



Commodity Comments

A Weekly Farm Publication by Jonah Bowles

Virginia Farm Bureau Federation, 12580 West Creek Parkway, Richmond, VA 23238
804-290-1117 • e-mail: Jonah.Bowles@vafb.com

January 27, 2009

To my darling husband,

Before you return from your business trip, I just want to let you know about the small accident I had when I turned into the driveway. It's not too bad and I really didn't get hurt, so please don't worry too much about me. I was coming home from Wal-Mart and when I turned into the driveway I accidentally pushed down on the accelerator instead of the brake. The garage door needed replacing anyway. Fortunately my car came to a halt when it bumped into your little car - I didn't know the body on a '63 Vette would shatter like that. I am really sorry, but I know with your kind-hearted personality you will forgive me. You know how much I love you and care for you my sweetheart. I cannot wait to hold you in my arms again.

Your loving wife.

P.S. Your girlfriend called.

IN THIS ISSUE

Prices Available Today
Basics of Basis
Consider This

PRICES AVAILABLE TODAY

The following prices are available on the various futures markets today - the same markets that determine local prices to producers and consumers. This information is freely found on the internet.

<u>Commodity</u>	<u>Delivery</u>	<u>1/26/10</u>	<u>1/19/10</u>	<u>\$ Chg</u>	<u>% Chg</u>	<u>Life Hi</u>	<u>Life Lo</u>
Corn	Mar-10	\$3.62	\$3.70	(\$0.08)	-2.2%	\$7.07	\$3.19
	Jul-10	\$3.83	\$3.89	(\$0.06)	-1.5%	\$7.12	\$3.37
	Dec-10	\$3.95	\$4.03	(\$0.08)	-2.0%	\$7.03	\$3.46
	Dec-11	\$4.10	\$4.26	(\$0.16)	-3.8%	\$6.54	\$3.79
Soybeans	Mar-10	\$9.47	\$9.65	(\$0.18)	-1.9%	\$15.60	\$8.14
	Jul-10	\$9.64	\$9.83	(\$0.19)	-1.9%	\$15.20	\$8.73
	Nov-10	\$9.31	\$9.41	(\$0.10)	-1.1%	\$15.39	\$8.17
	Nov-11	\$9.46	\$9.51	(\$0.05)	-0.5%	\$15.12	\$8.40
Wheat	Mar-10	\$4.93	\$5.01	(\$0.08)	-1.6%	\$8.76	\$4.60
	May-10	\$5.08	\$5.14	(\$0.06)	-1.2%	\$6.56	\$4.74
	Jul-10	\$5.18	\$5.27	(\$0.09)	-1.7%	\$11.13	\$4.86
	Jul-11	\$6.00	\$6.10	(\$0.10)	-1.6%	\$9.40	\$5.89
Cotton	Mar-10	\$70.08	\$71.64	(\$1.56)	-2.2%	\$84.00	\$49.67
	Dec-10	\$71.75	\$73.32	(\$1.57)	-2.1%	\$100.50	\$53.87
	Dec-11	\$75.81	\$77.02	(\$1.21)	-1.6%	\$81.00	\$70.60
Feeders	Apr-10	\$100.40	\$100.30	\$0.10	0.1%	\$102.25	\$93.00
	Aug-10	\$102.20	\$101.85	\$0.35	0.3%	\$102.90	\$96.70
	Oct-10	\$101.75	\$100.50	\$1.25	1.2%	\$100.90	\$97.20
Live Cattle	Apr-10	\$89.30	\$91.20	(\$1.90)	-2.1%	\$95.15	\$85.07
	Aug-10	\$87.12	\$87.90	(\$0.78)	-0.9%	\$91.15	\$83.50
	Oct-10	\$89.65	\$90.35	(\$0.70)	-0.8%	\$91.65	\$86.77
Lean Hogs	Apr-10	\$68.70	\$74.10	(\$5.40)	-7.3%	\$75.50	\$53.90
	Aug-10	\$74.30	\$78.75	(\$4.45)	-5.7%	\$78.75	\$61.60
	Dec-10	\$63.00	\$67.55	(\$4.55)	-6.7%	\$69.70	\$57.50
Class III Milk	Mar-10	\$13.95	\$14.76	(\$0.81)	-5.5%	\$15.47	\$14.05
	Jun-10	\$14.91	\$15.64	(\$0.73)	-4.7%	\$15.70	\$14.78
Crude Oil	Mar-10	\$74.18	\$78.75	(\$4.57)	-5.8%	\$141.30	\$65.35
US Dollar	Mar-10	78.61	77.65	0.96	1.2%	80.00	74.30

