Early Call: Corn down 2-3, beans down 2-3, wheat down 2-4. Energy market weakness is weighing on corn/bean oil prices and should start the grains modestly lower this morning.

Grains: Overnight grain prices seem to be tracking weakness in the crude market as both corn, soybean oil and palm oil have all come to be quite correlated with energy prices. Prices pulled off their lows overnight after Abu Dhabi announced that they’d give Dubai $10 billion to meet a debt payment that came due this morning, pulling global equity markets higher. Another system of snowfall moved through the Dakotas, Minnesota, and Wisconsin overnight offering some support to corn as these states have corn that remains to be taken and this new snow will again delay the ability to get into fields and finish harvest. Ethanol margins are weaker following corn’s strength and energy’s weakness last week.

Ethanol isn’t the only “energy grain” coming under pressure as palm oil prices are following crude lower as well. Bloomberg News is reporting that palm oil slumped to the lowest price in more than a week in Malaysia as a drop in crude oil reduced demand for alternative fuels and on a report that China may sell stockpiled cooking oil. China may sell vegetable oil from state reserves to curb recent price gains, the China Business News said, citing Guo Qingbao, editor in chief of an industry news web site. Crude slumped for a ninth day on concern that fuel and energy demand growth may slow. “The market has been following lower crude oil prices and soybean oil as well as soybeans,” Merlissa Paramitha Trisno, an analyst at PT Mandiri Sekuritas in Jakarta, said today by phone. “The China news also put pressure on the market” as the country is the world’s top buyer of vegetable oil, Trisno said. The February-delivery contract fell as much as 1.7 percent to 2,488 ringgit ($729) a metric ton, the lowest level since Dec. 4, on the Malaysia Derivatives Exchange. Prices fell 1.3 percent last week, the first weekly loss in six. China has 2 million metric tons of vegetable oil in stockpiles, enough to meet national demand for more than a month, the report said, citing no one. Still, the recent gain in cooking oil prices is unlikely to trigger government intervention, Li Qiang, managing director at Shanghai JC Intelligence Co., said today. “Inflation barely turned positive last month, which I don’t think is alarming enough for the government to intervene yet,” he added. China’s consumer prices rose 0.6 percent in November from a year earlier, the first increase in 10 months.

Export basis bids for U.S. cash grain varied widely last week, strengthening by up to 5-10 cents for soybeans and soft red winter wheat, while weakening by as much as 5-9 cents a bushel for Pacific Northwest spring wheat and Gulf corn, sorghum and hard red winter wheat. China bought 232,000mt of US soybeans on Friday, which helped to firm basis levels at the Gulf. An unknown bought 116,000mt of US corn via this morning’s USDA daily reporting system. This morning’s weekly US grain export shipments need to average 43mb for corn, 21mb for beans and 17mb for wheat to match
the weekly pace needed to meet the USDA’s annual targets. This morning’s NOPA crush report is supportive at 160.3mb for November, well above the trade guess of 153.3mb and last month’s 155.3mb figure. NOPA soyoil stocks in November came in at 2.411 billion pounds, above expectations of 2.349 billion pounds as well as the previous month’s 2.286 billion pounds. Estimates ranged from as low as 2.219 billion pounds to as high as 2.440 billion pounds.

One of the points I’ve often told clients about merchandising their grain, is that basis and spreads are usually very good forward indicators of future price direction. If you listen to what the basis/spreads are telling you, it will often lead you to the correct decision regarding futures prices as well, which is precisely what a piece from Dennis Gartman stated this morning. Prof. Holbrook Working of the Stanford Food Institute proved in his seminal work on the futures markets done back in the 40’s and 50’s and which have stood the test of time, the fact that forward futures prices sell at prices higher than the spot rate does not suggest, even for a moment, that the market believes prices shall rise. Rather, the forward futures price is a reflection of the cost of carry and nothing more. Indeed, as Prof. Working showed, all things being equal, a market in full contango tends on balance to suggest lower prices in the future rather than higher prices because the existence of the contango speaks to the issue that supplies are larger than demand, forcing the commodity in question to literally “bid for storage” where it is available. If there is any price inference to be drawn from the existence of a contango it is that prices may tend, on balance, to weaken.

