

Soybeans suffer in South America 31 Dec 08

The focus has been on South American weather the last two weeks, giving strong fundamental support to soybeans and in turn wheat and corn futures. And the focus will be even greater now that Brazilian and Argentine soybean crops are entering the key pod-set and pod-filling stages in January. If the heavens don't deliver and production estimates decline traders will be more active in pushing premiums and buying soybean futures. This may seem odd as we are facing huge world wide crops, and reduced demand due to the credit crisis but the market will respond positively. On the contrary if timely weather delivers then traders won't hesitate in pressing futures low again.

While corn is not usually the focus during times of tough weather in South America it could become a key factor as a decline in production would need the corn market to buy hectares in the U.S for the upcoming season. At this stage the U.S can't afford to lose corn hectares as ethanol production will use a greater portion of the crop forecasted for planting.

Mexico resumes suspended meat shipments 30 Dec 08

Word hit the market last week that Mexico had delisted some 30 U.S. meat plants, halting their ability to export product to Mexico. However, a source from Mexico's agriculture ministry has said that the country took steps to resume imports of U.S. meat on Monday from 21 of 30 plants that had been sanctioned for technical and sanitary issues.

Mexico suspended shipments from the beef, pork, lamb and poultry plants last Tuesday over sanitary conditions involving packaging, labelling and transportation in what U.S. industry officials said was an unusually large delisting of their plants. The Mexican government was still awaiting word from FSIS on what remedies were being made at the remaining nine plants.

Mexico is the largest export market by volume for U.S beef and the second largest for pork so it was with no surprise that the U.S. cattle and hog prices slumped on the news on Friday. Markets have since rebounded as the suspensions were expected to be short-lived.

Grains disengage from Energy markets 29 Dec 08

Over the past two weeks soybeans and agricultural markets in general have disconnected from the still bearish trend in energy markets. It's hard to know whether this is a temporary disengagement or something more lasting although to turn bullish agriculture crude oil might need to at least stop its free-fall. Nonetheless, there is talk that the speculative sector is coming back into play here, albeit in much smaller fashion, looking to play the long ag/short energy and/or base metal commodity spread in the belief that agriculture has better resiliency during tough economic times.

Soybeans have drawn some bullish fundamental attention from pesky dryness across Argentina and southern Brazil, better than expected export buying interest for US

beans, a close last week for nearby bean futures above \$9.00/bu and above 50-day moving averages. But it may take until midway January to determine the grain market's true character going forward. It's difficult during the holiday period due to lower daily trade volume which makes for uncertain times.

Within the next 6 weeks it may not be guaranteed that new lows will not be breached but confidence can be gained from the recent attempts by the agriculture markets to disengage from the energy's. At least we can say that the massive liquidation pressure which has hammered agricultural markets during the second half of 2008 has at least temporarily abated. (ProFarmer)

Australian canola exports expanding to EU 22 Dec 08

Gains in the Euro over the last 2 weeks have more than offset a rise in the beleaguering Australian dollar and European purchases have improved considerably in December. Freight rates out of Australia to ARAG (Amsterdam, Rotterdam, Antwerp and Gent.) are at \$25/t or less and according to Ag Commodity Research a total of 8 cargoes have been secured so far. A total of 700,000-800,000t of canola seed for export is anticipated for this campaign.

Talks in November that the EU will lift ban's on importation of GMO canola in the new year seem to have gone on the backburner. There are rumours that their decision needn't be announced until autumn. Australia will remain the only supplier of canola into the EU until then. (ProFarmer)

Cotton cushions off lows 19 Dec 08

Cotton prices rose to their highest in more than two weeks, after the dollar's decline boosted the appeal of U.S. fibre. In recent days, weakness in the US\$ has helped cotton futures firm as has perceptions that the current bid by Governments to flood the economy with money will lead to inflation breakout out in late 2009.

The slumping global economy has eroded demand for cotton fibre used in clothing and textiles. 'Informa' last week pegged 2009 US cotton area at 7.48 million acres, down 1.98 million acres on this year. This would suggest (with an average yield) a US crop of only 11 million bales. If true this displays the tightening trend on the supply side of the equation although the real unknown is the demand for cotton given the current global economic problems. The USDA last week pegged world consumption at 116.59 million bales and falling, however, the market is perhaps already pricing in consumption falling to between 105 and 110 million bales. This suggests the market might be pricing in a worse case scenario that may not eventuate.

Local cash prices for 2009 have fallen to around the \$370-\$380/bale level with prices for 2010 crop at \$400/bale. There is nothing attractive about this pricing and hence market activity is close to nil at present. Crops generally looking good with seasonal rains helping and some irrigators have been able to pump some limited amounts (some on the Downs have full storages) which will help finish the crop. (ProFarmer)

Canola carryover predictions increase 15 Dec 08

Recent production, carryover and planting estimates are key factors in current canola market activity. With production estimates in Canada and Australia at record levels, it is estimated that there will be a carryover of more than 3mmt in Canada alone, exceeding past carryovers by 840,000t.

