

Commodity News For Tomorrow

February 22, 2010
3 p.m. CT

MARKET RECAP

CORN: Corn futures ended higher, surging to 1-month highs amid technical momentum and emerging crop concerns, traders said. The market was higher all day, and rallied strongly at mid-day, pushing past last week's highs and inspiring short-covering. Traders said there was some talk about heavy rains in South America possibly hurting the crop, and about weather service predictions of spring flooding in the U.S. that could disrupt planting. "I don't think it's one thing that says we should be up 12 cents," said Prime Ag Consultants analyst Chad Henderson. "I think it's more 'hey we're done going down, and if we're done going down there's some potentially bullish things on the horizon, what the hell let's bounce.'" March corn ended up 11 1/2 cents to \$3.71 1/2 per bushel, and May corn ended up 11 cents to \$3.82 3/4.

WHEAT: U.S. wheat futures closed stronger on spillover support from rallies in neighboring CBOT corn and soybeans. "Wheat looked like it just kind of followed along," says Alan Brugler, president of Brugler Marketing & Management. CBOT May wheat stormed to a session high of \$5.17 3/4 before trimming gains slightly. Wheat is linked to the other markets because funds often trade in a basket of commodities and because corn and wheat are both used for animal feed. Commodity funds were buyers of grains and soybeans and bought an estimated 4,000 wheat contracts at CBOT. CBOT wheat is vulnerable to short-covering rallies because non-commercial speculative funds hold a massive net short position. CBOT May wheat ended up 11 1/4 cents at \$5.15 1/4, KCBT May wheat jumped 10 1/4 cents to \$5.19 1/2, and MGE May wheat closed up 9 cents at \$5.28 1/2.

SOYBEANS: Soybean futures spiked Monday, rising to double-digit gains on speculative buying amid South America crop worries and technical momentum. Speculative traders covered previously sold positions, encouraged that a near-term low is in place, with the inability of futures to attract follow through selling in

early trade attracting buyers, a CBOT floor analyst said. The market was fueled by a short covering rally, with light encouragement from weakness in the U.S. aiding the advances, he added. Meanwhile, concerns about heavy rains threatening Argentina soybean crop quality while delaying northern Brazil's harvest kept prices underpinned. March soybeans ended 16 1/2 cents, or 1.75%, higher at \$9.61 1/2 a bushel, and May soybeans settled 14 1/2 cents, or 1.52%, higher at \$9.69.

SOYBEAN MEAL/OIL: Soy product futures ended higher, climbing in unison with the strong gains in soybeans. Soybean meal futures were also buoyed by technical momentum, and concerns about tight pipeline supplies. The market managed to gain product value share on spreads, as traders adjusted the meal/oil spread relationship. Soyoil futures ended higher, but emerged as the weakest link in the soy complex, influenced by the choppy theme in crude oil futures. The weight of meal/oil spreading limited the upside potential of soyoil, analysts said. March soymeal settled \$5.30, or 1.92%, higher at \$281.70, and the May contract climbed \$5.70, or 2.11%, to \$275.70 per short ton. March soyoil gained 31 points, or 0.80%, to 38.83 cents per pound, while the May contract settled 30 points, or 0.77%, higher at 39.30.

OATS: Oats futures ended lower. March oats ended down 2 cents to \$2.28 per bushel, and May oats ended down 2 cents to \$2.37.

RICE: Rice continued to slide Monday, ending lower amid spread trade and light volume, traders said. Weaker international prices are weighing, as is lackluster demand. "New export demand is needed to give the U.S. market a boost," the Arkansas Farm Bureau said in a commentary. March rice ended down 13 cents to \$13.50 per hundredweight, and May rice ended down 12 1/2 cents to \$13.84 1/2. The May contract has failed to post gains for six straight day sessions.

