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Feltes Morning Grain Notes and Outlook
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http://research.mfglobal.com

Interday Ag Page: Wednesday March 18, 2009

8:45 Feltes opening grain calls and outlook

Corn mixed, beans steady up 3 and wheat down 2-4 cents.

Weaker equities/crude/gold leaves grains and oilseeds on their own in terms of extending this week's rally which is 30 cents plus in both wheat and soybeans. On the soy front, talk yesterday of breakthrough on Argentine export tax impasse with farmers was overdone which should be supportive front end beans although Asian protein markets were weaker overnight in part on expectations for slowing PRC soy import pace on softening product demand, ample inventories and large '09 PRC rapeseed crop.

Reuters grain analyst panel calling for $5.00 corn predicated on shrinking corn acres and expanding '09/10 corn demand (USDA Ag Forum forecasted next year's US corn use up 500 mil bu) although Pioneer seed corn rep says US seed corn sales tracking ahead of last year. It is probable that 40 cent corn rally since Mar 1 has largely discounted likelihood or at least the fear of lower '09 US corn area thus additional upside follow through must come from either adverse Midwest April weather or continuation of rally in wheat and soybeans.

On the wheat front, US SRW is $40-50/ton overpriced vs. Russia for upcoming Egyptian tender. Additionally, the US SRW CIF basis lost 5 cents yesterday. Nonetheless, bulls are citing ongoing US HRW dryness in southern plains, likelihood of delayed start to US HRS planting. Structural fund short in wheat and cheapness of wheat vs. corn the later of which is supported by '09 US corn acreage uncertainty. Incidentally, recent Pro Exporter report noted that over last 35 years odds of US corn yield below trend, at trend and above trend are 40%/28%/32% respectively or stated differently—60% odds of trend or higher and 40% odds of below trend.

Bottom line—downside $ breakout and ongoing Argentine fiasco should hold beans together and hence corn and wheat as well. Lessening of fund shorts in row crops suggests slower momentum to the upside although hard breaks unlikely given cash soybean tightness and concern over ’09 US row crop acreage mix. Tomorrow’s export sales report will be more important than normal.

7:51 Gartman “non-bearish wheat”

7:18 OI changes Wednesday

W	+2180
C	+750
B	-1160
M	+14
O	-2650

Modest overnight volume led by corn at 10092

7:10 MFG’s Ed Meir on crude

Despite Tuesday’s impressive performance in energy, we think much of the advance may have been exaggerated by April option expirations. More ominously for the bulls, both crude contracts are nearing key resistance levels at $50, and in view of the fact that OPEC has decided not to put through any additional cuts, we find it hard to rationalize a sustained push beyond this mark. Finally, despite the good US numbers on housing, it will take far more than one set of monthly figures to turn sentiment (let alone the economy) around. For this to happen, we need to see progress on the jobs front, which by all accounts, has yet to turn the corner. The combination of all these variables makes the case that some length should be taken off the table here, as the energy markets have done too much, too soon given the prevailing fundamental and technical backdrops. Having said that, one complex that looks relatively bullish is gasoline, where $1.40 resistance has been taken out basis April, signaling a potential breakout. However, even here, we would like to see prices pull away from the $1.40 resistance line convincingly, and not fade below it before we embrace this latest move more wholeheartedly. EIA numbers are out later on Wednesday;

7:05 BEIJING, March 18 (Reuters) - China, the world's top soy importer, has slowed the pace of imports following heavy purchases over past months and a forecast of a larger rapeseed harvest, traders said on Wednesday.

Higher freight <.BADI> coupled with weak domestic prices of soymeal and soyoil also sapped their demand, though imports still remained more competitive than domestic soybeans, they said.

"There are few buyers. Many have enough soybeans with them which could last for one or two months," said one trader with an international trading house.

Traders estimated China's weekly soy imports could fall to about 300,000 tonnes as compared with weekly imports of as high as 800,000 tonnes last month.

China's soy imports could reach between 3.8 million to 4 million tonnes each month for March, April as well as May, traders and analysts said. The arrival was higher than about 3.5 million tonnes a month in November, December and February.

February imports jumped 61.2 percent from a year-ago period as Chinese crushers have turned to imports, particularly from the United States, after Beijing's purchases for state reserves had shored up domestic prices higher.

"Buyers are not active in imports; many of them do not expect the market to improve," said another trading executive with a major trading house.

The executive said demand for soymeal remained weak despite crushers lifting prices <0#ASSOYMEAL-CN> this week to remain profitable in the face of falling soyoil prices <0#ASSOY-CN>.

"Poultry breeding is picking up, but not that much," said the executive.

