concerns and also because of momentarily favorable basis relationships on hedges. October options expired on Friday, and some of the selling was likely tied to puts that were suddenly and unexpectedly in the money, and calls that were suddenly out of the money. Nobody wants to come in on Monday morning with a surprise futures position!

Hogs were down a more modest 1.4% for the week after chewing through the implications of the prior week's Hogs & Pigs report. Carcass cutout values were very choppy as various primals attracted export demand. That demand also appeared to be affected by the daily gyrations in the value of the US dollar. The one constant for the week was the seasonal rise in hog slaughter and the corresponding increase in the amount of pork the system has to move. Despite downsizing in the industry, USDA reported weekly slaughter of 2.329 million head, which was 0.1% LARGER than the same week in 2008. Pork production for the year to date is down 1.9%, vs. cuts of 3.7% in beef and 4.5% in lamb/mutton.

Market Watch: Cattle traders will begin the week adjusting for positions obtained via options expiration on Friday in the October contract. They'll also be looking for signs of improvement in suddenly weak beef demand. Grains will pay close attention to crop maturity levels in Monday night's USDA Crop Progress report. With more areas getting hit by freezing temps this past week, and colder weather expected again later this week, the quantity of the crop still vulnerable to damage is still important to final production estimates. The main action for the week will be the USDA Crop production and Supply/Demand reports on Friday morning. Some of the numbers were telegraphed via the September 30 reports, but USDA will still be issuing new corn and soybean production numbers. A wild card will be whether USDA makes acreage adjustments utilizing FSA data, which is often done in the October report.

Tech Talk: Weekly Soybeans

There is nothing like record production to take the starch out of a good bull market. Soybean prices have been declining ever since the bulk of the crop was planted in mid-June and the trade had confidence that it would get the bushels. The decline has continued despite a much weather dollar that would otherwise have been expected to support prices in dollar terms.

Technically, what we see is a bearish MACD in the lower window that is still showing no signs of slowing momentum (green bars). Stochastics are in oversold territory, but can stay there a while as shown by the August-December period last year. For the past 5 weeks, prices have been walking down the lower Bollinger Band support. On Friday, prices hit the 78.6% Fibonacci retracement support. If that doesn't provoke profit taking, then a retest of last December's low would be expected.

On the bull side, the first thing that would have to happen is a higher weekly close. The last three have been lower. A 38% retracement of the sell off since June, typical to get the winners out, would put resistance around $10.40. That is also the vicinity of the 40-week moving average.