

9/21/2009

**Grains & Oilseeds**

**Corn**— Frost ideas or lack thereof drove the market last week. December futures posted a high of \$3.47 ¼ and a low of \$3.15 ½ as private forecasts gyrated. The lack of a frost threat going into the weekend drove CZ down 11 cents for a net loss on the week of 1 ¾ cents. Prices were also supported by a new crop balance sheet which found the USDA adding 150 million bushels to estimated 09/10 usage in the last S&D report. Crop ratings improved slightly due to better ratings in the Western Corn Belt while the Eastern Corn Belt was unchanged. The portion of the US corn crop rated good/excellent held steady at 68%. This continues to be consistent with the record yield in 2004 of 160.4 bpa and is far superior than the five-year average of 56%. Some crop models based on the weekly conditions report call for a yield exceeding 165 bpa, 3-4 better than the USDA's September estimate. Corn harvest is underway in some of the more southern areas of the U.S. and although early yield data is limited, for the most part they are running well above past years. The corn crop was reported at 66% in the dent stage compared with the five-year average at 86% while portion rated mature was 12%, 5 points below a year ago and well down from the 5-year average of 57%, under-scoring the risk the crop still has to sub-freezing temperatures. Export sales were 38 million bushels for the week ending September 10, 10 million above the high end of the trade range. Recent sales (combined old and new crop) have been averaging about 29 million per week, about 4 million less than average. Total export sales commitments are 537 million bushels, up from 489 million last year at this time but are well down from 07/08's early season total of 736 million. Today's inspections figure for the week ending September 17<sup>th</sup> was light at 33.1, against trade estimates of 35-40 million. Early yield reports would certainly lend credence to a national average yield topping the 165 bpa mark and eventually lead to CZ approaching the \$2.70 level.

**Soybeans**— The complex closed out last week's trading with gains as SX9 moved up 38 cents; SMV9 rose \$9.50 and BOV9 closed \$.0116 per pound higher at \$.3468. Frost concerns appeared to be behind much of the rally, although beans were less willing to give up its gains than the other row crop. The USDA reported a slight improvement in the soybean crop with 1 percentage point moving from the good to the excellent category, leaving 68% as either good or excellent. Conditions as of this date for the current crop are below only 1992 and 1994, suggesting a U.S. yield which is as much as 2 bpa above the USDA's 42.3 bpa forecast. Crop development continues to run a week or so behind the 5-year average with 17% of the crop dropping leaves. The southern harvest was underway and helping to combat some of the end of season tightness in supplies. Mississippi soybeans were 26% harvested versus 17% last year with favorable yields being reported; Louisiana was 40% harvested, in line with average and ahead of last year's 25%. Arkansas' soybean harvest was 5% complete, compares to 3% a year ago but well behind the average of 18%. Weekly export sales were 18 million bushels for 2009/10 shipment and 8 for 2010/11 delivery. China accounted for 17 of the 2009/10 export sales and South Korea, all of the 2010/11 sales. Meal export sales were 42,900 MT for 2008/09 shipment and 72,200 MT for 09/10 with the 115 K Mt total being about average for this time of year. Soybean meal exports were on the quiet side at 74 K MT and the 4-week average is a good example of how the shortage of beans/old crop inverse has curbed demand, averaging a little over 45,000 MT per week, or about 1/3<sup>rd</sup> less than normal. Soybean oil export sales were 29,900 tonnes for 2008/09 while 09/10 was a negative 16,900 due to a 20 K cancellation to Unknown. Weekly soybean oil exports were uneventful at 1,700 MT. Today's price action is probably indicative of the near-term direction facing soybeans as the market comes to grips with a crop which could increase in size by 70-80 million bushels if the early yields are any indication. Prices could rebound somewhat after harvest is completed and what most see as record demand for the 1<sup>st</sup> half of the year takes over. However, the upside is likely to be capped by a sizable acreage increase in South America this fall.

**Wheat**— Futures closed mixed the past week. The December Chicago contract lost a dime, Kansas City was down nearly 6 cents while Minneapolis closed out the week with 2 ¾ cent gain to \$4.96 ¾. Weakness came despite news from the government of New South Wales that production prospects for wheat in that state have been cut by about 20 percent, or roughly 1 MMT, due to hot, dry weather in August and early September. In the US, the focus for wheat is on the spring wheat harvest. This year's favorable yields are being accompanied by relatively low protein levels. News that Brazil would be isolating imported US wheat to conduct tests for vomitoxin also contributed to some of the weakness in the Chicago and Kansas City contracts. The U.S. spring wheat crop was 69% harvested last week, versus the 5-year average of 92%. Despite rain in the Northern Plains, progress was respectable with an 11 point gain registered. 13% of the 2010/11 winter wheat crop has been planted, in line with the 5-year average pace. The Australian Bureau of Agricultural and Resource Economics (ABARE) issued its September crop production estimates earlier in the week with all wheat production estimated at 22.7 MMT, up 0.8 MMT from its prior estimate and 300,000 MT below the USDA's September forecast. In weekly tender activity, Egypt and Jordan both bought only Russian wheat and Algeria was thought to have taken European wheat in its tender. The tender results again confirm that the U.S. is not the most competitive of origins. Weekly export sales of 16.5 million were very near the mid-point of the trade range with 20.3 reported for the prior week and 24.2 in the year ago period. This brought the cumulative total to 358 million, 40% behind the 08/09 pace and some 200 million less than the pace suggested by the USDA's 950 export forecast, if the pace of sales were to parallel last year. Inspections, however, were very respectable in the week ending September 17<sup>th</sup> at 23 million, exceeding the high end of estimates by 4 million. Year-to-date loadings trail 08/09 by a similar percentage and at 246 million are probably running 120 million under the implied pace. Chicago WZ9 has lost nearly \$2.75 per bushel since its late May/early June high. With the market increasingly speaking to a national average corn yield of 165 bpa or better, wheat's tendency to follow the row crops suggest a further easing of values.

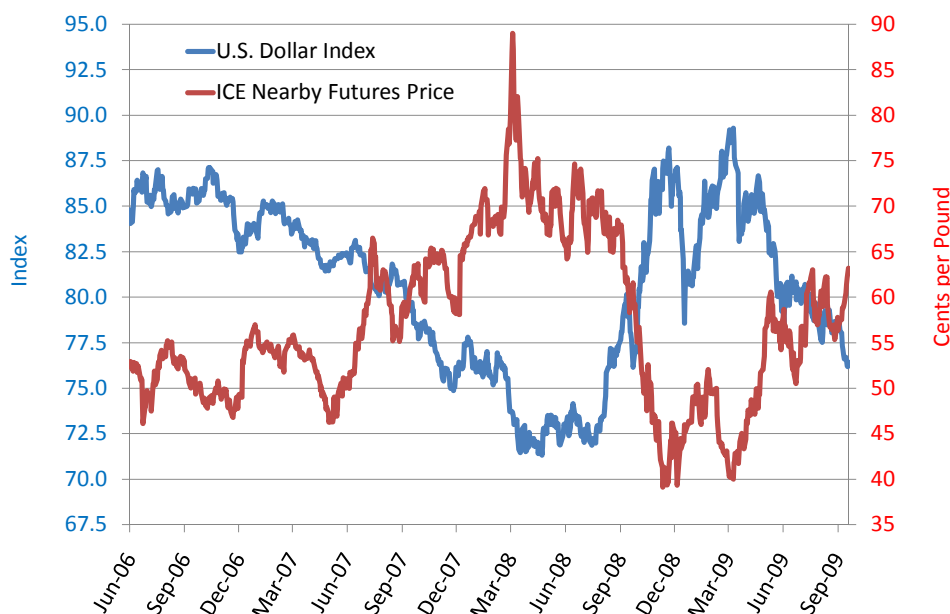
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**Cotton**

Cotton futures continued their impressive move higher last week on new bullish fundamental and technical signals, with Nearby prices rising for the third straight week to the highest close in more than a year. The most-traded December contract extended its streak of daily gains to twelve straight days, the longest streak in the contract's life. Last week's strength in the cotton market came from both internal and external influences. Worries over crop prospects in the U.S., China, and the Indian subcontinent combined with a weaker dollar and firmer stock market helped buoy prices. Rainy weather in the Delta and Southeast are raising yield and especially quality concerns for the U.S. crop. Similarly, too much rain in Anhui and Shandong are suspending cotton procurement and likely to negatively impact crop yield in these key Chinese provinces. Conversely, a premature end to an already lackluster monsoon in India prompted the USDA recently to pare back its forecast for the Indian crop by one million bales, limiting output in the country that plants more land to cotton than any other. And extensive damage from insects and leaf curl virus in Pakistan are likely to prompt increased need for foreign cottons in the world's third-largest import market in coming months. These bullish fundamental signals helped push futures prices on every contract month higher last week, with the Nearby closing at 63.18 cents per pound, its highest finish since September 2008.

Outside influences also are helping support cotton prices. Since reaching a near-term high in March, the dollar remains on its slippery slide, falling against a basket of currencies. The U.S. Dollar Index closed down last week for the third straight time, falling to 76.67, its lowest close in more than thirteen months, driving commodity prices higher.

**Cotton Prices Rebound in Recent Weeks as Dollar Index Erodes**



Mirroring similar relationships noted in other commodities, cotton is also enjoying a rebound in prices from the lift in equities. Since reaching a near-term low six months ago, the Dow Jones Industrial Average closed up again last week, reaching 9,838, the highest point in almost a year. This bottom, inflection point, and subsequent rise mirror a similar trend in Nearby cotton prices. Several technical indicators—particularly the RSI—are showing overbought conditions. And with a global stocks-to-use ratio likely to be only modestly tighter from last year, we are not confident the market can justify prices much above these levels. Accordingly, we look for prices to ease in the near term as harvest reports begin to accumulate over the next month.