Soyoil prices have fallen by 17 percent while soymeal prices have slumped about 25 percent since January after the Lunar New Year holidays. Soymeal prices this week edged up by 1 percent.

Feed officials have said that outbreaks of bird flu in January had caused breeders to refrain from replenishing stocks. Making matters worse, breeders have lost money as many jobless migrant workers reduced their consumption of poultry and pork meat.

The rapeseed harvest available from May is likely to pressure domestic edible oil prices if Beijing doesn't go ahead with plans to stockpile part of this year's rapeseed harvest, traders said.

"The government may abandon the stockpiling plan. Last year's stockpiling had resulted in a similar amount of imports and did not help at all," said the first trader.

Industry officials have forecast at least 10 percent growth in the domestic rapeseed harvest, to 13 million tonnes this year. The harvest was in addition to about 2 million tonnes of imports by crushers in the year as Beijing's rapeseed stockpiling also pushed up domestic prices higher than imports.

7:05 Hedge funds seek redemption with pay-outs

Hedge funds that locked up clients' money last year have started paying out cash earlier than many had planned, in a move that could free tens of billions of dollars – and threatens another wave of hedge fund share and bond sales.

The repayments follow anger from many investors at the decision of hundreds, perhaps thousands, of hedge funds to suspend withdrawals, impose "gates" limiting withdrawals or create "side pockets", which pay out only when assets can be sold.

"We're seeing an increasing amount of hedge funds returning assets and reopening," says Jean Keller, chief executive of 3A, the hedge fund of funds division of Banque Syz, the Swiss bank.

"By the end of June we anticipate that the vast majority of funds which suspended will have moved to the slightly better category of gated, which means that they've started making pay-outs."

Hedge funds dumped hundreds of billions of dollars of shares and bonds in September and October as they sought to slash their borrowing and raised cash to pay redemptions, helping drive down markets.

Sales to meet redemptions this year are unlikely to be as large as last year's, but could provide new downward pressure on markets.

Some funds began pay-outs far earlier than expected in an effort to keep investors happy, led by Tudor Investment Corp.

Tudor, run by Paul Tudor Jones, paid out redemptions from its continuing fund at the end of January, two months earlier than planned, although investors will not get back all the money in its side pocket for up to two years.

Since then pressure has been building on other funds to follow suit. Fortress Investment Group's $8bn Drawbridge fund – which faced $3.3bn of redemptions – was one of the first, making a surprise payment in mid-February.

It still has $900m locked up in side pockets.

Now large numbers of funds are accelerating or preparing plans to hand back cash, investors say. These include Drake Management, the New York manager, Centaurus Capital in London, London Diversified Fund Management and many convertible bond specialists, including Howard Fischer's Basso Capital in Stamford, Connecticut, and Jeremy Herrmann's Ferox Capital Management in London.

Managers have been helped by an improvement in liquidity, or the ease of trading, in credit and bond markets this year as the panic felt in the wake of the Lehman bankruptcy recedes.

7:00 * U.S. farmers seen planting less corn, more soy in 2009
* CBOT corn prices could top $5 bushel by year-end

By Christine Stebbins

CHICAGO, March 17 (Reuters) - Outlooks for U.S. farmers to plant less cropland to corn and more to soybeans this spring could mean corn will notch $5 a bushel in 2009, grain analysts told the Reuters Food Agricultural Summit in Chicago on Tuesday.

Analysts participating in the summit projected U.S. corn plantings to be about 83 million to 85 million acres, down from the 86 million seeded in 2008.

Soybean seedings could hit a record 80 million acres -- up from the 75.7 million planted a year ago as higher corn planting costs deterred farmers from planting more.

"Corn surely gains on soybeans and next year the corn market has to buy acres back from beans ... this year is the year of corn," said Dan Basse, president of Chicago consultancy AgResource.

Basse forecast Chicago Board of Trade corn prices to trade in the $3.50 to $5 a bushel range this season.

Analyst Bill Lapp, president of Advanced Solutions Economics, is also bullish corn, forecasting corn prices to notch $5 a bushel by year-end.

CBOT corn prices for December <CZ9> delivery rallied in the past week -- closing at $4.20-3/4 a bushel on Tuesday, up 3.5 percent in the past week. Corn rallied after analytical firm Informa Economics shocked traders by forecasting U.S. corn seedings at only 81.4 million acres, several million acres below most expectations.

Informa pegged soybean seedings at 81.5 million which pressed new-crop November soybeans <SX9>. November soy closed at $8.61 a bushel on Tuesday.

But not all agree that American farmers will seed less corn than a year ago.