Backwardations, where the spot rate is higher than the 1st future, which is higher than the 2nd, which is higher than the 3rd et al, tend on balance to be associated with high and rising prices, for the market is saying to the commodity in question, “You are in demand, and we are going to punish those who keep you in storage by making storage a losing proposition. So please, come out of storage now and meet the high demand that exists at the present.” The confusion over storage costs (contango and/or backwardation) and price is misunderstood at the very highest levels, for as prices of crude were rising in late ’07 and early ’08, Fed Chairman Bernanke argued that the deferred futures were at a discount to the spot rate and said that that “proved” to him that inflationary expectations were waning and that it was proper for the Fed to consider easing monetary policy. He said this when WTI was trading $70/barrel, on their way eventually to $150! He wholly misunderstood what the backwardation that existed at that time meant, but certainly it did not mean that the forward futures price was “forecasting” lower prices for there is no implicit forecast in forward futures contracts... at least not in the futures associated with storage commodities. For non-storable such as hogs, or cattle, or even nat-gas to some extent, this question can and will be answered differently, but for storable such as gold, or bonds or crude oil, this is the answer.

In the case of the grains, the wheat market is a mess as both basis and spreads are disastrously weak, with spreads already 110-130% of full commercial carry, indicating that futures prices will weaken into the marketing year. Corn basis and spreads have widened to levels that suggest ample supplies even though the global stocks to usage ratio is projected to be amongst the widest in 40 years. While these facts would seem to be at odds with one another, it could mean that traders aren’t confident that demand projections will be as strong as the current USDA balance sheets would indicate. Finally, while soybean spreads/basis remain the tightest of the three grains, they’ve also started to widen out of late, suggesting that global traders are well aware of awesome crop potential from S. America in a few months.
Hogs: Cash hogs are called mostly steady but there may be a mixed undertone. Peoria is called $1 higher after closing steady at $36 on Friday. The IA/MN bid rose $.54 to close at $63.93 while the ECB bid rose $.75 to close at $59.72. Livestock dealers and market managers said that cold winds are blowing in far western areas of the corn belt, ushering in bitter wind chills with some precipitation in the form of sleet and snow as well. In Nebraska and far western Iowa, the roads are slick and the winds are blowing the snow that fell last week. Two pork plants in the region may have difficulty getting all the hogs delivered that are booked for the day, dealers said. In parts of Iowa, producers who had considered selling in the spot market and shipping the animals early in the week may elect to hold off until Tuesday or Wednesday rather than taking the risk of transporting the animals on slick roads. Overnight temperatures in that region could hit minus 5 to minus 12 degrees Fahrenheit according to local forecasts, the dealers and managers said. Elsewhere, some plants' buyers may pay steady prices for hogs to fill in the remaining gaps in early-week slaughter schedules. For deliveries later in the week, however, some may bid more cautiously. With some weakness expected in fresh ham prices before the week is through and next week's reduced slaughter schedules due to the Christmas holiday, buyers may be reluctant to carry steady bids much out ahead. The U.S. Department of Agriculture reported Friday's pork cutout value up $1.97 per hundred pounds at $70.09, a 14-month high, on slow movement of 49 loads. Loins were up $5.37, leading the gains. The Dow Jones Newswires pork packer margin index for Friday was at plus $7.30 per head compared with plus $4.46 the previous day. The projected Chicago Mercantile Exchange two-day lean hog index for Thursday was 63.00 cents per pound, up 0.80 cent from the previous day.

Hog futures should start out firm, but early-weak caution may surface as buyers feel out this week's market direction. Bearish traders believe a short-term hog glut could result after the season's first winter storm last week backed hogs up on farms in parts of the Midwest. Furthermore, market bears are banking that pork carcass values will withdraw as winter-holiday ham business wanes. Also, December is overbought heading into its 1 p.m. EST Monday expiration. February, which will assume lead-month status after December expires, is at a bearish premium to CME's hog index. December's 63.80 Friday low serves as an area of price support. The contract's 64.10 Friday and 64.75 May 6 highs are price resistance targets. February's 65.33 20-day moving average is a support area. The contract's 66.01 10-day moving average is an area of resistance.