**South America**

Private consultant Celeres reported last week that producers have slowed their forward sales of Brazil's 2009/10 soybean crop, ahead of planting which is getting underway. Sales of the new crop remained at 13% of the expected 64.7 million tonne crop by September 11, unchanged the past few weeks and behind the 16% sold this time last year. Mato Grosso, the largest producing state, is most advanced with sales at 20% of the crop, unchanged from past weeks and trailing the 26% sold a year ago. Producers have sold 92% of the 58.2-million-tonne 2008/09 crop, which ended harvest in May, slightly up from 91% a year ago. Oil World noted last week that Brazil may be forced to start importing soybean oil from October 2009 forward because of sharply rising demand for biofuel use. Brazil's biodiesel output reached a record 134,000 MT in July, up 41% on the year as the country raised compulsory blending of biofuels. Soybean oil contributed 81 percent of Brazil's biodiesel feedstock in July with tallow and cotton oil making up the remainder. According to Oil World, a shortage of soybean oil in the country will make it increasingly difficult to produce the required biodiesel quantities needed in the October-December period, unless soybean oil is imported. Argentina's biodiesel exports are also likely to rise, similarly cutting into that country's soybean oil export potential.

Brazilian meat conglomerate JBS SA could surpass Tyson Foods Inc. to become the world's largest meat company if two acquisitions announced last week are consummated. One would allow JBS to acquire Texas chicken producer Pilgrim's Pride Corp. out of bankruptcy court protection, while the other merges it with Bertin SA, one of Latin America's largest producers and exporters of milk products, beef and leather. The former purchase is said to give new life to Pilgrim's Pride, which was the largest U.S. chicken producer, with about 23% of the market, when it filed for bankruptcy protection late last year. It had been hampered by debt from a previous acquisition and by high feed costs that decimated profits. According to reports, JBS will buy 64 percent of the stock in the reorganized Pilgrim's Pride for \$800 million, which implies a total company value of \$1.25 billion. The proposed transaction includes paying off Pilgrim's Pride's creditors in full and distributing new stock to current shareholders which is rarely done for a company in bankruptcy protection.

### China

China sold 1.3 million tonnes of state-owned corn at a weekly auction last week, with volume down nearly 30% from the previous sale. The decline in purchases comes despite reduced production estimates for the up-coming crop. One source is expecting a 30% drop in output from the major corn-growing region of northeast Jilin province. Others see production falling 10% or 15 MMT. Although domestic supplies remain tight, China is not expected to need to import corn in the immediate future but should consumers continue to increase their in-take of meat, poultry and eggs at the current rate of growth, imports will be likely within a 3-5 year time frame as domestic grain production will fall short of the feed industry's needs. The weekly sale of state-owned soybeans was less successful as bidders in Jilin and Inner Mongolia largely remained on the side lines, with only 15,500 MT of soybeans sold in northeast Heilongjiang, 3.1% of the total volume offered. The highest price paid was 3,790 yuan per tonne, a drop of nearly 100 yuan from the prior week when the market was concerned about a drought in the major soy-growing area of the northeast. China has started to sell state soy reserves as part of efforts to reduce stockpiles and free storage ahead of the new domestic harvest, but so far only 85,300 tonnes have been sold in the nine auctions. China purchased about 7.3 million tonnes of soybeans for state reserves last year. Fuel was added to the trade war simmering between the U.S. and China last week when a government researcher suggested the U.S. was guilty of double standards after slapping a 35% punitive tariff on Chinese tires last week. He was arguing the U.S. government gives large subsidies to soybean producers which are then, he asserted, dumped into the Chinese market. Cooler heads noted that there is no other source of cheap soybeans except the United States until at least March or April and with soybean trade volume nearly 5 times that of tires, it is unlikely that any retaliatory measures will be launched against the U.S. soybean industry. The Chinese government reportedly is ready to offer a 250 yuan (\$36.61) per ton subsidy on up to 2 MMT of corn exports. Asian traders say even with the government subsidy, Chinese corn is priced above current US prices. A COFCO executive said drought in the country could cut corn production by up to 7.5%.

### Europe

November Paris milling wheat closed out the week with prices continuing to consolidate, making a new marketing year low of €118.50 on Tuesday with the high for the week reached at €121.50 on Friday. The markets capitalized on freeze forecasts across the U.S. Corn Belt earlier in the week as an opportunity to cover some of their shorts. A major rain event is forecast for South East, New South Wales, Victoria and South Australia in the coming days and this added further to the bearish market sentiment. Prices in Paris managed to move higher on Friday, buoyed in large part by the fall in estimated planted area in the UK and comments from the national farmers Union pointing to wheat production there falling below 13 MMT. In the short-term, French prices are expected to come under renewed downward pressure. The weaker U.S. dollar continues to leave European wheat exports a distinct price disadvantage to Black Sea area and U.S. wheat export prices. Although French wheat was overlooked by GASC's most recent tender this week, much of this week's purchase by Algeria of 300Kt of wheat is expected to be sourced in France, welcome demand in a market characterised by tight demand and excess supply. Nevertheless, the real question is where European traders are going to home this year's bumper European crop and the substantially inflated initial wheat stocks, in the face of very strong northern hemisphere wheat output for the second year in succession. Russian wheat continues to pressure European prices on the export market and stands to compete more aggressively in natural EU wheat export markets over the first half of this new marketing year.

### Cattle

now challenging contract lows established in late November/early December of last year. The market has generally been trending lower since July with convergence of futures and cash the main feature. Futures had priced in premiums versus the spot cash cattle market based on ideas of tight fall supplies which have yet to materialize. The weekly kill number has been running at the mid 600K head level for six weeks and is larger than the trade had anticipated for the season. Combine that with great summer cattle performance and weight gain, and total weekly beef production has not yet demonstrated the reductions that were priced into the futures market.

The ultimate result of maintained beef production is that the boxed beef market has traded amazingly steady since late July and has actually moved slightly lower post Labor Day. This week was no different with both the choice and select cutouts finishing the week very near last week's closing values. Beef demand remains lackluster as consumer savings rates increase and competing meats, particularly pork, are priced favorably. It is a similar story in the cash cattle market where values have traded in an \$80-85 range for all but four weeks of this year. Cattle traded mostly \$84-84.50 in the South and \$129-131 on a dressed basis in the North this week, both down slightly from the prior week. The Northern market particularly feels saturated with heavy animals and we hear some reports of packers either refusing to bid or bid with steep discounts on bigger animals.

The USDA's monthly Cattle on Feed report was largely as the trade had expected. The September 1 on feed total was 98.8% of a year ago versus a 98.4% average pre-report estimate; August placements of 102.4% compared to the trade average of 100.8%; August marketings of 96.1% were slightly higher than the trade's 95.3% estimate. All in all, it was perhaps a very mildly bearish report as the market has confirmed increased in-movement for the second month. The on feed supply has remained below year ago levels for 17 consecutive months now, but is approaching 100%. After this week's declines, the futures market has flattened itself out for the next calendar year. The April 2010 contract still holds a bit of premium at \$88.00, but all others through the August contract sit in the \$84.75-85.75 range. Larger than expected current production, increased placements, and mediocre demand all have the trade growing skeptical of the mirage known as "higher prices".

### **Palm Oil**

The Bursa Malaysia Derivative Exchange is closed today for the Eid al-Fitr Muslim holiday but short-covering early last week contributed to more than a 125 point gain in the benchmark December contract which closed on Friday at 2,190 ringgit per MT. Strong gains took place early in the week despite some disappointing export numbers for the September 1-15 period and trading Thursday and Friday likely reflected a scaling back in market optimism. Both Intertek and SGS reported 20% declines in shipments from the previous month. September palm oil production is expected to rise and a pick-up in the shipment pace during the latter part of the month is most crucial in order to prevent too rapid of a build-up in stock levels which reached a six-month high in August. Traders are said to be reluctant to add to their long positions given some negative near-term palm oil fundamentals with palm production this month likely to rise while exports from world's second-biggest producer are falling. Some see end of month stocks rising as much as 80,000 MT to in excess of 1.5 million. Most U.S. weather forecasters are now calling for reduced frost risk for the soybean crop and with market sentiment generally anticipating final yields to come in 1 to 1.5 bpa higher than currently forecast by the USDA, palm oil prices could come under pressure, especially if export demand does not recover.

### **Energy**

Ample world inventory levels along with still tepid demand are credited with pressuring oil prices this morning, with wire services noting a 14% year-on-year increase in U.S. oil stocks. Also weighing on prices were reports that Chinese diesel demand is not growing quite as rapidly as expected which is particularly critical in view of that economy's large role in world growth. Wire services indicate monthly sales data still show a year to year decline. October crude is trading about \$1.50 lower; both gasoline and heating oil are off 3 ½ cents per gallon and October natural gas is nearly 8 ½ cents at \$3.695. As for U.S. weather, the Central Plains can expect a brief bout of Below to Much Below temperatures the next 4-5 days while the remainder of the country will be at the other extreme, basking in Above to Much Above warmth. The 6-10 day and 11-15 outlooks call for mostly normal readings with the exception of the Western Corn Belt and virtually all of the Western 1/3<sup>rd</sup> of the country in the former while the South and Spring wheat areas will see some Below Normal readings.

**Crude Oil**—Stocks declined 4.7 million barrels for the week concluding September 11 to 333 million. The former exceeded trade expectations which had called for a drop of 2.5 million. The year on year surplus rose 1.5 million to 41.0 while the comparison to the 3 year average edged lower from 21.3 mb last week, to 21.0 currently. The reduction in inventories occurred despite a sizable reduction in daily use of 322 thousand barrels to 14.88 mbpd. The latter was nearly 10% higher than a year ago but off 6/10's of a percent when measured against the 3-year average. Imports fell 192 K per day to 8.9 million barrels, a 4.4% increase of 2008 but 8% less than the 3-year average. Domestic oil output edged up 7/10's of a percent to 5.3 million bpd, 25% greater than the corresponding year ago week and 11% above the 3-year average of 4.7 mbpd. Capacity utilization fell .3% to 86.9% but was significantly higher than last year's weekly figure of 77.4%. The Days of Supply Index rose slightly from 22.2 last week to 22.4 with last year at 21.8. The largest regional inventory change occurred in the Midwest as Group/Chicago supplies fell 3.9 million to 78.3, which lowered the year to year surplus from +21.6 to +19.8. The East added 333 K barrels to its inventory total which at 14.7 million, represents a 1.3 million surplus to 2008, up from 150 K a week ago. Gulf stocks were 126 K higher on the week and at 172 million, the region now has a 16 million more barrels of oil than were on hand last year at this time. Stocks in the Rockies were 239 K barrels lower at 15 million while the West saw its reserves fall by 1 million. The former's surplus versus 2008 slipped from +636 K to +466 K and in the West, the region's advantage to 2008 fell from +5.2 mb last week to +3.3.