Jim Borel, who oversees DuPont Co's <DD.N> Pioneer Hi-Bred unit, one of the top U.S. seed companies, said the pace of U.S. corn seed sales has been ahead of the previous season for the last few months. Borel expects U.S. corn acres to be flat or up slightly but he agrees that soybean acres will be up.

The government's official plantings estimates will be issued on March 31.

CORN DEMAND SEEN EXPANDING, CUTTING 2009/10 SUPPLY

If U.S. farmers plant roughly 84 million acres to corn this spring, and yield an average 157 bushels an acre, that would put 2009 production near 12.1 billion bushels, considering an 8 percent drop from plantings to actual harvested acreage.

That plus an expected rise in demand for corn during the 2009/2010 marketing year should support corn prices, analysts said.

"We expect recovery in corn exports to start pushing back up to 2 billion (bushels). On the ethanol side, with the talk about going to a 12 or 13 percent blend, you could push that number back into that 3.85 to 3.9 billion bushel range," Mark Palmquist, executive vice president with U.S. farmer cooperative CHS Inc, told the Reuters Food and Agriculture Summit.

"So for 2010, you could look at an almost 3/4 of a billion bushel increase of a demand in corn."

7:00 Archer Daniels Midland Co. (ADM) and Valero Energy Corp. (VLO) bid Tuesday on some of VeraSun Energy Corp.'s (VSUNQ) ethanol plants for sale in a bankruptcy auction, according to people familiar with the negotiations.

The auction, which began Monday, continued Tuesday because some of the 17 assets drew multiple bidders, the people said. A hearing to report upon the auction is scheduled in bankruptcy court for Wednesday.

VeraSun filed for Chapter 11 bankruptcy protection in October, after taking on debt to buy rivals. As corn prices skyrocketed in mid-2008, a poorly-executed risk management strategy led VeraSun's costs to mount, rendering the company unable to pay its debt. The company was unable to get enough cash while under bankruptcy protection to keep all its plants in production or to preserve hope of restructuring and emerging from bankruptcy in one piece.

The assets for sale have drawn interest largely due to their low price. A floor bid on the assets from Valero, the largest U.S. oil refiner, offered about 50 cents per gallon of ethanol production capacity, only a quarter of the original construction cost of the plants

6:55 Crop Cast early AM update

Commentary on models: The South American forecast has fair model agreement in the 6 to 10 day period. The GFS has abandoned its wetter outlook in Argentina and southern Brazil and is more in line with the drier European.

The U.S. forecast has fair model agreement in the 6 to 10 day period. Storm potential in the Plains still favors the eastern half of the belt. The Midwest remains favored for rains in both models from the storm. The 11 to 15 day period has a rain event late in the period which favors the Midwest and Delta in the ensembles.

-Preliminary 6-10 Day Temperature Outlook: Above normal Delta; near to above normal Midwest, central and southern Plains

-Preliminary 6-10 Day Precipitation Outlook: Near to below normal western Plains; near to above normal Midwest, Delta and eastern Plains

6:55 Cash Market update from Mike Hall at MLH futures

*************************************** Cash Markets
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CIF Corn steady off 3.
Mar. +34 to +36, Apr. +36 to +38 May +39 to +40,June +32 to +34,July +32 to +34
Aug. +34 to +39, Sept. +34 to +39, Oct. +37 to +41, Nov. +37 to +40
River house bids: STL. off 4 at -1 , Morris IL. River off 4 at -10 Havana off 3 at -8
NS rail cent IL. Mar. -9 April -8 May -5 J/J -10 CSX Evansville +8
PNW Corn trains steady: March +65 April +70 May +75

****CIF Soybeans steady up 2.
FH Mar. +64 to +67, Mar. +63 to +67, Apr. +57 to +64, May +51 to +57, June +51 to +57,
July +51 to +57, Aug. +45 to +55, Sept. +39 to ??, Oct. +39 to +46, Nov. +42 to +50
River house bids : STL off 3 at +23 , Morris IL River unch at +18 Havana unch at +20.
Processor bids .
Decatur +20K Bloomington +15K Gibson City +15 Danville Opt.

**** CIF SR Wheat off 5. March -30 to -20 Apr. -25 to -17 May -22 to -15 J/J -20 to -15

**** Barge freight steady firm. STL 210 / 220 IL. River 255 – 270 Ohio 210 – 220

**** Corn Spreads: CK/CN 6,870 CK/CZ 9,591 CN/CZ9 5,112

****Soybean Spreads: SK/SN 16,963 SK/SX 4,119 SN/SX 7,606

Exports: Egypt tendering for 60,000 mt. opt. org. Wheat for April.