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Latest CME Group Prices

| | |
|---------------------|--------|
| Corn (May) | 383.25 |
| Wheat (May) | 515.25 |
| Soybeans (May) | 969 |
| Soybean Meal (May) | 275.7 |
| Soybean Oil (May) | 39.3 |
| Oats (May) | 237 |
| Rough Rice (May) | 1384.5 |
| Lean Hogs (Apr) | 70.3 |
| Live Cattle (Apr) | 93.23 |
| Feeder Cattle (Apr) | 103.18 |
| Lumber (May) | 276 |
| Ethanol (Apr) | 1.72 |

*Data as of 2:30 CT Source: Dow Jones, Thomson Reuters

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HEADLINES

Global Wheat Output May Fall In 2010 On High Stocks - FAO Official

After two successive years of record-high production, global wheat output may fall significantly in 2010 as growers shift to other crops, but ample stocks from previous years are expected to ensure adequate supply, said a senior official of the United Nations' Food and Agriculture Organization.

There are large carryover stocks of wheat that are sufficient to meet demand despite a fall in production, said Abdolreza Abbassian, Rome-based secretary of the Intergovernmental Group for Grains under the FAO.

According to FAO estimates, global wheat stocks are projected at 183.5 million metric tons by June 2010, up 28% from two years ago.

In reaction to high prices, there had been a large increase in plantings in 2008. Global wheat output is estimated at 678.6 million tons in 2009, up from 625.5 million tons in 2007.

However, Abbassian said high stockpiles and a fall in prices are prompting growers in countries such as the U.S. to shift to other crops such as corn and soybeans.

"It's too early to give an output forecast, but global wheat production is expected to be lower in 2010," he said.

Last week, at its annual Agricultural Outlook forum, the U.S. Department of Agriculture forecast a 12% drop on year in the country's wheat production to 1.945 billion bushels and a 9% drop in acreage to 53.8 million acres.

According to analysts, Black Sea producers are also likely to produce less wheat this year as they are saddled with large inventories.

Abbassian said assuming normal weather, the fall in wheat production may not have any significant impact on supplies, but concerns remain because rainfall and temperature systems have been erratic in recent years.

He said the weather pattern later this year will be crucial, particularly for rice. The bulk of the world's tradeable surplus in rice is produced in Asia and depends on monsoon rains.

"The outlook is bearish for now, but if rice production ends down on adverse weather and drives up demand for wheat, the net effect on prices could be significant," he said.

Lower wheat production alone can be managed, but if it's accompanied by any weather-induced losses in rice output, grain supplies could tighten significantly, said Abbassian.

"My worry is that wheat and rice prices help each other to go up more quickly when supply is tight than they do to drag each other down when availability is high," he said.

Philippines May Import More Rice; El Nino Damage

The Philippines may need to import an additional 800,000 metric tons of rice this year as damage to crops from an El Nino-induced drought may have already ballooned to around PHP7 billion (\$151 million), officials said Monday.

This will bring the country's rice imports for the year to a record 3.25 million tons, said Rex Estoperez, spokesman for the state-owned National Food Authority.

"There's no final figure (for additional rice imports) yet, but practical arithmetic suggests we may need to bring in an additional 800,000 tons," Estoperez said.

According to Agriculture Undersecretary For Operations Joel Rudinas, crop damage from the ongoing drought may have already reached PHP7 billion based on initial field reports, compared with last week's official estimate of PHP2.84 billion.

Production of rice and corn, the country's two most important crops, is bearing the brunt of the drought, Rudinas said, adding, however, that such field reports are still subject to verification.

"Additional imports are an option. We're hoping that we'll be able to minimize (crop) losses and recoup whatever we have lost during the wet season," he said.

Prevailing dry weather conditions are expected to last until July this year.

The NFA has so far signed contracts to import 2.25 million tons of rice and has also allocated an import volume of 200,000 tons for private importers.

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MARKET RECAP (cont.)