**Gasoline**—The DOE reported a 547 thousand barrel addition to gasoline inventories, which was a little less than the average trade forecast for a 700,00 barrel build. Current inventories are 207.7 million and improved the year to year comparison from +19.2 last week to +23.1. When compared to the 3-year average, the surplus improved 1.4 mb to +14.4. This week's build in inventories occurred despite lower production and imports. The former fell 208 thousand barrels per day to 9.03 mbpd, up nearly 8% from the year-ago level. Gasoline imports declined 284 thousand barrels per day to 700,000 which reflects a year to year reduction of 39% and is also down 32% versus the 3-year average. Usage was 275 thousand barrels per day lower at 9.65 million and continues to steadily improve at 1.3% below the 2008 level. The Days of Supply Index rose from 20.9 to 21.5 as the inventory cushion rose from 3 days last week to 3.5 for the current period. Supplies were lower in the East and Midwest while the Gulf and Western regions all saw increases. East regions stocks were off 530 thousand barrels to 54 million and Group/Chicago supplies dropped by 320 K to 50 million. The former now enjoys a year to year surplus of 7.7 mb, up from 5 mb a week ago while the latter's surplus improved from +1.4 to +1.7. Gulf stocks are 71.2, up 1.1 as the area's year to year surplus rose from +12.3 to +13.3. Inventories in the West were nearly steady at 26.4 million, as the region's surplus fell 270 thousand barrels to +697 K. Supplies in the Rockies region rose by 280 thousand to 5.87 and this helped to reduce the year to year shortfall from (460) last last week to (266) in the current period.

**Distillates**—The latest week found distillate inventories rising by 2.2 million which was about 1 mb more than the trade expected. This week's activity left the U.S. total at 168 million barrels and improved the year to year comparison from +35 last week to +38 mb in the current period. Also, the U.S. now has nearly 30 million more barrels in inventory versus the 3-year average, up from 29 a week ago. LSD inventories improved by 2 million barrels to 118, a near-25 mb surplus to last year while HSD stocks edged up 233 K to 49.3 million, 13 mb for than in the corresponding 2008 week. Days of Supply rose by 1 ½ days to 42.1, providing 10 days more cushion than the market had in 2008. Inventories rose in all regions, led by a 725 K gain in the Midwest. Stocks in that region are 33.6 as the year to year comparison improved from +2.4 to +3.6. Both the Gulf and Rockies saw inventory gains of 500 to 600 K with the former now at 47.5 and the latter at 3.4 million. The Gulf now has 13.4 mb more inventory on hand than it did in 2008; the current total in the Rockies which improved its year to year comparison from a 30 thousand barrel deficit last week to a near 500 K surplus. The West continues to run at a 1.6 mb shortfall with its current inventory level of 11.5 million while a 114 K build in the East lifted that region's total to 71.7, further boosting its surplus from +21.9 last week, to +22.3 currently.

**Propane**—Inventories slipped lower by 47,000 barrels in the latest week to 70.67 million nation-wide. This reduced the current year's advantage over 2008 from 16.3 million to 15.1 mb while the comparison versus the 4-year average fell from a +10.7 to +9.6 million. Midwest supplies rose 136 thousand barrels; the East Coast gained 100 K while the Gulf Coast fell 146 K and the Rockies/West Coast were off 137 thousand. East Coast has 4.4 million barrels of propane on hand as the area's year to year comparison improved from (220) K last week to (167). The Midwest recovered more than it lost last week and with current inventories at 30.5 million, the region now has 7.9 million barrels more inventory than it did in 2008, up from a 7.4 mb surplus last week. Gulf Coast stocks are just a little shy of 34 million, 8.2 mb more than this time last year. The 137 K decline in Western inventories increased the region's year to year shortfall from (525) K last week, to -711 K currently.

**Natural Gas**—The amount in inventory posted a smaller than expected gain, rising 66 bcf during the week ending September 11 and 12 billion cubic feet less the average trade estimate. Stocks are now 3.46 trillion, leaving the year to year comparison nearly steady at a +486 bcf surplus while it lost 17 versus the 5-year average, slipping to +475 billion. This week's activity was led by the East region which posted a 2.5% or 45 bcf gain to 1.88 trillion. However, the region's surplus to 2008 slipped 3 to +105 and versus the previous 5-year high, its current advantage fell by 9 to +41. Stocks in the West gained 10 or 2.2% to 472, causing a 2 bcf loss in its year to year surplus which slipped to +73 bcf while the comparison to its previous 5-year high continued at a +45 billion cubic feet surplus. Producing Region inventories rose 1% or 11 bcf to 1.11 trillion, up 308 bcf while it now has nearly a 180 bcf surplus versus the previous 5-year high for the period of 931 billion.

### Orange Juice

November Frozen Orange Juice Futures prices surged more than 14 cents per pound last week, closing at \$1.0365 on Friday. Gains were driven by ideas the Florida orange crop could end up being smaller than currently forecast and technically-related buying was also said to be a factor. Traders noted that the recent weakness in prices drove them well below fair value and now the market is simply returning to a more reasonable level. With regard to crop size, the Louis Dreyfus organization released a private estimate of 141 million boxes in August and since that time, two other large juice manufacturers have reportedly come out with estimates near the 140 million 90-pound box level. Last year's crop totaled 162.4 million boxes and if the current estimates hold, the 09-10 crop would be the second lowest in the last 10 years, surpassing only 06-07 which yielded a 129 million box crop. On the demand side, traders continue report improved retail sales for orange juice as total gallon sales rose 3.8% to 45.9 million gallons in the four weeks through August 29, aided by a fall in average prices of 8.2% to \$5.43 a gallon, according to the A.C. Nielsen company This is the sixth consecutive month of sales increase, a trend that shows lower orange juice prices are finally beginning to stimulate sales and improve market share. The report indicated a 16.6% climb in reconstituted juice sales, accompanied by a 14% price decline during the most recent four week period. There was also some light buying on Friday which was said to be predicated on the formation of a low-pressure system in the Atlantic Ocean which could potentially develop into a tropical cyclone. It is still too far away, however, to generate any serious concern for the Florida orange groves. The weather in Florida citrus regions is presently deemed favorable. Trees look good, with limbs flushing out new growth. New crop fruit is in good condition and is sizing well.

### Lumber

Activity in the cash market received credit for much of last week's rally which saw the November contract post a gain of \$10.40 per 1,000 board feet, closing at \$185.50 on Friday. Private sources reported a pick up in sales of Western S-P-F which in turn, ignited the market as participants extended their physical coverage. Inventories were viewed as perhaps excessively low as buyers had been prudently keeping stocks at a minimum given the current industry climate. A strengthening of the Canadian dollar relative to its U.S. counterpart also contributed to some of the price strength. In addition, better-than-expected housing starts in Canada during the month of August may have played a minor role in this week's strength as any improvement in building in Canada would keep more lumber in the domestic market and leave less to ship to the U.S. In related news, U.S. home loan demand eased somewhat due to a week shortened by the Labor Day Holiday. Still the Mortgage Bankers Association reported that total applications were at one of the highest levels seen since early in the summer as potential borrowers remain aggressive in capitalizing on the federal first-time home buyer tax credit which terminates at the end of November. The market received little if any support from the August housing report which showed a 1.5% rise from July to a seasonally adjusted annual rate of 598,000 units. This compared with an average industry forecast of 600,000 units. This was a seasonally adjusted increase of 1.5% over July and a 2.7% increase in building permits. In other news which may be another indication that the U.S. economy has turned the corner, U.S. households' net worth rose by \$2 trillion to \$53.1 trillion in the second quarter, the first increase since before the recession began in 2007, data from the Federal Reserve data revealed late in the week. This should help keep the LBX9 in the \$185-\$190 range for the time being.

### Foreign Exchange

The dollar index retreated to a 6-month low last week, falling to 76.23 on Thursday and then closed out the week nearly unchanged at 76.67. Trading was in a relatively narrow range of 76.23 on the low side with the upper end at 77.315. Several data reports were released during the week which suggest the U.S. economy is on the mend, and could encourage investors to abandon the dollar for more riskier investments/currencies. U.S. housing starts and permits in August rose to a 9-month high while the number filing for unemployment benefits fell. The Commerce Department said on Thursday housing starts rose 1.5 percent from July to a seasonally adjusted annual rate of 598,000 units, although this month's figure was off 29% from a year ago. New building permits were 2.7% higher in the month of August to 579,000 units, very near the 580,000 average forecast. Compared to a year ago, building permits were 32% fewer. The inventory of total houses under construction fell to a record low 595,000 units in August and the total number of permits authorized but not yet started also hit an all-time low of only 99,000 units. The Labor Department reported the number of workers filing new jobless benefit claims fell by 12,000 last week to 545,000, the lowest level since early July, suggesting severe pressures on the labor market are continuing to abate. A mid-week survey of U.S. home builders showed that confidence among the group moved to its highest level in 16 months, boding well for future construction. The numbers on retail sales and industrial production revealed strong growth during the 3<sup>rd</sup> quarter. August U.S. retail sales rose at their fastest pace in 3-1/2 years as government-sponsored incentives boosted auto demand but sales outside that sector were also strong. Excluding autos, sales rose 1.1 percent, exceeding an expected 0.4% jump and excluding autos and gas, sales rose 0.6 percent. Many economists now expect consumer spending to increase in the July-September period and this could cause the 3<sup>rd</sup> quarter growth to be as high as 3 to 4 percent. Finally, the net worth of U.S. households rose by \$2 trillion to \$53.1 trillion in the second quarter, the first increase since before the recession began in 2007. The above leads many analysts to believe that the U.S. will be at the forefront of the global economic recovery with higher prices lifting U.S. interest rates and in turn, make the domestic asset market more attractive and firming the dollar as foreign investors re-enter the U.S. market.

