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 FutureSource
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How does corn separate itself from other grains?

November 7, 2007

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Traders tip:

“The market can stay irrational longer than you can stay solvent.”
John Maynard Keynes

The run for acres and how MB Wealth will be playing the grains

Data gathered on markets from USDA:

Corn: Projected U.S. ending stocks of corn for 2007/08 was raised 322 million bushels this month on larger supplies and lower domestic consumption, which more than offset an increase in projected exports. Production is forecasted at 13.318 billion bushels, up just 10 million as an increase in an area that is nearly offset by lower forecast yields. Total corn supplies are projected at a record 14.6 billion bushels, based on slightly higher production and increased carry over. Feed and residual use is lowered 150 million bushels based on the slower rate of domestic use implied by September 1 stock. Corn use for ethanol in 2007/08 is lowered 100 million bushels reflecting lower indicated plant capacity utilization and lower returns for ethanol producers due to recent declines in ethanol prices and continued strength in corn prices. Exports are projected 100 million bushels higher on tighter foreign grain supplies and strong export sales. At the projected 2.35 billion bushels, 2007/08 exports would be the highest in 18 years.

Soybeans: Soybean production is forecasted down 21 million bushels to 2.598 billion due to this month's acreage reductions. Planted and harvested area are both lowered 0.4 million acres. Total soybean supply is forecasted almost unchanged as reduced crop production is nearly offset by increased beginning stocks. Soybean ending stocks are projected at 215 million bushels, unchanged from last month.

As far as we can see, the bull in soybeans and corn is alive and well. The problem when trading these grains of late is the large daily price swings and training the psyche that what was high 5,10,15 years ago may not be high in today's dollars. The only suggestion we can give you is to trade the charts in the direction of the long term trend, in other words the long side. Each time corn or soybeans get back down to support, we would be a buyer.

Wheat: U.S. wheat ending stocks for 2007/08 are projected at 307 million bushels, down 55 million bushels from last month, reflecting lower production and higher use as an increase in

projected exports more than offsets lower projected feed and residual use. If realized, this year's ending stocks would be the lowest since 1948/49. Production is lowered 47 million bushels this month based on the latest production estimates. Feed and residual use is projected 45 million bushels lower this month as strong export demand and higher prices are expected to limit wheat feeding during the remainder of the 2007/08 marketing year. Exports are raised 50 million bushels reflecting tighter world supplies and the strong pace of U.S. shipments and sales to date.

Wheat is a different story altogether. Wheat prices could drop an additional 20% in price and still be pricey. Being that prices are at such lofty levels we are not as bullish here. Because of the current pricing we are expecting a significant shift in acres to wheat that in the longer term should take prices south.

Cotton: The U.S. cotton estimates for 2007/08 include lower beginning stocks, which are more than offset by higher production, resulting in 200,000-bale increase in ending stocks. Beginning stocks are reduced 2.3 percent based on the final 2006/07 ending stock estimate issued by the U.S. Census Bureau. Production is raised 2 percent to 18.2 million bales, due mainly to higher estimated production in Texas. Domestic mill use and exports are unchanged from last month. World production in 2007/08 is raised nearly 3 percent, including increases for China, the United States, and Brazil, partially offset by reductions for Iran, Australia, Uzbekistan, and others. World consumption is 1.3 percent higher, as China's consumption for 2007/08 is raised 1.5 million bales to 55.0 million based on the NDRC's estimates and other evidence of continued strong consumption growth. World ending stocks are raised nearly 7 percent from last month or 3.5 million bales, but are still down 9 percent from beginning stocks.

Although we realize the need for food, feed, and fuel will certainly take a front seat to fiber, the loss in acreage we expect this year again after last year should put cotton on your radar. After the current harvest correction we are looking for a long entry anticipating cotton at 80 something into 08'.

