Monday, July 10, 2006

CORN:

Values higher overnight and throughout the day with funds estimated buying 15,000 contracts. Funds long nearly 185,000 contracts now. Trade fundamentally reacting to ideas of hotter and drier weather after rains move across the belt in the next 48 hours. Trade confronted with a wide range of forecasts regarding rain chances in the next two days. Trade fears only scattered rain activity and then hot dry conditions to further deteriorate crop prospects. NWS maps through July 23 continue to forecast hot, dry conditions. Still some portions of Nebraska, Iowa, and Missouri receiving beneficial rains at midday. Rains expected to move into the eastern belt tonight. Climatologists report Iowa has had its sixth driest May-June period in 134 years. Iowa normally receiving 4.2 inches of rain in July is running far below normal pace so far. Trade noting Bloomberg news article quoting numerous fund managers projecting sharply higher corn prices in the coming years as we encounter a food or fuel acreage battle. Trade talking of larger China corn crop with beneficial weather conditions there. Some see a record 142 mmt crop versus USDA's current projection at 138 and 139.3 last year. This to reduce China corn import needs this year. COFCO reportedly will build a $108 million, 200,000 ton per year ethanol plant in South China utilizing tapioca as a feed stock. China now has four plants totaling 1.02 mmt of processing capacity of corn or wheat. Weekly corn export inspections at 32.7, well above the 25 million a year ago. Cumulative export inspections up 15% from a year ago with USDA forecasting annual exports up 14%. Trade looking for USDA to cut old crop ending corn stocks 80 million bushels in key Wednesday supply demand report. USDA does have some history of increasing or decreasing corn yield projections in July based on ongoing summer weather. Last year USDA lowered the July estimate reflecting Illinois drought conditions. Trade guess looking for yield increase of 1.4 bu/acre to 150.4. We see it unlikely that USDA will alter their current 149 projection. Oats trading sharply higher on ideas of extreme hot, dry conditions to cut production in key North Dakota. Trade looking for lower crop ratings tonight. Corn crop was 68% G/E last week versus 58% this week last year. 2,066 corn deliveries recirculating the July expiring Friday. Trade will continue to debate US yield and production prospects. Some estimating 25 to 40 percent of the corn belt will still be experiencing significantly below normal precipitation after early week cold front passes. We again might review a series of forward looking projections we included in an earlier wire that may again encapsulate long term US supply demand prospects.

US Corn – A Forward View

	06-07	07-08	08-09
Planted	79.3	82.3	85.0
Harvested	72.1	74.8	77.2
Yield	152	157	159
Carryin	2050	1264	707
Production	10959	11743	12275
Available	13009	13007	12982

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Feed	6000	5800	5575
Ind	3545	4200	5200
Export	2200	2300	2350
Total	11745	12300	13125
Carryout	1264	707	0
Nearby Dec in:			
May	2.70	3.10	R A
Jun	2.70	3.10	T I
July	2.70	3.20	O N
Oct	2.55	3.10	

Surging ethanol and export demand simultaneously pushing demand to record levels requiring a sharp increase in acreage and good weather to keep US stocks from plunging to price rationing levels in the 07-08 crop cycle. Ultimately food for fuel mania will overtax world acreage at current price levels forcing sharply higher values to pull in additional acreage from Eastern Europe, Ukraine and Northern Brazil. Whether this is done in an orderly or disorderly fashion will depend on short term weather events. Higher prices this fall may preclude large LDP payments to producers. FCStone price models suggest Dec corn value in August could be near 2.75 with a 150 yield expectation, near 3.00 with a 145 yield and near 2.65 with a 152 yield. Trade may be confronted with additional volatility as we move towards August crop report. USDA estimated new crop yields last year as low at 139 in the August report with final yield at 148. Any type of sub 145 yield projection this year would find USDA projecting unsustainably tight stocks.

SOYBEANS:
Values turning in an independently two-sided trade despite general fear of hotter, drier conditions after early week rains subside. Trade still recognizes that US bean balance table has more room to tolerate modest yield declines without pushing prices significantly higher now. Gold trading down $10.00 near the opening. Interesting to see one commodity fund manager projecting over $100 crude oil in 15 year commodity bull market. Trade looking for only a 10 million bushel smaller US bean ending stocks projection in key Wednesday Supply Demand report. We see it likely that USDA could increase both residual usage and exports to more significantly reduce old crop stocks. Still with even a 35 million bushel reduction, ending stocks will still be at burdensome levels this year. Trade not looking for a significant change in USDA new crop yield estimate in July Supply Demand report. Funds still short 8,500 beans, short 13,000 meal and long 62,000 oil on long term biodiesel fuel ideas. Soy rust found in Louisiana. Trade looking for lower soy crop ratings Monday night. Soy crop rated 64% G/E last week versus 54% this week last year. Weekly export inspections at 5.1 million versus 6 million last year. Cumulative export inspections down 19% from a year ago in line with USDA forecast. Brazil soy crop reportedly 75% sold versus 69% a year ago. Trade looking for sharply tighter US soyoil balance table in 07-08 crop cycle. Cotton trading at multi-month lows.

July 10, 2006

WHEAT:
Values higher led by surging Minneapolis. Trade talking of possible 100 to 110 degrees in North Dakota later this week and into next with overall dry conditions to further threaten crop prospects there. Trade looking for further sharp reduction in spring wheat crop ratings Monday night. Trade looking for slightly smaller HRW crop and a slightly larger SRW production. Trade guess looking for 490 spring wheat production implying a 35.3 yield versus 505 last year. Crop may ultimately be smaller than the trade guess yet may be in line with USDA July projection. USDA overestimated final spring wheat production last year by 84 million bushels in the July estimate. Funds long 1,500 Chicago wheat, long 60,000 Kansas City and maximum long 17,000 Minneapolis. Weekly export inspections at 8 million, well below 13.3 million a year ago. Cumulative early season export inspections at 71 million versus 74 million a year ago. Portions of Canadian, Argentina and Australian wheat areas received rains over the weekend. Forecast calls for 60% coverage of Canadian areas. Wires report drought affecting Argentina wheat seedings. Already at lofty US futures levels may already discount further possible reductions in both winter and spring production in key Wednesday USDA report. USDA will issue first official new crop subclass supply demand projections then.

	HIGH	LOW	CLOSE	CHANGE
July Corn	2.5125	2.45	2.4775	+ 6 3/4
Sep Corn	2.6125	2.5525	2.5725	+ 6 1/4
July Beans	6.10	5.98	6.03	+ 1
Aug Beans	6.135	6.025	6.0825	+ 2
July wheat	3.86	3.81	3.825	+ 1

Regards
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