### Transportation

**Barge Freight**— The freight market had a firm tone for most of last week, showing its first real strength in several weeks on Friday. Most segments saw gains of 25 points as the near-by market moved closer to the October numbers. A bid-ask range of 370-390% of tariff was common for all regions except St. Louis which was some 20 to 40 points lower but still showing a 50 point gain for the week. Spot freight demand was said to be relatively quiet as weekend rains from a week earlier had left the Southern harvest at a standstill. Good buying interest was reported for the first half of November on both the Mid-Mississippi and Illinois Rivers, in what may be anticipation of a fairly extended harvest season.

**Rail Freight**— The Labor Day holiday cut into rail freight demand with rail traffic for the week ending September 12 showing a year to year decline of nearly 20% and a drop of 7.5% from a week earlier. However, the undertone of the freight market was bolstered by a slowing in the number of jobless claims reported by the Labor Department from 557 K to 545 K, along with a 1.5% rise in August Housing starts to an annual rate of 598,000 units. Retail sales for the month gained 2.7%, in large part driven by government efforts to stimulate the auto industry. Class I rail carriers originated about 830 additional cars of grain in the latest week but the total of 20,686 reflected a year to year decline of 6 ½% due to a slower wheat market. This is seen from the number of loadings by western carriers, which account for most of the reduction. Year-to-date port deliveries of all grains are down 46% with major wheat export regions such as the Texas Gulf and PNW showing a near-50% reduction in receipts. The secondary market for shuttles was mostly weaker: BNSF September shuttles fell \$19 per car to (\$82) of tariff while October was \$187 weaker at \$188 of par. UP Pool shuttles were \$25 higher at (\$150) for September; October lost \$50 to +\$363. Non-shuttle values on the BN fell \$32 to (\$15) for September while October was steady at tariff. UP numbers for September were \$10 better at \$40 but next month plummeted \$84 to \$157 over tariff.

**Ocean Freight**— The Baltic Dry Freight Index continued to fall last week, losing a little more than 100 points and closing at 2,356 on Friday. Improved iron ore demand from Europe and Japan was not enough to compensate for reduced Chinese interest and this along with better port conditions in Asia weighed on the market. There were a few bright spots, however as the Panamax index (BPNI) for smaller sized ships rose 1.35% late in the week, on Far East demand for corn and soybeans out of the U.S. The Baltic's Supramax index (.BASI) also posted a gain, up 1.64% and reflecting demand for smaller vessels in the Atlantic area, helped by the grains export season in the United States. However, others noted that while rates for those ships are in a mild uptrend, the negative market sentiment for larger vessels will eventually work against the overall dry bulk sector. Ocean freight rates for grain leaving the U.S. were reported to be 1% higher for the week at \$1.46 per bushel from the Gulf with PNW rates up 3% at \$.76 per bushel. Gulf activity was slightly better with 29 grain vessels in port, up 1 from a week ago but only 44 ships were due within the next 10 days, down 9. The PNW was steady with 16 vessels in port, unchanged from a week earlier.

### Fertilizer

**Ammonia**— Industry talk has the latest business out of the Black Sea supposedly done at \$270 per MT on a fob basis but confirmation is another issue to most are content to call the market some \$5 per MT lower with producers staying firm at that level. Producers continue to hold out for higher prices and many plants are likely to remain shuttered until the market rises above the \$300 level. There was no activity at the Gulf last week while suppliers continue to emphasize outages in Trinidad which are cutting immediate supplies. Interior U.S. prices were mostly steady. Eastern Belt numbers continued in a \$350-\$370 range for product out of the regional terminals and moving to dealers. Forward contract tonnage for the October-December time period was being offered at \$360-\$370 per ton, subject to location. Crops continue to mature but develop is significantly behind normal through-out the region. Western Belt prices were perhaps \$10 per ton better at \$330-

\$360 per ton with markedly different opinions being offered on fall demand: some see heavier application while others expect demand to be off as much as 25%. The Northern Plains saw a little activity with anhydrous being applied to pre-plant winter wheat in a few areas but there was not much in the way of new sales to give an accurate representation of the market. Anhydrous was called \$370-\$390 in the more northern extremes of the region with October-December forward contract tonnage offered out at \$360-\$370 per ST fob.

**Urea**-- With the India tender completed, price levels in the region were said to be largely confined to the \$250 per MT level for the next several weeks while the Black Sea is some \$20 per ton cheaper. The Gulf granular market was indicated at \$265-\$270 per ton, a drop of \$5 in the past week while deferred prices had an even softer tone with a cargo for the October-December time period trading down to the \$258 level. Interior U.S. prices held steady in the Eastern Corn Belt which was called \$315-\$325 in the midst of no activity. The Western Belt saw some softer numbers at the lower end of the range which slipped to \$310-\$320 per ton. Market participants noted little in the way of demand for the both the fall and spring periods. The Northern Plains region was also relatively subdued with the dealer market quoted at \$315-\$320 per ton. A later than normal corn harvest in the Northeast kept demand at bay and most dealers are content to defer buying until farmers are considerably further along. Granular urea was pegged at a nominal \$315-\$325/st FOB in the Northeast region, although there was limited tonnage and no sales to test the dealer market.

**UAN**- No commentary this week.

**Phosphates**— New business was lacking in the Florida market and prices for DAP are around the \$275 per ton level with MAP at a \$10 premium. Several noted that production could be cut back until in the spring season arrives and buyers should be expected to pay a few dollars per ton more for product in the interim. Gulf activity was also scarce in terms of new transactions but product continues to move into the pipeline. Prices were generally steady in the region although product along the Arkansas River was said to be up \$5 per ton from the prior week. While the spot market was unchanged in a range of \$280-\$283 per ton for DAP. Eastern Corn Belt DAP continued in a range of \$310-\$320 per ton at the regional warehouse level and some were referencing October-December forward contract tonnage at \$325-\$335. Western Corn Belt DAP was quoted at \$310-\$315 with MAP again at a \$10 per ton premium. DAP in the Northern Plains was mostly steady at \$315-\$325 and one location was referencing forward contract MAP tons at \$340 for October and November, and \$345 for December through February.

**Potash**-- Gulf barges were generally \$5 per ton weaker at \$445-\$450 per ton. Eastern Belt sources indicated no activity with spot prices holding steady at \$475-\$510 per ton but there were a limited number of producer inquiries. There were a number of reports of price protection programs being offered by North American producers, which permit retailers to fill now and delay payment well into early 2010. The Western Belt potash market held at \$475-\$510 per ton with the market consensus being on the pessimistic side regarding fall demand, arguing potash could be the primary input the producer cuts back. Potash in the Northern Plains regions continued in a range for \$467-\$480 per ton FOB Saskatchewan mines to U.S. customers. In the Northeast, the market was quoted at \$510-\$520 per ton FOB, depending on grade and location, and were down from the last report as new buying had yet to surface. Demand was expected to improve by mid-October when the pace of harvest has picked up and some noted that an uptick in buying could lift prices, given relatively low inventories at most dealer locations.

#### **Dairy:**

10.1 billion pounds of milk was received from producers during the month of August, down about one percent from last year. 3.7 billion pounds of producer milk was used in Class I products, up 1.2% from last August. The base price for Class I milk in October is \$12.35 under the Federal milk order pricing system, up \$1.42 from September.

**Butter**— the CME cash butter price rallied nicely last week, picking up nine cents to close out at \$1.2700 on Friday; the weekly Grade AA average of \$1.2365 was .0640 cents better on the week. Churning remains seasonally active, with cream volumes mostly adequate for schedules. Buying interest is fairly strong at early fall levels, with students returning to classrooms and increasing consumption at home. Spot bulk butter prices are ranging from a half-cent under to 2 cents over various basis prices and averages.

**Cheese**— CME cheese prices picked up last week with heavy sales; barrels finished off at \$1.2900 and blocks at \$1.3300, with both weekly averages a few tenths higher on the week. Milk supplies have increased in the East and Midwest, easing problems for cheese manufacturers in those areas. Cheese production is slower in the West, due to lower intakes, though cheese supplies remain sufficient there nonetheless. Exports of cheese and curd for the first seven months of 2009 are 131.7 million pounds, down 27% from Jan-July 2008.

**Milk**— as noted earlier, milk production is stronger in the Eastern and Midwestern U.S., while the Northeast is also seeing surprisingly higher output due to cooler weather. Pacific Northwest output is better as well, on much better pasture conditions from that cool weather, while California and Arizona production is steady to lower, and Utah and Idaho are trending lower also, mostly due to various feeding factors. Florida imported 55 loads last week, up 30 from last week, to cover extra bottling needs.

#### **Sugar:**

October sugar set back a bit on Friday, finishing extremely weakly 21.91 cents per pound, after threatening a re-test of previous highs throughout the week. Friday's close was 0.70 cents better on the week. The sugar market has found solid support on its recent setbacks, despite weaker crude and a stronger dollar at the end of the week, with fundamental factors still driving the market. India still needs lots of sugar in the coming months, and Brazil looks to potentially struggle lining up enough exports due to a slow harvest pace. Mexico set another import quota on Friday, bringing the total to 900k tonnes. Chinese officials are still expecting near steady production for 2009/10, despite talk of possible drought in some areas and floods in others. Large funds added over 4k shorts and lost over 4k longs for a net 8,609-contract

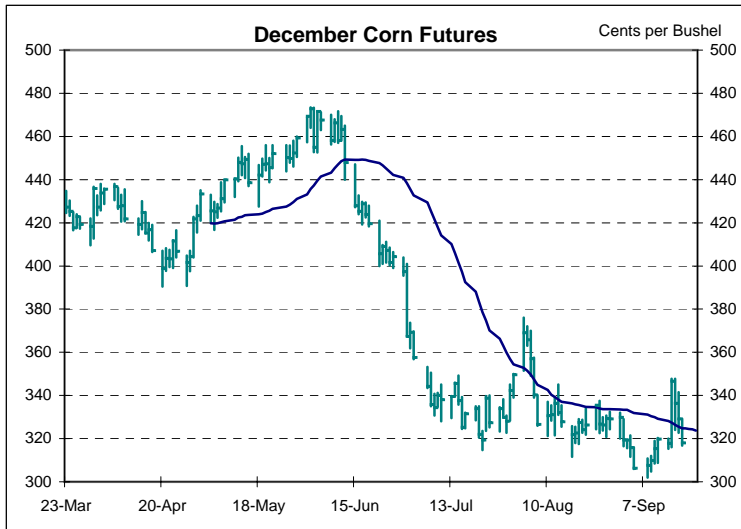
gain on the week ending last Tuesday, according to the CFTC, while index funds liquidated a ton of positions – over 23k shorts AND longs – to result in a net 1,446-contract gain on the week.