U.S. beef export volume reached its highest point in the year in October and pork exports experienced their second-best month of 2009, according to the latest statistics released by USDA and compiled by the U.S. Meat Export Federation. Pork exports continued their ascent in October, with total exports of 164,092 metric tons (361.8 million pounds) representing the second-largest monthly volume this year and pork muscle cut exports reaching their highest volume of 2009 at 128,392 metric tons (283.1 million pounds). Year-to-date exports are down 11 percent in volume and 13 percent in value compared to 2008, a record-setting year for pork exports. However, they remain nearly 50 percent higher than the second-best year on record, 2007. This year, exports account for 22.3 percent of total production compared to 24 percent last year, while the value of exports equates to $38.17 per hog slaughtered compared to last year's $42.31. As we've seen on the beef side, the downturn in pork exports has been prevalent around the world. The most recent data shows pork exports from the European Union are down nearly 20 percent and Mexico's are down 17 percent.

A week after China officially declared its doors reopened to U.S. pork, Beijing and Washington still are hashing out terms of trade, according to a report by Dow Jones that quoted an anonymous USDA official. "Negotiations are ongoing," the USDA official was quoted as saying. "They are looking at the
lingering issues in order to resume pork trade." Jim Herlihy, vice president of information services for the U.S. Meat Export Federation, said there is cautious optimism among industry members given the potential of the Chinese market. Still, expectations should be managed to account for the fact that last year's U.S. pork exports to China, which were valued at $560 million and made China the fastest-growing market in 2008, were "an anomaly," Herlihy said. Analysts have noted that the 2008 totals were inflated by demand from the Beijing Olympics. "Until the first shipment goes out, I think it's all discussion at this point," Herlihy said. China had banned U.S. pork in May following an outbreak of H1N1. Despite the ban, U.S. pork exports to China/HK were up 6.4% in October compared to last October.

While the export picture is certainly looking better for pork, there are growing fears that the domestic market may soon come under pressure due to the rapid decline of the beef/pork wholesale spread as pork prices have risen to their highest levels since September 2008 while beef prices have plummeted. Over the last 30 days, this spread has tightened to $70, the closest it’s been since midsummer of 2007. While retailers are slow to pass on savings when meats get cheap, the low cost of beef versus pork could quickly translate into increased featuring of beef over pork, especially after the holiday season passes.

Weather: Today's US and European models are in fair to good agreement during the next 5-7 days, fair agreement during the 8 to 10 day period. A strong trough is expected to drop southward over the eastern US later this week through early next week. This suggests another cold air mass heading southward towards the Midwest region and the east coast states at the time. Any significant stormy weather associated with this trough appears to be over the east coast states or in the western Atlantic. The 8 to 10 day maps show some weakening of the eastern trough but still some activity within the northern branch, suggesting more cool to cold weather but not of the same magnitude as recent cold weather has been. The US model suggests a strengthening of the southern branch trough in the extreme southwest late in the 10 day period, indicating a possible southern Plains weather event. However, the European model is much weaker with this system.

There’s not a whole lot to talk about in North America as winter wheat is going dormant and the main concern would be cold temps and winterkill, but nothing like that is seen anytime soon. A bit of remaining corn harvest is left in the Midwest and will be chipped away at in the next week or two. Mainly dry weather dominated most of the HRWW belt and the Midwest over the weekend, although some rains did work through southern MO as well as most of IL, IN and OH late Saturday and into early Sunday. Most totals there were less than .35” and coverage was around 75%. Temps started the weekend below average in both the HRWW belt and Midwest, but warmed their way to average levels by later in the weekend. Highs in the southern Plains rose into the 50’s and 60’s in OK and TX, with 30’s and 40’s in KS. Highs in the Midwest rose into the 30’s in most areas, with some 40’s in the far south. Lows went from the single digits and teens in the HRWW belt Friday to 20’s and 30’s by Sunday. Lows in the Midwest were in the single digit below average range in the NW on Friday, with single digits and teens elsewhere and then 20’s and 30’s by Sunday.