The long-term bull market for commodities looks far from over. There will certainly be bumps in the road, in some instances dramatic volatility and periods of considerable corrections. However we are in the 4th or 5th inning of a cycle that is many years away to the finale. The worldwide growing demand for raw materials, especially from developing countries like China and India, is not going away anytime soon. Prices may fluctuate over the short term, but the longer term trend will be higher for commodities as growing populations and economies compete for limited resources; remember ECON 101.

While prices are rallying across many commodity sectors this year, it is not the same fundamentals pulling each market. While certain isolated situations are responsible for a few markets, it is global economic growth that is creating the scenarios for many markets to rally, though for different reasons.

Grains are a perfect example. As one of the leaders of this year's bullish advance, grains are benefiting from a number of factors that have combined to create shortages. Increased populations demanding additional food can certainly be credited. However, food usage is not what is driving the current bull. Rather, it is the sweeping demand for energy from rapidly developing nations that has spilled over into grains and oilseeds. Today's grain market dynamic is governed for grains as a food, feed, and fuel which has created fierce competition for acreage.

Growing demand for ethanol has been in the news for years and was front page news for much of 2006 and early 2007 as demand from newly built ethanol plants caught the market off guard. Corn prices touched nearly \$4.40 a bushel in February, their highest levels since 1996.

But then, a strange thing happened. Corn prices began falling and soybean and wheat prices began rising. Why the change?

In these markets, high prices often do cure high prices. In the US, many growing regions in the US can be utilized to grow a variety of crops, from corn and soybeans to wheat and cotton. When prices of certain agricultural products rise, it is not unusual for farmers to plant more of that crop for the following year. As a result, lesser quantities of lower priced crops are produced as acreage gets shifted away from these crops to the higher priced product.

As corn prices fell, the media became tired of the ethanol story and moved on to their next obsession. But as we have learned from markets such as oil and copper, long term fundamentally driven demand growth rarely goes away quickly and often reasserts itself with a fury after a market experiences correction. And this is why we see the current opportunity in corn.

As 2007 draws to a close, corn remains the “odd man out” as soybeans hover near multi-year highs and wheat is just off all-time highs. While both have benefited from lower US acreage this year, wheat has experienced additional upside from lingering droughts in several of the world’s key growing regions included but not limited to Australia and the Ukraine.

As the 2007 harvest winds down, the futures market will begin looking towards the future. As such, the futures market will soon begin anticipating next year’s crop sizes long before they even go into the ground. Expect the market to start focusing on next year’s planting intentions. Private estimates for next year’s acreage numbers are already circulating as winter wheat plantings are underway. With wheat prices so high and corn prices so low compared to early 2007, it will be no surprise to see farmers shift more acreage into winter wheat and thus not be available for corn planting in the spring.

The trade is already discussing a 4-8 million acre shift away from corn and into higher priced soybeans and wheat. This shift could be magnified by rotation tendencies in the Midwest where farmers alternate crops planted in certain fields to keep the soil “fresh”. Corn also tends to have higher input costs than soybeans or wheat as corn fertilizer carries a higher price tag than does that for wheat or soybeans. Higher potential sales prices and lower production costs make a 4-8 million acre shift quite realistic.

Assuming a minimum of a 4 million acre shift and an average yield of 155 bushel per acre, ending stocks would slip to 913 million bushels in 2008/09 – a 10 year low. An 8 million acre shift again assuming 155 would result in ending stocks of only 303 million bushels for 08/09 – the lowest since 1995/96 when corn prices spiked to all time highs of over \$5.50 per bushel. This is without factoring in more demand from ethanol producers into 08’.

We understand it is early to begin speculating on the direction of next year’s corn prices however over the next 2-3 months, the market will be doing just that. And while other markets are currently grabbing headlines, we feel the stage is set for corn to reassume a leadership role in 2008.

It is for these reasons that corn looks so attractive, on any pullbacks buy dips. To get specific trading strategies on corn or any other commodities you wish to play contact us at <http://www.mbwealth.com/contact.html> or (888)-920-9997. www.mbwealth.com

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