**Hogs:**

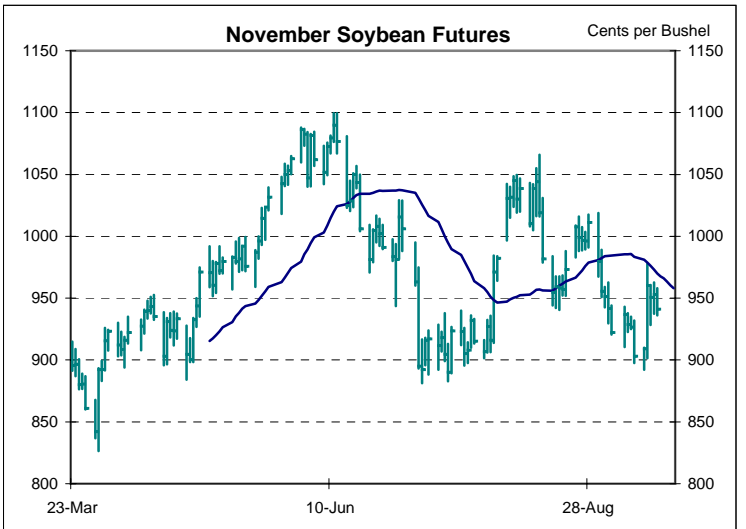
October lean hogs also closed very weakly on Friday, falling to a finish at \$50.80/cwt – that was well off the week's highs at \$54.05/cwt, and \$1.675/cwt below the previous week's close. Last week's national hog slaughter came in at 2.310 million head, at 99.3% of the comparable week a year ago, with heavier weights pork production just over 100% of last year. Kill figures rose a bit faster than analysts expected, rather than gradually gaining into the 2.300 mln head level into October, and towards 2.350 mln in November and December. Cattle on Feed numbers were fairly close to estimates, with On Feed at 98.8% of a year ago, placements at 102.4% of LY, and marketings at 96.1% of LY. Quarterly Hogs and Pigs numbers are out this Friday, with the three major categories expected to come in around 97.0-98.0% of LY. Spec funds added longs and subtracted shorts for a net 8,320-contract gain on the week ending Tuesday, while index funds did the same for a smaller 1,243-contract net addition.

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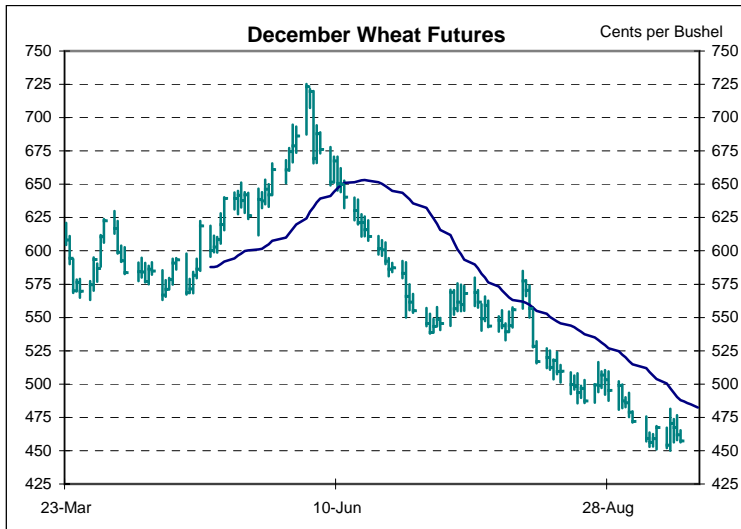
**Grains:** (with 30 day moving average)