PORK COMPLEX: Lean hogs closed higher in response to Friday's sharp wholesale pork carcass price increase. Bullish traders were also inspired by reports of steady to higher cash hog prices Monday. Spot-April fund buying surfaced after the contract, aided by bull spreads, overcame the 40-day moving average obstacle. Futures rallied prior to USDA's monthly cold storage report that will be released Monday at 3 p.m. EST. April hogs ended 65 points, or 0.9%, higher at 70.30 cents a pound. June closed 52 points, or 0.7%, higher at 79.72 cents. Pork bellies finished mixed after a few traders tweaked positions before USDA's Monday afternoon cold storage numbers. March pork bellies closed down 75 points, or close to 1.0%, at 86.80 cents. May ended up 75 points, or nearly 1.0%, at 88.30 cents.

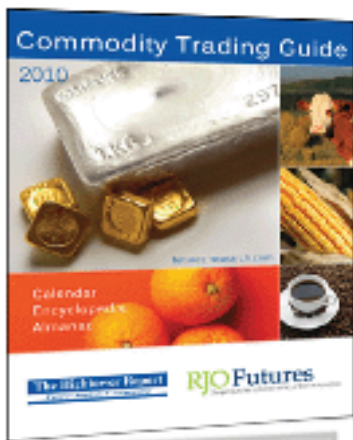
CATTLE: Most live cattle settled weak following Friday's bearish USDA monthly cattle report. Those who had been recently long took profits. Technical charts showed that Feb and April were overpriced which triggered selling immediately after the opening bell. Feb closed 72 points lower, or 0.8%, at 92.05 cents a pound. April finished down 7 points, or 0.1%, at 93.22 cents. Feeder cattle closed lower on profit-taking and corn's rally that implied higher feed costs for cattle feeders. March feeder cattle settled 77 points, or 0.8%, lower at 101.82 cents. April ended 82 points, or 0.9%, lower at 103.17 cents.

LUMBER: Lumber fell away sharply as traders despaired of a nearby rally in cash markets. Market analysts said early selling was tied to hedge pressure as cash traders sold to protect current positions. Later selling was linked more to technical considerations. The March contract settled \$6.80, or 2.53%, lower at \$261.50 per 1,000 board feet. The May contract settled \$5.00, or 1.78%, lower at \$276.00. July ended down \$4.80, or 1.66%, at \$285.00.

ETHANOL: Ethanol futures were higher. March ethanol was up 1.6 cents to \$1.721 per gallon, and April ethanol was up 1.8 cents to \$1.719.

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HEADLINES (continued from page 3)**Palm-Based Biodiesel Exports To U.S. Wait For Environmental Ruling**

Exports of palm-based biodiesel to the U.S. have dwindled as the U.S. Environmental Protection Agency has yet to determine whether palm-oil based biodiesel complies with a 50% greenhouse-gas savings requirement needed to benefit from a U.S. government mandate, a major biodiesel producer said Monday.

Until the EPA is able to determine whether palm-based biodiesel, or palm methyl ester, meets the GHG savings target, "palm biodiesel cannot be sold to the U.S. and we would miss the whole summer season, when palm biodiesel is the most popular choice," said T.C. Long, managing director at Vance Bioenergy Sdn Bhd. Palm-based biodiesel tends to thicken in cold weather due to a high melting point, so sales tend to slow during the winter months.

Earlier this month, the EPA announced final rules for a revised renewable fuel standard, or RSF2, and said soy-based biodiesel produces GHG savings of 57% in comparison with petroleum diesel, qualifying it to count towards biomass-based biodiesel volume requirements in the U.S.

However, the EPA said it hasn't had sufficient time to complete a lifecycle GHG impact assessment for palm methyl ester, grain sorghum ethanol and woody pulp ethanol, and it may be another six months before it can determine whether they meet the minimum 50% GHG savings rate for an RSF2 biomass-based diesel.

Toughening environmental criteria from major biodiesel markets such as Europe and the U.S. could cripple the industry as the "non-trade barriers that are currently in place or may be implemented in Europe and U.S. have made exports of PME from Malaysia increasingly difficult," Long said.

Biodiesel producers are saddled with plunging margins due to rising feedstock prices and poor demand. Initially, biodiesel production was touted as an environmentally-friendly alternative to petroleum diesel, but critics say it has contributed to rising food prices and the destruction of tropical forests in Malaysia and Indonesia, both major palm oil-producing countries.

