

June 13, 2008

Weekly Review- Hope your having a great Friday the 13th. Grains continued their upward climb and were very strong all week. The June Supply and Demand report on Tuesday came out very bullish and the continued wet weather added fuel to the fire. Grains divorced themselves from outside markets as Crude Oil was range-bound all week and the Dollar Index closed the week higher. Dec. corn closed the week up 87 ¼ cents and Nov. beans ended 91 ½ cents higher.

Corn- As the market indicated the S&D Report was bullish for the corn. Old crop stocks were actually raised but the main adjustment was to the new crop balance sheet. Projected carryout of 673 million bu. is tight but what the market is trading now is the possibilities of what we will see come Final Plantings. All indications are that planted acres will drop 1-2 million acres and the percentage of harvested will also decline. The USDA is currently forecasting harvested acres to be 91.6% of planted acres. In 1993 (similar growing year) harvested acres ended at just below 90%. Using this type of scenario and only ½ million less acres carryout will drop drastically. A carryout projected below 500 million is a distinct possibility that warrants demand-rationing levels. The big question is what level will be sufficient to ration 300-500 million bushel of demand. Livestock producers are now feeling a big pinch and ethanol plant margins are seeing small profits. Talk on Index Fund speculation still lingers but has not caused much worry during this run up. Funds bought over 45,000 contracts of corn this week and are now long a record 422,000 contracts. My belief is that we will see the market trade higher until Final Plantings on June 30th. Beware of the buy the rumor/sell the fact, as we get closer to the report.

Soybeans- Bean values trading higher this week in sympathy with corn. Trade is fearful of old crop stocks tightening and new crop production problems. There are nearly 2 million acres of unplanted beans in Iowa alone. The weather next week will be key as trade debates where unplanted acres will end up. If weather cooperates we could see small switch back to beans but with bean plantings behind pace the acreage gain would be minimal. Old crop values also rising on ideas that old crop stocks are dwindling. July beans are set to test new highs next week. (See Chart)



Recommendation- Corn seems to be on a path to find the demand rationing level. If we see a good break on this market look at getting some call coverage on sales. This looks like it will be a very volatile summer. Old crop bean sales should be finished up on this rally to new highs. Any producer that is looking to protect some 2009 corn now has the availability. CVA has just introduced a very attractive floored average contract. Contact Dan, Keith or me for details!

Have a good weekend!!