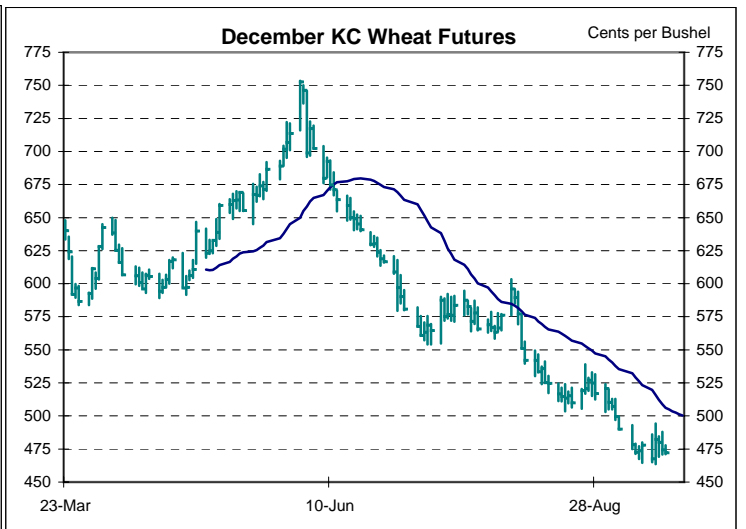
This Week: 318.00 vs Last Week: -1.75



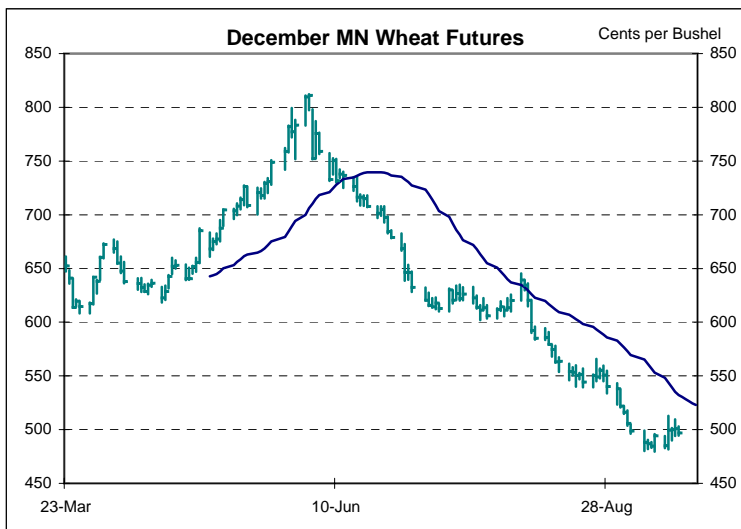
This Week: 941.00 vs Last Week: 38.00



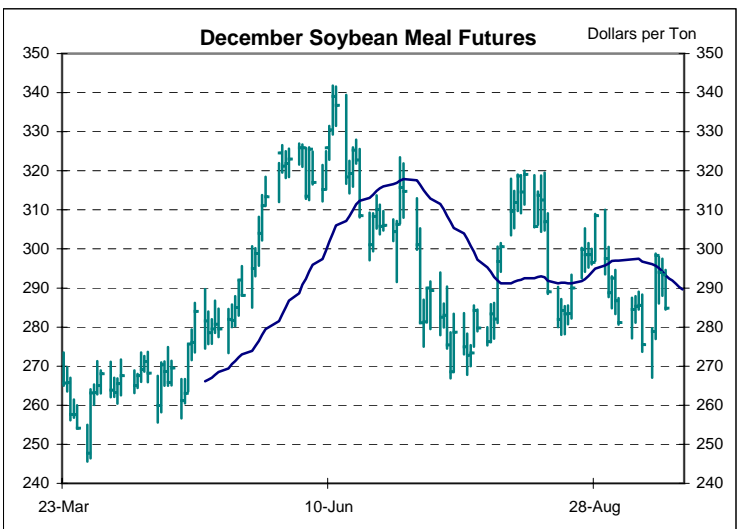
This Week: 457.25 vs Last Week: -10.00



This Week: 472.00 vs Last Week: -5.75



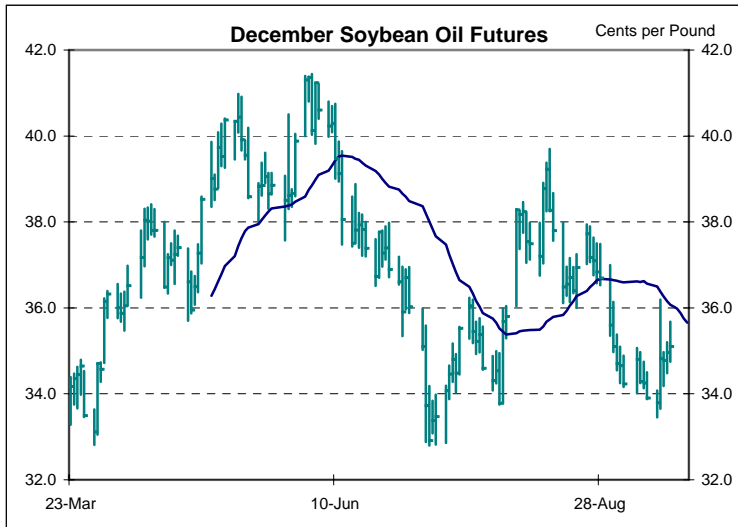
This Week: 496.75 vs Last Week: 2.75



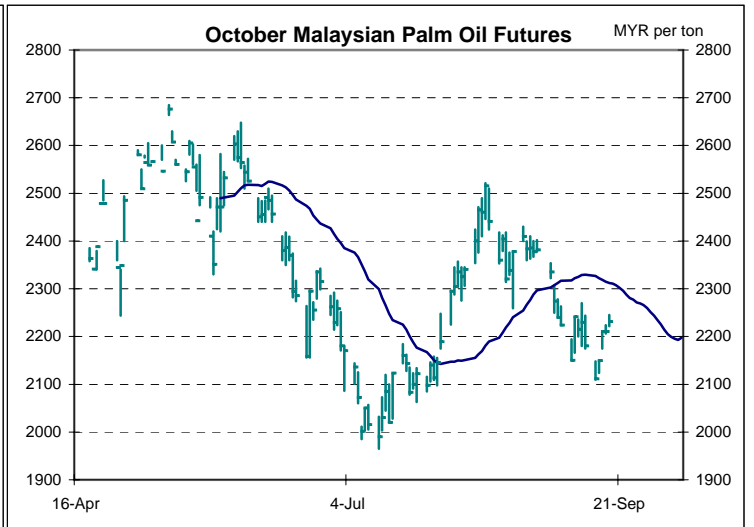
This Week: 284.80 vs Last Week: 9.30

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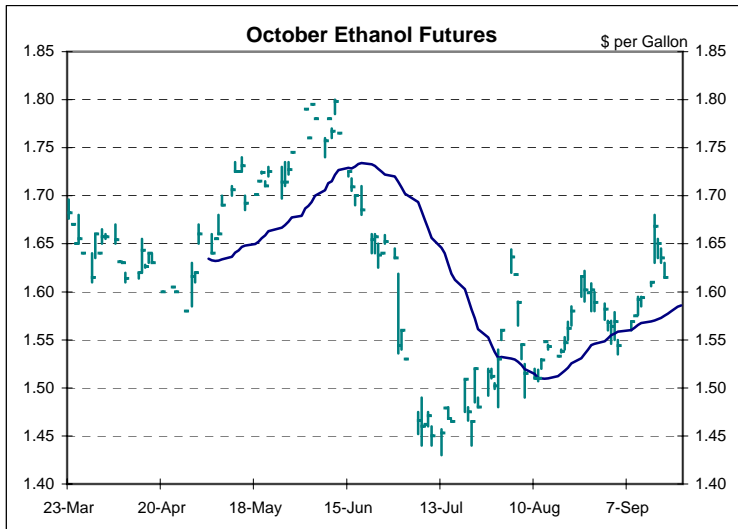
**Oilseed/Bio/Energy:** (with 30 day moving average)



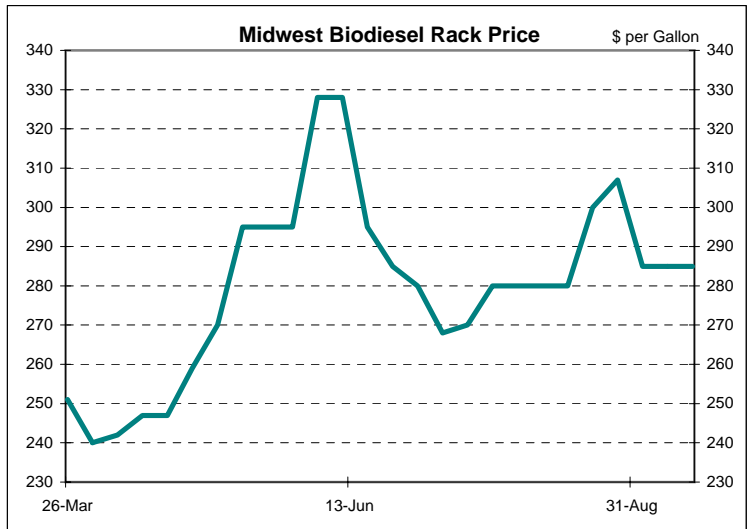
This Week: 35.10 vs Last Week: 1.20



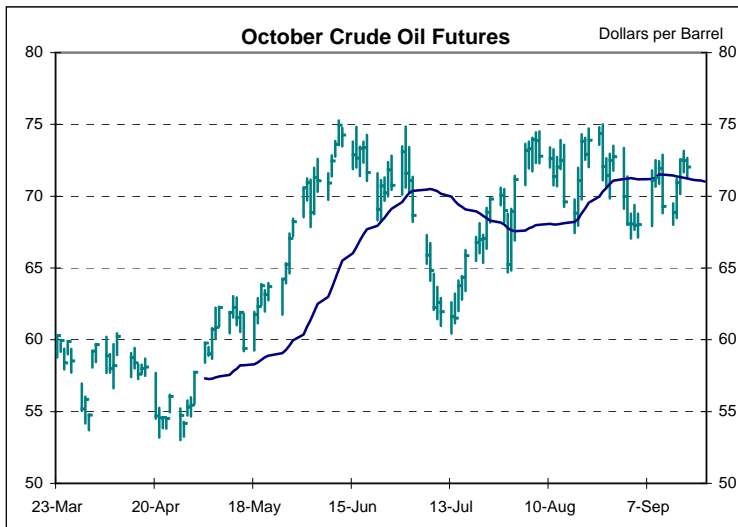
This Week: 2231.00 vs Last Week: 51.00



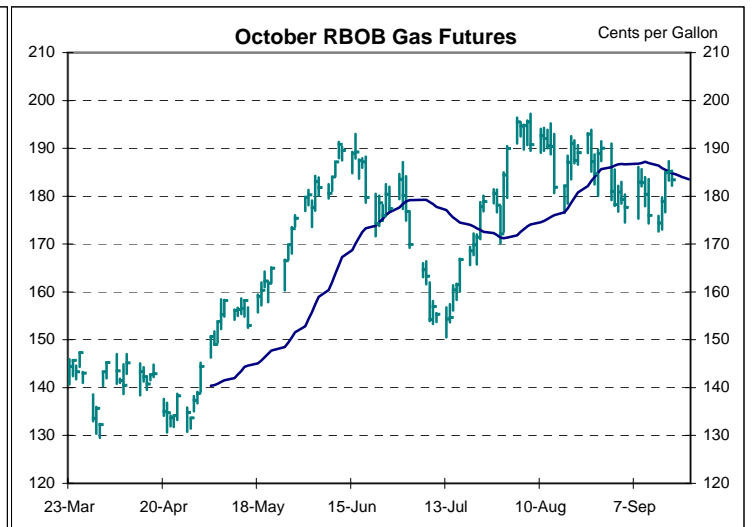
This Week: 1.62 vs Last Week: 0.02



This Week: 285.00 vs Last Week: 0.00



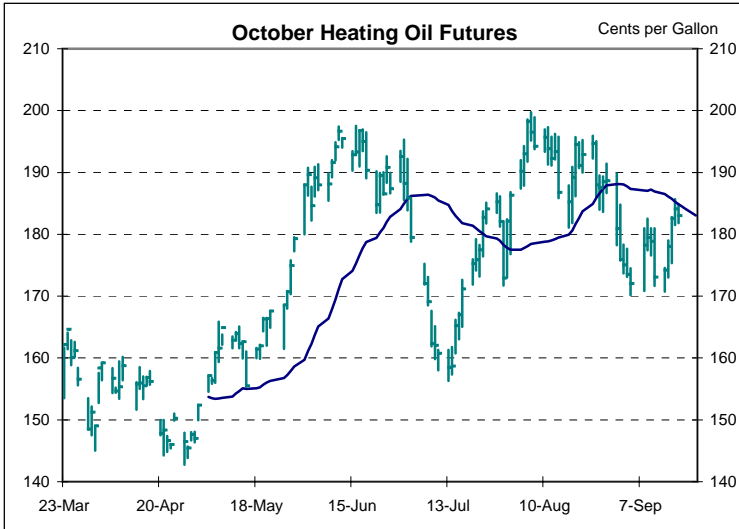
This Week: 72.01 vs Last Week: 2.72



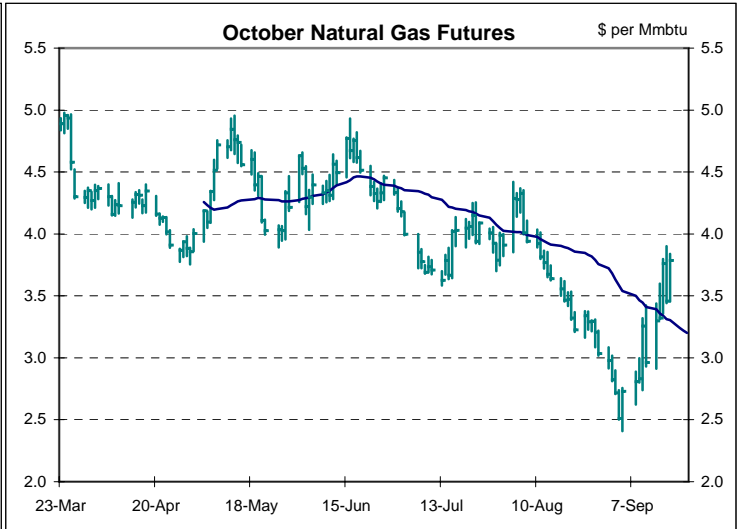
This Week: 183.37 vs Last Week: 7.39

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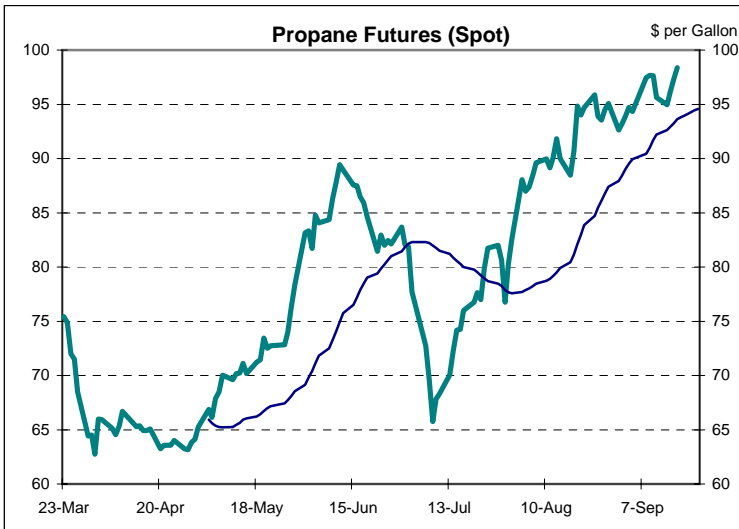
**Energy/Livestock:** (and 30 day moving average)