Iraq bought 100,000 mt. Australian Wheat and 50,000 mt. Russian

6:50 Overnight grain markets and news wrap

Overnight on the Globex, May beans closed $9.15 ¾, up 2 ¾ (vol-1,496); May corn closed $3.89 ½, down 1 (vol-3,647); May wheat closed $5.50 ½, down 2 (vol-2,185); May KC wheat closed $6.02 ¾, down 2 ½ (vol-417); May Minneapolis wheat closed $6.39 ½, up ½ (vol-40). Overall volume was fairly light.

China soybean futures markets closed down 17 yuan at 3,508/mt. Corn futures were unchanged at 1,712/mt. Soymeal was lower while soyoil and palm oil were both higher.

Paris milling wheat futures are trading up 0.75 EU/mt (about 3 cents/bu) at 140.75 EU/mt.

Malaysian palm oil futures were down 17 ringgit at 1,905/mt. Weaker soyoil and crude oil prices weighed on the market.

News

The news out of Argentina yesterday afternoon did not seem to agree with rumors floating around the CBOT yesterday morning. Talks between government officials and farm leaders apparently did not end well yesterday, as no compromise was met regarding the pivotal export tax issue. Farm group leaders are now calling on members to protest the taxes as well as work with Congressional leaders to reform the tax system. When asked whether the groups would strike or boycotts sales of grain or cattle again, leaders say the focus is now on working with Congress…but didn't rule out the possibility. A pro-government group controls both houses of the Congress, so it is unclear whether the farm groups will have any success with legislative change. Farm group leaders also warn their membership is becoming restless, and although they are trying to work with Congress to resolve the issue, they know they don't yet have the votes they would need to make any changes.

The Ukrainian government is reporting that grain stocks on March 1 totaled 16.2 mmt, up 35% from last year. Wheat stocks totaled 7.9 mmt, up 45% from last year. The increase in the stocks level is due to a much better crop in 2008 compared to the previous year.

Iraq has approved the purchase of 100 tmt Australian wheat and 50 tmt of Russian wheat. Iraq also purchased 120 tmt of US rice and 90 tmt of South American rice. Turkey has tendered to buy 20 tmt of optional origin rice, with a bidding deadline of March 18.

South Korea has bought 110 tmt of US corn for July delivery. South Korea is reporting corn imports in the first two months of the year are down 45% to 903 tmt. Corn imports for feed production dropped 44% to 731 tmt. Imports of food-grade corn fell 49% to 172 tmt.

There is another wire story this morning discussing a slowdown in Chinese soybean purchases in the weeks/months ahead. The story says heavy purchases over the past few months as well as expectations for a larger rapeseed crop have led to the slowdown. Higher freight rates and weak domestic demand for soymeal and soyoil are also playing a role, but imports are still more competitive than domestic soybeans. Domestic soyoil prices are said to be down 17% since the beginning of the year, while soymeal prices have fallen 25%. The story says China's weekly purchases of soybeans could fall to 300 tmt compared to 800 tmt in the past couple of months.

Calendar:
 Thursday 3/19 – 7:30am Export Sales
 Monday 3/23 – 10:00am Export Inspections

Livestock
The European Commission said yesterday it is offering to double the preferential quota for beef imports from the US in an effort to end a decades-long dispute over beef trade. Reports say the EU will double its current 11,500 metric ton preferential quota for beef imports from the US in exchange for the elimination of about $116 million worth of US sanctions against EU products. The EU bought a total of 20,660 metric tons of US beef in 2008 valued at $99.7 million according to the US Meat Export Federation. Currently, the EU imposes a reduced tariff of 20% on the value of the first 11,500 metric tons of beef that the US ships into Europe. For any amount of beef above that, they must pay the combination of a 12.8%

tariff and 3,000 euros (roughly $3,877/mt).

The US Meat Export Federation is reporting that US beef and pork exports were strong in January. Beef exports jumped 13% in volume and 15% in value compared to January 2008. Declines in shipments to Mexico and Canada were made up for by strong sales to South Korea. January total pork exports were up 6% in volume and 8% in value compared to last year.

Another slow day is expected in cash cattle country. There could be a few bids to surface, but any trade is unlikely. Futures are holding steady so far this week, so feeders are still looking to hold out for something closer to their asking prices of $84-85.

The cash hog market is expected to be steady or maybe slightly higher this morning. Trade yesterday began to firm later in the day as processors found it harder to find their desired numbers. Hog buyers appear to be a little short bought, and which slightly improved margins will likely bid prices a little higher this morning.

Calendar:
Friday 3/20 – 2:00pm Cattle on Feed & Cold Storage