Ag Commodity Research had indicated that if these carryover stocks are not reduced below 2mmt then canola crush margins will continue to slip, and the 2009/10 crop will find little demand and low prices. The traditional markets of Japan and Mexico are showing little demand, and the only residual market beyond these is China. The Chinese government support price for domestic canola is 4400 RMB, well above the import price of 3100RMB. It is estimated that china will import 1.8mmt of Canadian canola prior to the Northern Hemisphere harvest in May.

The US also provides an avenue for Canadian canola. With canola oil usage in the US expected to increase by 20% in 08/09, the USDA expects the demand for imported canola to increase by 15%. Australian exporters are still focused on Europe, trying to secure contracts prior to any changes that may occur in GM canola bans.

South American beef exports decrease 15 Dec 08

Argentina and Brazil are both reporting increased herd levels in 2008. Brazil has been steadily rebuilding its stocks since 2007, when herd numbers decreased dramatically. This was due to a change in production focus, from cattle to cropping. As cattle prices have begun to increase there has been an increase in stocking rates.

During the rebuild, both domestic and global beef demand has been high, and the Brazilian Real has competed strongly with the USD. With the current financial crisis demand is lessening and the Real has dropped considerably to the dollar. Initially it was hoped that the Brazilian herd would be at capacity by 2010, but that now looks unlikely.

During the same period, Brazil's neighbour Argentina has been strengthening their feedlot sector. Through government support Argentina has attempted to turn its seasonal pasture based cattle industry to a year round feedlot industry. This has increased output to 4.5 million head. Export restrictions have been imposed on Argentinean beef, limiting the potential for the export market. Current low domestic prices have seen a reduction in herd size and an increase in calf and cow slaughters. These all point towards a reduced herd in 2009, and it is expected that the trend will continue until 2011.

Mixed result for Australian pulses 12 Dec 08

It is a mixed result for pulse crops this year. Northern NSW and QLD have had a mild spring, after a cold winter, with plenty of rain which has enabled them to keep flowering - yields were higher than expected. WA has also had good seasonal conditions, with recent rain improving the state's crops. Rains have enabled pulses to

recover from early frosts, and in Esperance the turnaround from June drought conditions is amazing.

SA, VIC and Southern NSW have not been as lucky; with little rain in spring the rain in late November was too late to improve yields, but just in time to delay harvest. Some crops have been un-harvestable. SA has fared better than VIC, while NSW has had a varied yield, with some crops not harvested and others receiving good rains.

Chickpea crops managed the fluctuating weather conditions the best. Yields are higher than expected, with 85% of harvest complete. Desi chickpeas are dominate in the north while the smaller Kabuli chickpeas were stronger in the south.

North America does not have as many chickpeas as originally hoped. Statistics Canada slashed its Canadian production estimate from 129,000/t in its September crop report to 81,000/t in its final estimate. Based on the earlier numbers, markets were surprised by the unwillingness of Canadian growers to sell chickpeas. Their attitude is now easier to understand, as the available supply of chickpeas in Canada drops from 226,000/t to 178,000/t, including 92,000/t of beans carried over from last season. In contrast to the Canadian attitude toward selling, Indian exporters have become more aggressive. Their willingness to sell is partly inspired by forecasts of a larger rabi season crop than last year. It is important to note that India will see a general improvement in the size of the rabi season pulse harvest, which should moderate import demand the first half of 2009. (ProFarmer)

Fears that fertiliser supply at risk if intervention occurs 12 Dec 08

Dramatic changes in fertiliser prices over the year have led to calls for government intervention and regulation of the fertiliser industry. With a senate inquiry finding that there have been corrupt trade practises in regards to price fixing, farming lobby groups have called for greater government regulation.

Fertiliser companies have defended their pricing practises with Incitec Pivot maintaining that there is substantial transparency in relation to fertiliser pricing – both internationally and domestically – and that the industry in Australia is highly competitive.

Growers are delaying making purchasing decisions. If government intervention was to be established, purchasing decisions would be further delayed. Gridlock could then occur in the supply chain, with orders coming in late and close to seeding. Australian fertiliser prices are slowing, coming down to match international prices. A poor season has been blamed for large stock piles of higher priced fertiliser. Farmers are holding out for the lower prices, which is delaying the speed at which lower prices can be passed on. Granular Urea basket price is currently USD\$240/t, a 24 month low. (ProFarmer)

Lamb on the rise 3 Dec 08

Rising lamb prices are driving a flood of new season lambs into Victorian saleyards and processors are getting edgy about winter supplies. So edgy that major lamb

processor Tatiara Meat Company, based at Bordertown in South Australia, is offering contracts of \$4.50 a kilogram for lambs delivered July-August.