Most biodiesel plants in Malaysia are either running below capacity or have shut down due to waning demand, Long said.

"Buyers are put off by the uncertainties (in environmental policies in the major biodiesel markets)," he said.

In 2009, Malaysia exported 39,594 tons of palm-based biodiesel to the U.S., a drop of 44.5% from the 71,324 tons exported in 2008, according to data from the government-linked Malaysian Palm Oil Board.

Malaysia has 91 licensed biodiesel producers, but only 10 plants are in operation.

Kenya 2009 Corn Output 2.1 Mln Tons - Official

Kenya produced 2.1 million metric tons of corn in 2009, well short of the 4.1 million tons consumed, an official with the East Africa Grain Council said Monday.

Kenya has been unable produce enough food for its people, mainly due to unfavorable weather and ineffective agricultural policies, Chris Webo, EAGC Kenya country director, told Dow Jones by telephone. Kenya makes up the shortfall through imports from its neighbors, he said.

Corn is the staple food in Kenya.

Thailand May Cancel Rice Auction Tuesday If Prices Low - Minister

Thailand will offer 500,000 metric tons of rice from reserves at an auction Tuesday but may cancel it if prices aren't at a satisfactory level, Commerce Minister Porntiva Nakasai said Monday.

In January, the ministry called off the auction of 375,000 tons of rice due to low prices.

The winning bidder will have to export the rice within 45 days after the settlement.

India Food Corp Oct. 1 - Feb. 21 Rice Buys Down 3.6% On Year - Exec

State-run Food Corp. of India's purchases of rice for federal stocks fell 3.6% between Oct. 1 and Feb. 21, to 22.56 million metric tons, due to a smaller summer-sown harvest, a senior company executive said Monday.

The company purchased 23.40 million tons from farmers during the same period last year, said the executive, who didn't want to be identified.

The federal government has lowered its rice purchase target to 28 million tons in the marketing year that began Oct. 1, after the country received the lowest monsoon rainfall in 37 years. Food Corp bought 33.3 million tons of rice in 2008-09.

The country's rice harvest is expected to fall by around 12% in the fiscal year ending March 31, to 87.56 million tons.

Drought In China Hits 3.56 Million Arable Hectares - Xinhua

Drought conditions have hit some 3.56 million hectares of arable land in China, affecting access to water for 6.76 million people and 3.33 million heads of livestock, according to the Office of State Flood Control and Drought Relief Headquarters, a report by the state-run Xinhua News Agency said Sunday.

The afflicted areas include Yunnan Province, the southwestern portion of Guizhou Province, the northwestern portion of Guangxi Autonomous Region, the eastern portion of Sichuan Province, Chongqing city, the southern portion of Shanxi Province, the northern portion of Henan Province and Shaanxi Province, the report said.

Drought-like conditions are starting to emerge in winter wheat cultivation areas in portions of northern and northwestern China, which haven't seen rainfall in close to 40 days, the report said.

Affected areas have been given CNY640 million in aid, as well as the deployment of personnel, equipment and irrigation vehicles for drought relief, the report said.

Bumper Harvest, Stocks To Weigh On Global Grains Prices

Despite lingering talk of another food crisis prompted by eye-popping inflation numbers in countries such as India, global food grain producers are facing a completely different problem. Bulk prices of grains from wheat to corn and soybeans are falling amid what threatens to become a supply glut.

That makes a global food crisis, as seen in 2008, highly unlikely this year or even in 2011, though there may be pockets of high retail prices caused by localized shortages or policy distortions.

"After record food grains production in 2008 and 2009, stocks are comfortable to take us through this year," said Abdolreza Abbassian, the Rome-based secretary of the Intergovernmental Group for Grains under the Food and Agriculture Organization.

TALKING POINTS

Argentina On Track For Soy Record, But Too Much Rain A Concern

Argentina is on track to produce a record amount of soybeans this season, with expectations building with every new storm lashing the developing crop.

However, with the first harvesting set to kick off next month, there are some concerns that the wet conditions could spur pest outbreaks, as well as delay harvest as machinery gets bogged down in the fields.