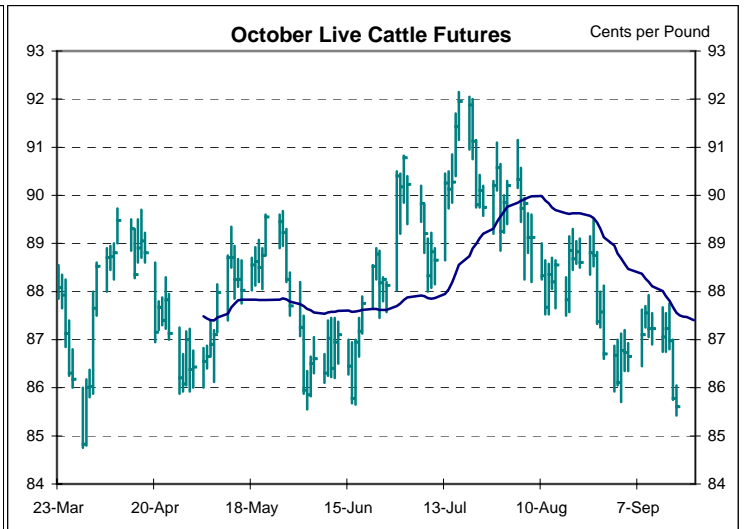
This Week: 183.00 vs Last Week: 9.92



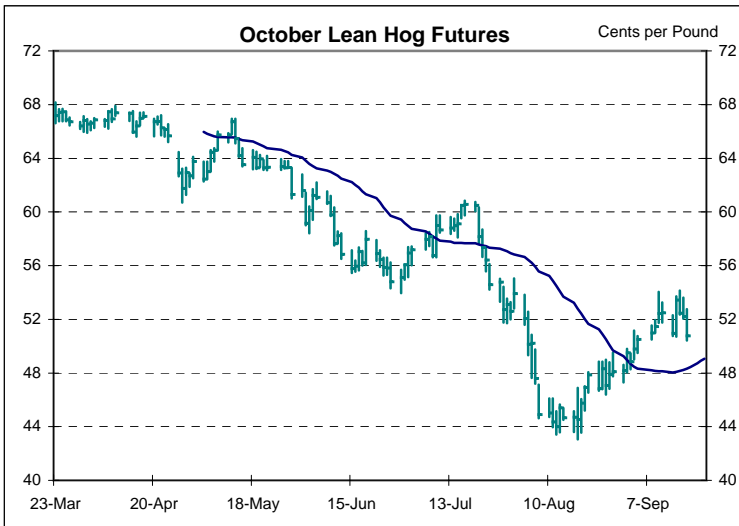
This Week: 3.785 vs Last Week: 0.825



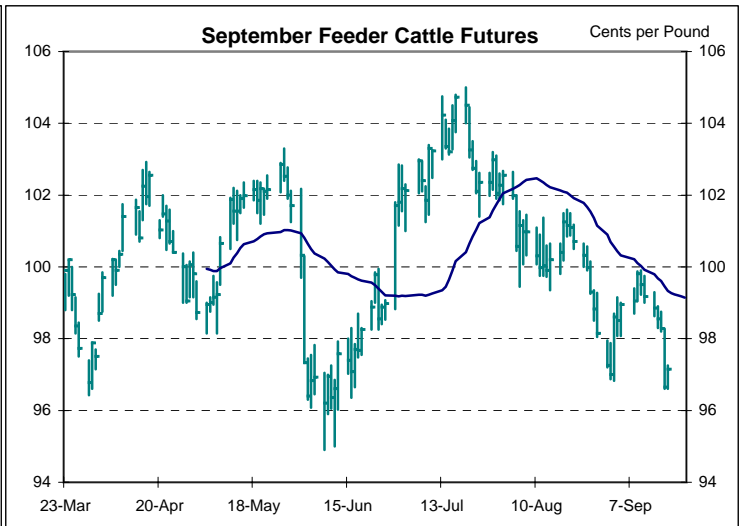
This Week: #N/A vs Last Week: #N/A



This Week: 85.60 vs Last Week: -1.63



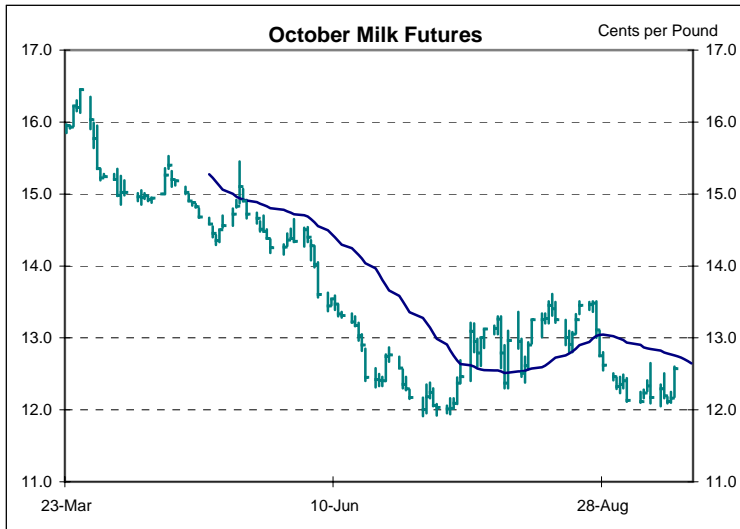
This Week: 50.75 vs Last Week: -1.73



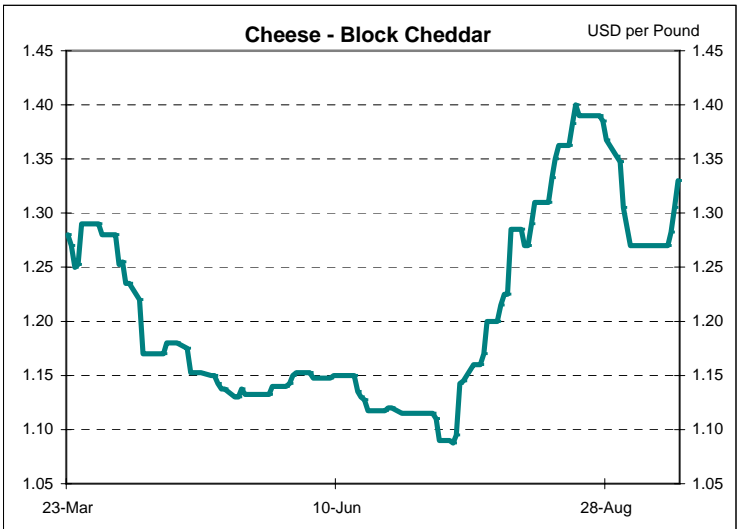
This Week: 97.15 vs Last Week: -2.02

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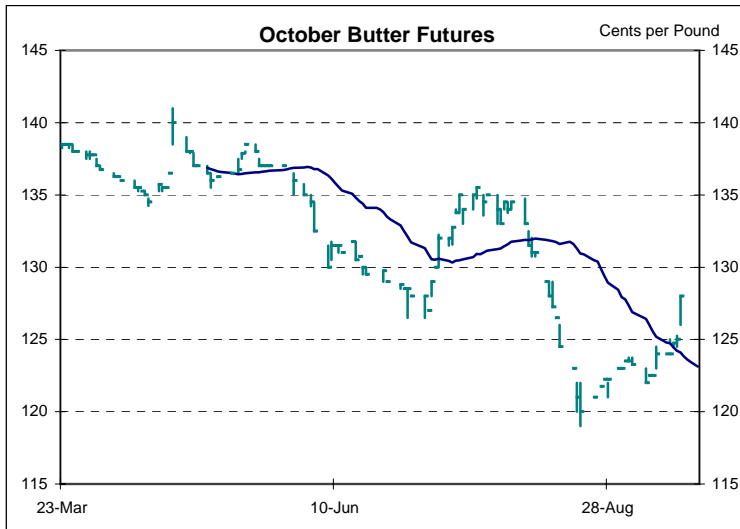
**Foods:** (and 30 day moving average)