Lamb yardings are up 31 per cent on last week and 14 per cent above this time last year, according to Meat and Livestock Australia's National Livestock Reporting Service. Despite this, saleyard prices reached record levels for this time of year, 23 per cent above the five-year average. At NLRs recorded sales, heavy lambs averaged almost 400 cents per kilogram nationally and hit 406c/kg in NSW.

The sustained jump in prices - propelled by failed crops, the availability of stubble feeds and a diminishing national flock - have some processors worried about securing supply come next winter. (Weekly Times)

NZ beef 'punching above its weight' 2 Dec 08

New Zealand grass-fed beef has a strong flavour compared with grain-fed beef common in other parts of the world, a McDonald's purchasing manager says. New Zealand beef is a premium product that is highly sought after in overseas markets, McDonald's Australia and New Zealand purchasing manager Arron Hoyle says.

Mr Hoyle has said New Zealand grass-fed beef had a strong flavour compared with grain-fed beef and was an excellent source of lean protein.

"From a global perspective New Zealand punches above its weight," he told more than 100 farmers at a Meat and Wool New Zealand Sheep and Beef Council field-day at Millers Flat last week.

Mr Hoyle buys New Zealand beef for hamburger chain McDonald's, which operates in 118 countries and serves more than 56 billion people per day.

Its sales typically exceed US\$55 billion per year while its food and paper spend amounts to about US\$20 billion annually.

Mr Hoyle said New Zealand beef was sold in 70 per cent of McDonald's 33,000 restaurants in 20 countries worldwide. "It is one of the most important countries in our global supply chain." Mr Hoyle said the outlook for beef was "pretty darn positive" because of strong demand.

However, the challenge for New Zealand farmers, who he described as the most innovative in the world, was to supply beef year round. "It is extremely difficult to source product in the winter."

Mr Hoyle also believed a good traceability system was essential for the New Zealand beef industry. "Our consumers are saying they want transparency, traceability and trust. "They want to know the burger they are eating is safe." (Fairfax)

Pilgrim's Pride seeks bankruptcy on high grain costs 2 Dec 08

Pilgrim's Pride Corp., the largest U.S. chicken producer, sought bankruptcy protection along with five affiliates after rising grain costs and a poultry surplus led to four consecutive quarterly losses.

The company, a supplier to Wal-Mart Stores Inc. and Yum! Brands Inc.'s KFC restaurants, listed assets of \$3.75 billion and debt of \$2.72 billion today in U.S. Bankruptcy Court in Ft. Worth, Texas. It said it will seek \$450 million in loans arranged by Bank of Montreal for operations during its reorganization.

The filing "was a necessary and prudent step and the best way to obtain the financing necessary to maintain regular operations and allow for a successful restructuring," Pilgrim's Pride Chief Executive Officer Clint Rivers said in a statement. Surging feed costs and dropping chicken prices helped lead to the collapse of Pilgrim's Pride, formed in 1946 when Aubrey Pilgrim and a partner, Pat Johns, bought a feed store for \$3,500.

The company took on debt and surpassed Tyson Foods Inc. in production in 2007 when it bought Atlanta-based Gold Kist Inc. for \$1.1 billion. Since Sept. 26, lenders agreed to waive certain conditions of its credit agreements until today.

Investment firms that own at least 5 percent of Pilgrim's Pride include London-based Prudential Plc unit M&G Investment Management Ltd., Boston-based Wellington Management Co. and Stamford, Connecticut-based SAC Capital Advisors LLC, according to court papers.

Pilgrim's Pride's debt includes \$400 million of unsecured claims and \$250 million of subordinated unsecured claims, the company said in bankruptcy documents. The company, with 47,900 workers in North America, had sales of \$8.5 billion in the 12 months ending Sept. 27, according to the filing.

Its pork-breeding operations and two insurance companies are owned by non-bankrupt affiliates. Its operations in Mexico, where it's the second-largest poultry producer, also aren't affected by the bankruptcy.

Pilgrim's Pride and other chicken producers have been reducing output to boost prices. Since March 5, when Rivers became CEO, he has cut processing capacity by 6.25 percent by either closing and idling plants, cutting 2,635 jobs. Rivers, 49, also sold the company's New Oxford, Pennsylvania, turkey-processing plant to Hain Celestial Group Inc., exiting the turkey business.

"The current operating environment is among the most difficult I've seen in my 27 years in this business," Rivers said on a May 5 conference call with analysts. "The federal government has helped spark a growing worldwide food crisis by mandating corn-based ethanol production at the expense of affordable food."

Rivers succeeded O.B. Goolsby Jr., who died in December 2007 after suffering a stroke. "It's an indication of the weak conditions in the chicken sector," Egan said of

the bankruptcy filing. "If you have operating losses, a reduction in the debt burden doesn't address the underlying problem." (Bloomberg)