A bit of light snow will work across the far northern Midwest today, but most of that activity will pass to the north of any growing areas. Otherwise most of this week looks to be quiet across all of the Plains and Midwest. By later Friday and into Saturday, an upper air low pressure system looks to work from the Canada into the Midwest. The low will be starved for moisture as it drops south and thus any amounts in the Midwest look to be generally less than .20”. This system will not impact the Plains at
all. The precip looks to fall as snow to the north of I-80, with rains to the south. Things then look to quiet back down in the Midwest by later Sunday or early Monday and remain quiet into the first half of next week, with another weak low indicated to drop in out of the NW by around Christmas Eve. Right now any precip totals with that feature look to be less than .20”. The Plains will remain quiet through the weekend and first half of next week. Temps across both the Plains and Midwest will be fluctuating some in the next week to ten days, but do not look to stray too far from average. That will put highs across the HRWW belt in the 30’s and 40’s in the north, with 40’s and a few 50’s in the south. Highs in the Midwest will range from the 20’s and 30’s in the north to the 30’s and 40’s in the south. Lows in the HRWW belt will be in the teens and low 20’s in the north to the 20’s and 30’s in the south. Lows in the Midwest will range from the single digits and teens in the far NW to the 20’s and 30’s in the far south. The 11-16 day outlook sees a fairly zonal (west to east) flow to occur and bring average temps and below average precip to the Plains and the Midwest.

All in all, there is not much to be concerned about in S. America. Rains continue to fall in most areas-keeping soil moisture in good shape. We still have quite a bit of the season to go through, but so far it has been a good one from a weather standpoint and crops should be healthy. Rains fell across northern and eastern portions of the growing regions of Argentina over the weekend. Totals where heaviest across the north, where northern Santa Fe and most of Corrientes reported 1-3”. Totals of around .20” or less were reported from Entre Rios, southern Santa Fe and northern Buenos Aries. Coverage in all the Argentine growing regions was around 60%. In Brazil, rains of .50-1.5” fell across 85% of RGDS, Santa Catarina and Parana. Healthy rains also fell from Parana north, with amounts in the .50-1.5” range, isolated to 1”+. Only Minas Gerais did not see rains fall over the weekend. Temps were in the 70’s and 80’s in Argentina and in most of Brazil. The forecast sees things to be fairly quiet across the Argentine growing regions through Thursday and then by Friday and the weekend, a strong weather system looks to work through and bring rains of .50-1.5”, with some isolated heavier totals and coverage of around 85% to all of the Argentine growing regions. Things will then quiet down for the 6-10 day period in Argentina. Southern Brazilian growing regions look to see dry weather occur for most of this week and then by the end of the week and weekend, widespread rains of .50-1.5” look to fall. The tropical rainfall in northern Brazilian growing regions looks to be somewhat muted for early this week and then looks to increase in intensity and coverage as we head through the end of the week and weekend. Rains in the tropical growing regions of Brazil look to be average in the 6-10 day as well.