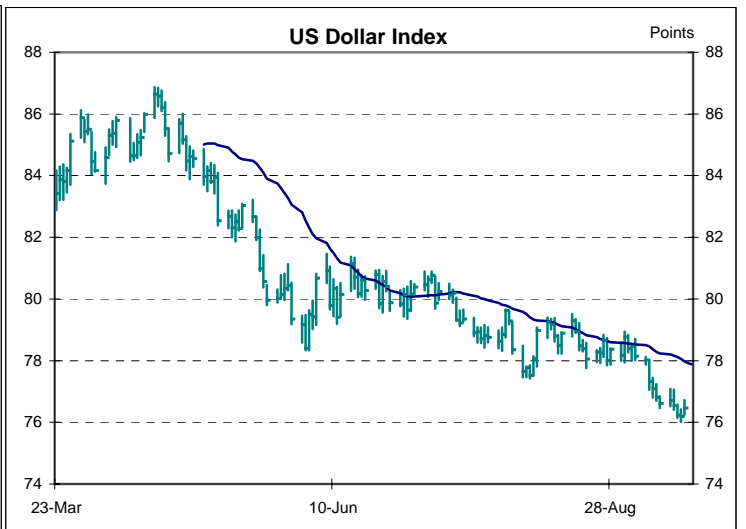
This Week: 12.57 vs Last Week: 0.40



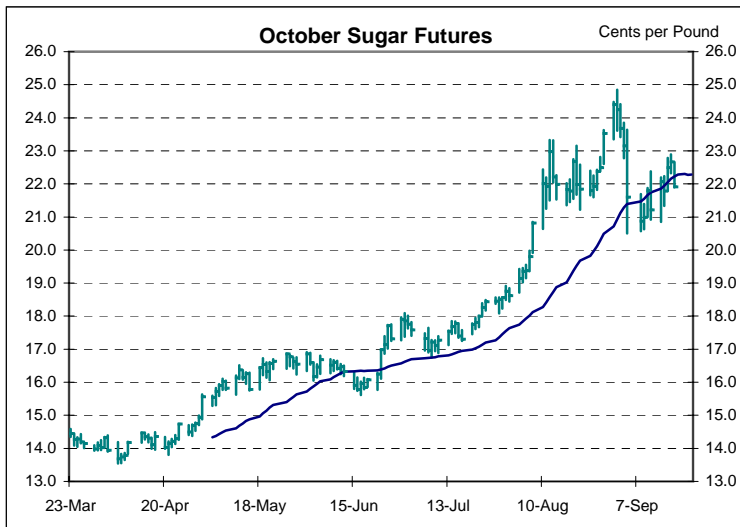
This Week: 1.33 vs Last Week: 0.00



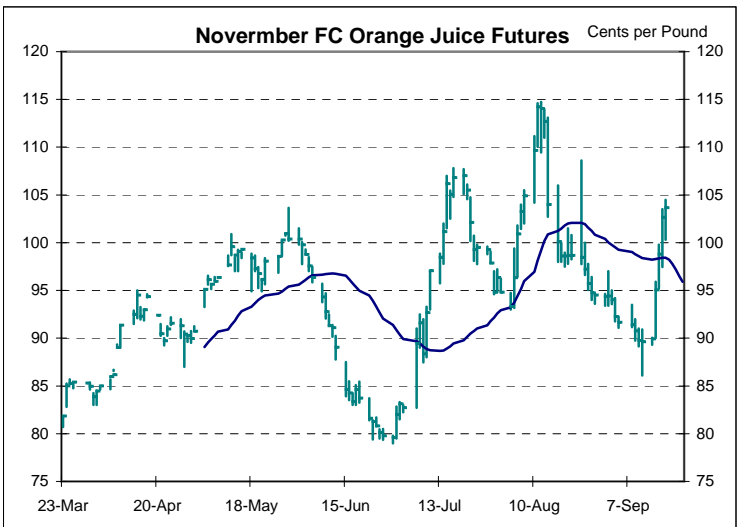
This Week: 128.00 vs Last Week: 4.00



This Week: 76.46 vs Last Week: -0.15



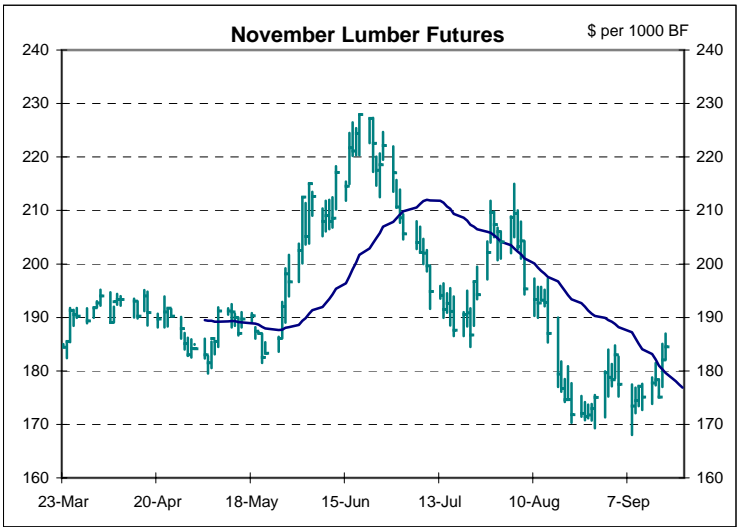
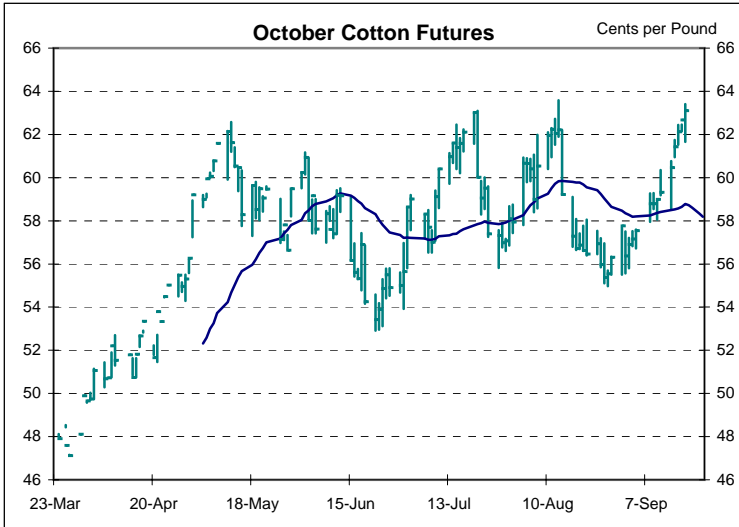
This Week: 21.91 vs Last Week: 0.70



This Week: 103.65 vs Last Week: 14.05

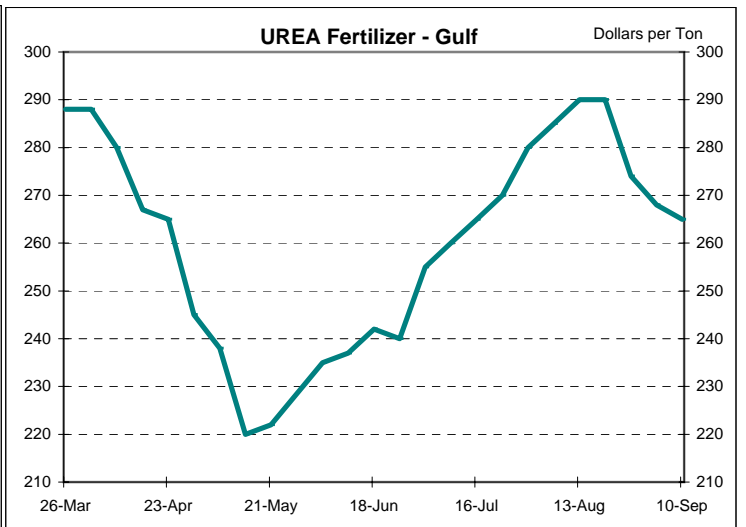
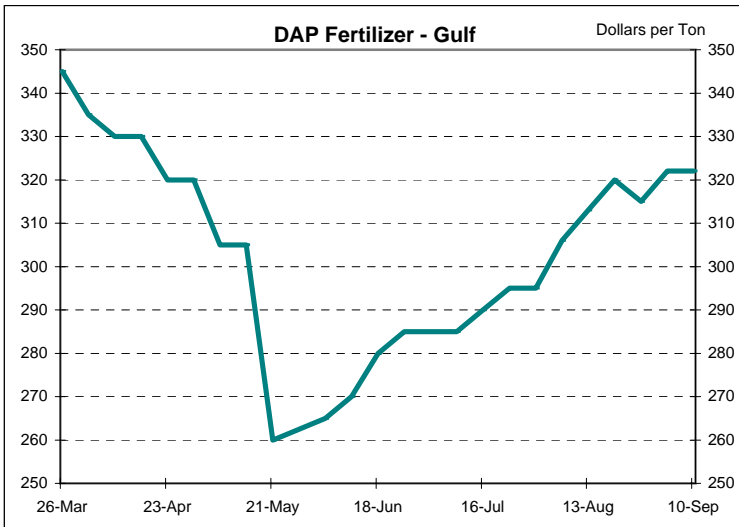
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**Fiber, Fertilizer & Transportation:** (and 30 day moving average)



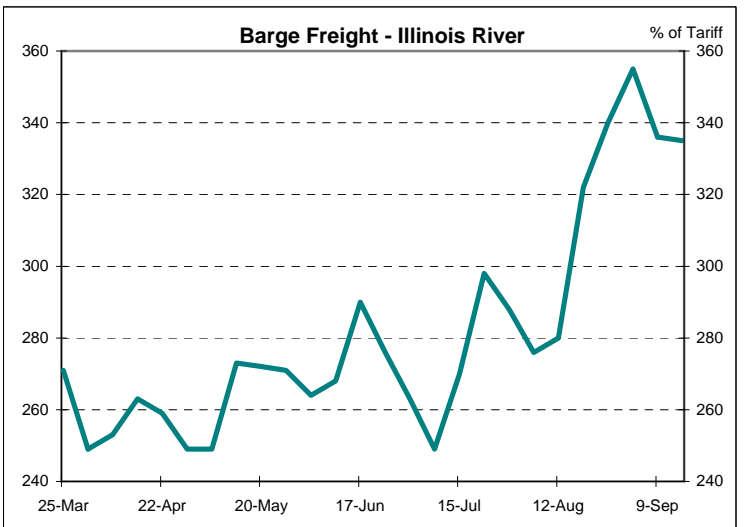
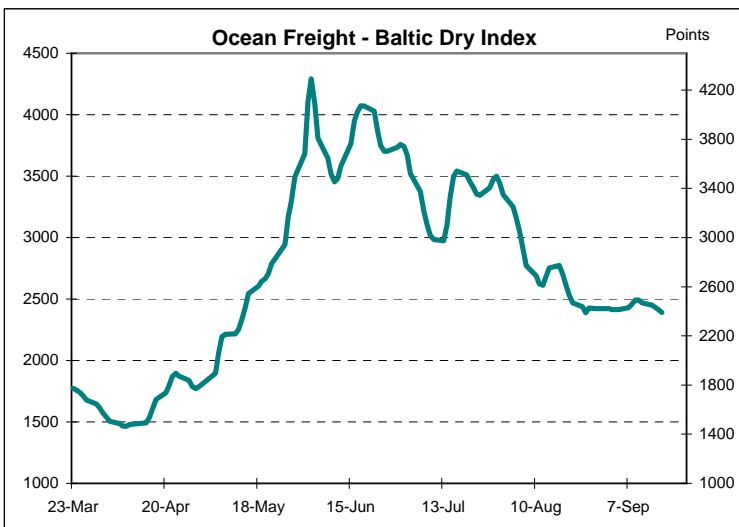
This Week: 63.09 vs Last Week: 3.78

This Week: 184.50 vs Last Week: 9.40



This Week: 322.00 vs Last Week: 0.00

This Week: 265.00 vs Last Week: 0.00



This Week: 2390 vs Last Week: -102.00

This Week: 335 vs Last Week: -1.00