Argentina is the third largest soybean exporter and leads the world in soymeal and soyoil exports.

Some analysts see Argentina producing over 55 million metric tons of soybeans this season, up 73% from the drought-battered crop last season and over 13% higher than the previous record for soy output.

But, with storm clouds continuing to drop rain across the Pampas and expectations of above average rainfall through the harvest season, the "very stressful weather" late in the season may reduce yields somewhat, said brokerage Panagricola SA Vice President Ricardo Baccarin. The soybean harvest usually continues as late as July. Baccarin expects production of 51 million tons, still a new record, but significantly lower than other forecasts.

Granar S.A. analyst Adrian Seltzer sees a larger soy crop of 53.4 million tons, "if the diseases associated with high moisture don't spread widely at the end of the season."

Francisco Mariani, an analyst at farm-services firm Lartirigoyen is even more optimistic, forecasting 55.3 million tons, but he also voiced concern that continued rainfall may delay the harvest and that infrastructure will be stretched too far by the massive crop.

The big problem expected during the harvest is a limited supply of harvesters and trucks and weather problems that may block rural roads, he said.

"There's a huge potential crop, [but it's] also at risk," Mariani said.

Despite the worries, all is looking good for now.

The crop "is in very good to excellent condition in the vast majority of the fields. Within a month, yields will be determined," Mariani said.

Meanwhile, the corn crop is also in great shape as showers soaked the crop through key growing periods. Argentina is the world's second leading corn exporter.

According to the Agriculture Ministry, total corn production this year should reach 19 million to 21 million tons, with most analyst forecasts hovering between 19 million and 20 million tons.

That's up sharply from the 12.6 million tons grown last season, when drought caused many fields to wilt.

The steady showers have boosted prospects for output of the crop compared to expectations during the planting season. Early harvesting is slated for this month, with the last of the crop being collected in July.

In November, the USDA had forecast Argentina's 2009-10 corn production at just 14 million tons, but the USDA's current forecast is 17.2 million tons.

Black Sea Wheat Tough Competition For EU, US Exporters-Toepfer

Wheat exporters in the U.S. and the European Union are struggling to compete with Black Sea wheat, Germany-based grain trading house Toepfer said Monday.

"The result is a decline in exports which in turn will lead to an increase in stocks," said the firm.

Demand for feed wheat has also been disappointing as declining prices have encouraged buyers to hold off making any significant purchases in the hope that prices may come lower, said the report.

In addition, "these low prices lead to a reluctance to sell on the part of farmers particularly since the prices for the new crops are much higher," said Toepfer.

India Budget May Take Steps To Revive Farm Output

India's upcoming budget will aim to reverse a slide in farm output by stepping up investments in irrigation, land development and subsidies for farmers, after the worst drought in nearly four decades scorched the summer harvest.

Prices of food items from fruits to cereals rose at their fastest in six weeks in the first week of February, threatening to nip a nascent economic recovery. Bumper rice and wheat crops in the last two years have helped maintain grain stocks, but there is widespread concern about how the country will feed its millions, if bad weather strikes again this year.

The federal budget, scheduled Friday, is likely to unveil a slew of welfare programs for farmers, including loan concessions and measures to lower input costs on seeds and farm tools. The country's farm sector - employing more than half the country's workforce - is tipped to fall 0.2% in the fiscal year ending March 31.

"We really need to have another green revolution," said Sujon Hajra, Mumbai-based chief economist at Anand Rathi Securities, referring to a previous government program to encourage high-yielding crops in the sixties and seventies that eventually made the country self-sufficient in food for the first time.

Last year, the government earmarked INR163.7 billion for the agriculture sector. That was about 1.6% of total government spending for 2009-10.

"The government will earmark an additional 20%-30% spending for agricultural sector, which will be through a mix of re-allocating funds from other sectors and fresh funds," Hajra said.

Farm experts say last year's drought highlighted the vulnerability of India's farm sector which has already been struggling with stagnant acreage and falling yields on the one hand and rising demand from a burgeoning population.

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