**Macros:** The outside macro markets are lightly mixed as of 9:05am EST, with Dow futures up 0.3%, the US dollar index is down 0.1%, crude oil is down 1% and gold is up 0.2%. Macro markets strengthened early this morning after global stock prices rose on good news out of Dubai. Dow Jones is reporting that U.S. stock futures rose on Monday as Abu Dhabi came to a $10 billion rescue of ailing Dubai, staving off the potential for a default on a key bond that was due to expire Monday. Strong retail-sales data helped push U.S. stocks higher on Friday, with the Dow Jones Industrial Average rising 65 points and the S&P 500 advancing 4 points, though the Nasdaq Composite retreated marginally. Over the week, the S&P 500 advanced a slender 0.04%. But global stocks advanced after Abu Dhabi lent Dubai the funds necessary to pay off a bond as well as give it breathing space to renegotiate debts on Dubai World. The Hang Seng rose 0.8% in Hong Kong, and the FTSE 100 climbed 0.9% in London. Platinum and silver futures climbed, though gold futures edged up just $1 an ounce, and oil futures were trading below $70 a barrel.
Weak energy prices amidst widening carrying charges are weighing on grain prices the most this morning as “consumable” commodities continue to suffer on the demand side as futures prices drive away business. Bloomberg News is reporting that crude oil fell for a ninth day, poised for the longest decline since July 2001, on speculation the global economy’s uneven recovery from recession may slow growth in demand for fuel and energy. Prices declined after the Tankan business confidence index in Japan, the world’s third-largest oil consumer, posted its smallest improvement this year. Crude has dropped 15 percent since reaching a year-to-date high on Oct. 21. Goldman Sachs Group Inc. said in a report today that prices have fallen because of “slow recovery” in demand in developed markets. “In the absence of other factors, people are reflecting on global demand which is perceived to be weaker,” said Paul Harris, head of natural resources risk management at the Bank of Ireland in Dublin. “There’s probably a bit more on the downside to go.” Prices dropped 7.4 percent last week, the biggest decline since September, as U.S. fuel stockpiles rose and the dollar climbed to a two-month high against the euro, reducing the investment appeal of commodities. Hedge-fund managers and other large speculators reduced their bets on rising oil prices to a two-month low last week, according to U.S. Commodity Futures Trading Commission data. “Money managers are moving out of crude,” Frank Schallenberger, head of commodities research at Landesbank Baden-Wuerttemberg, said on the CFTC data. “From a technical viewpoint things are looking negative.”

The drop in energy prices over the last week or so has coincided with US dollar strength and if this morning’s Gartman Letter is correct, we may be ready to see both a de-coupling of the dollar from other commodities as well as an end to the carry trade against the dollar. While it may be some time before the global economy strengthens enough to justify higher commodity prices, the dollar may strengthen anyway as investors may be set to bail against the Euro, leaving them with few alternatives to store wealth. With each passing day we are more and more convinced that our comments Wednesday of last week that we are witnessing a WATERSHED shift in sentiment regarding the dollar are more and more certain. Our long standing clients who’ve been with us for a decade or more know that we do not use the term WATERSHED often, but that when we do we mean it. When we do, historically, it has indeed been that time when a long, protracted movement in the dollar’s favour or against the dollar has come to an end and a new trend against the dollar, on in the present case in the dollar’s favour, has begun. Such turning points take time to develop. They do not happen overnight, nor should they. Usually they are the result of a confluence of fundamental and technical circumstances that make themselves obvious only over time and only after the market has become seriously over-extended in the previous direction, so much so that the media’s coverage is egregiously one-sided and the public’s participation is even more so. That has happened over the course of the past several months as the public and the media have taken a seriously one-sided view of the dollar’s future course, believing almost unanimously that the dollar’s future is bleak and one-directional. The huge short positions established against the US dollar and predominately in favour of the EUR however, are ill advised henceforth, for the dollar’s weakness has finally made US goods and services uncommonly inexpensive to foreign buyers while making foreign goods and services uncommonly expensive to American buyers. However, far more importantly, the hollowing out of American business as labour has been cut and as new, productive equipment has been added, will work to the enormous benefit of American industry over the coming weeks, months and years to an extent that few understand at the moment.

Thus, not only have we reached a “tipping point” in the dollar’s favour, we’ve reached a “tipping point” in favour of American industry where the worst is now behind us and better circumstances lie ahead. However, perhaps most importantly, we’ve reached a “tipping point” in the case of the EUR,
for it is against the EUR that we think the dollar shall show its most serious strength. Try as we might... and we have tried over the course of the past week or so to convince ourselves that we are wrong and we cannot... we are unable to “spin” the news out of Spain, and Greece, and Ireland et al that their fiscal circumstances are anything other than massively detrimental to the EU’s well-being. At the margin, the swiftly deteriorating fiscal circumstances that these countries are going through are going to become materially worse over the course of the next several weeks and months, putting very real and severely growing strains upon the very existence of the Union itself. For the first time in years there is talk that one or more of the EU nations may chose to withdraw from the union rather than face the higher interest rates and tighten fiscal policies that Frankfurt and Brussels will demand of them. Even as France and Germany may be coming out of recession, Spain, Greece, Ireland and some of the eastern nations are mired deeply in recession, and the prospects of higher interest rates, or mandated tax increased or forced budget cuts shall simply not be acceptable. Madrid, Athens, and Dublin cannot stand by and allow Paris and Berlin to make the demands of them that the current debt/GDP ratios would seem to mandate. Politically it is untenable, and at the periphery we shall see dissension within the Union increase. That alone shall be sufficient to put downward pressure upon the EUR, and the chart of the EUR vs. the dollar below makes this rather clear. Damage has been done already. More... materially more... shall follow.

If the Euro does indeed fall against the US dollar, it makes the Yen the natural choice to once again be on the selling end of the carry trade. Bloomberg News is reporting this morning that the yen is poised to replace the dollar as the top funding currency for investments in cities from Sydney to Sao Paulo after borrowing from Japan became almost as cheap as U.S. loans for the first time in four months. Rates on 90-day yen loans between banks have fallen the most in 13 years amid record deflation that prompted the Bank of Japan to start a $113 billion lending program last week. By easing demand for private-sector loans, the move helped shrink the gap between U.S. and Japanese London interbank offered rates by two-thirds over the past three months to 0.024 percentage point, the least since Aug. 26, data compiled by Bloomberg show. Investors are betting Libor rates in the U.S. will be higher by June as it recovers from the recession quicker than Japan, according to Bloomberg data. The U.S. will expand 2.6 percent in 2010, twice as fast as Japan, median forecasts in Bloomberg surveys of as many as 82 economists show. That may entice traders to shift to yen from dollars to buy assets in higher-interest countries like Australia and Brazil, weakening Japan’s currency and shoring up the dollar, as advocated in public statements by both governments. “The dollar’s role as a funding currency is
"fleeting at best," said Samarjit Shankar, a foreign-exchange group managing director in Boston at BNY Mellon, the world’s largest custodial bank at more than $20 trillion in assets. “When central banks start raising rates, the yen will be left behind as the primary funding currency.”

**Summary:** The funds returned to the corn market on Friday, but judging by the latest CFTC report, they’re also growing more bearish the soybean complex. Trend following funds sold 1,900 soybean contracts and index funds sold 1,400 contracts, reducing their net longs to 79,000 and 163,000 contracts respectively. While that isn’t too significant, they both were solid sellers in the products, with index funds selling 5,800 oil and 4,900 meal contracts, reducing their longs to 58,000 and 54,000 contracts respectively. Trend following funds sold 34,000 corn contracts while index funds sold 3,700, reducing their net longs to 120,000 and 382,000 contracts respectively. With corn being one of the few grains expected to see lower global stocks than a year ago, expect the funds to be more stubborn longs in corn than soybeans. Technically, March corn saw a triangle formation completed in early December, providing a downside objective of $3.46. The pullback zone ranges from $3.57 to $3.83 and remains operative. If the pullback is extended, a push to $3.43 is possible. The current recovery zone ranges from $4.00 to $4.11. The MACD has shown divergence since October, indicating a loss in bullish momentum. A renewed sell signal was given on 11/20/09 and the indicator remains in a negative mode.

March soybeans are approaching uptrend line support off of the October low. A close below the line would point to a significant setback. The first leg of the advance gained $1.39 and the second leg gained $1.28. The market has since pulled back into the retracement zone from $10.04 to $10.35. The next recovery zone ranges from $10.50 to $10.61. Stochastics are approaching the oversold zone, but remain in a negative mode. On the weekly continuous chart, soybeans have traded in a downtrend channel since June and the market is currently testing the upper channel line. The first leg of the recent advance gained $1.49. The second leg has gained $1.34 to date. It appears the upper channel line may have provided enough resistance to end the second leg. The next pullback zone ranges from $9.79 to $10.11. Stochastics are near the overbought zone, but remain in a positive mode.

Finally, and probably most importantly, the US dollar index broke out of the downtrend channel extending back to last June, providing an objective of 78.30 and the recovery zone ranges from 76.90 to 78.60. The index is approaching recovery objectives, with the next pullback zone ranging from 75.21 to 75.79. Stochastics are in overbought territory, but remain in a positive mode. The next sell signal should confirm a pullback toward the zone indicated.

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