BASICS OF BASIS

The most commonly asked question in recent past (years) has been, 'When will the basis improve?' The answer is not obvious to everyone, but it is when prices come down.

Everyone wants to beat up on the cash merchandiser. After all, by definition they are the ones who set the local basis. Producers have blamed them for local prices not keeping up with the board. Even the US Congress has called emergency meetings to see what can be done about the lack of convergence between cash markets and futures markets.

Basis is the only means by which the consuming market can express their demand for a product at a price level. Generally speaking, the relationship between basis and the underlying futures contract will remain steady. Therefore, the higher the commodity price goes, the wider the basis will be. At some point when the speculators have traded prices far above common sense, the demand for that product loses all of its credibility and the basis loses value at an even greater rate.

In past years a normal harvest basis for Chicago wheat in central Virginia has been \$.35-\$.45 under the July futures. That equated to 8%-10% for \$3.50-\$4.00 wheat. In 2008 when wheat traded to \$16.00, the basis widened to \$2.50 under Chicago - 16% under the futures. In some cases merchandisers wouldn't even quote a basis for fear of upsetting their customers. The market did not support cash values anywhere near the Chicago futures.









Cash values do not rise as quickly as futures and cash values are not lost as quickly as futures fall. Basis levels for corn, wheat and soybeans have improved as the markets have fallen from their highs.

Merchandisers are not the culprit with declining basis. They can only offer what they are offered.

CONSIDER THIS

Consider commissions paid. I have said all along that they do not make or break the profitability of futures hedging, but why pay more than you have to?

Everyone wants to get the best value for the cost, but there are a number of considerations for both the broker and the customer –

-  Commissions are negotiable. The more you trade, the lower you can negotiate your rate. The opposite is true.
-  Commissions are per/contract, regardless of the number.
-  Some firms charge commission when the position is opened; some charge when the position is closed out; and some charge half on each transaction.
-  There are spread rates for those who trade spreads. It is not twice the commission of a single side trade. If you are being charged double commission for a spread the broker is making twice the income from you without twice the cost. Spread brokers do not charge the broker twice the cost to execute the trade.
-  Brokers (individually) have responsibility for your trading and the orders that they enter on your behalf. They are human and can make honest mistakes that can become hugely expensive to them. If the commission rate you pay is very low, you become an income source, but also a potential liability.
-  Be willing to pay for what you expect from you broker. He/she also believe their time is valuable.
-  Think about this – one customer pays \$50 round-turn and another has negotiated (beat up his broker) rates down to \$12. When there is important information to pass on to clients, which one gets called first?
-  \$50 is a fair commission rate for both broker and client. Its one penny per bushel; its one tenth of a cent per pound for feeder cattle.

If you pay a high commission, don't tell your broker I said any of this.

C Z0 [10] - CORN (DAY) LAST: 395'2 CHANGE: ▼ 44 HIGH: 400'0 LOW: 393'4 1/26/2010



S X0 [10] - SOYBEANS (DAY) LAST: 927'0 CHANGE: 1'4 HIGH: 934'0 LOW: 918'0 1/26/2010



W N0 [10] - WHEAT (DAY) LAST: 516'0 CHANGE: ▼ 7'4 HIGH: 518'0 LOW: 516'0 1/26/2010



CT Z0 [30] - COTTON LAST: 71.56 CHANGE: ▼ 0.45 HIGH: 72.20 LOW: 71.56 1/26/2010



FC J0 [10] - FEEDER CATTLE LAST: 100.4 CHANGE: ▲ 0.4 HIGH: 100.4 LOW: 99.8 1/26/2010



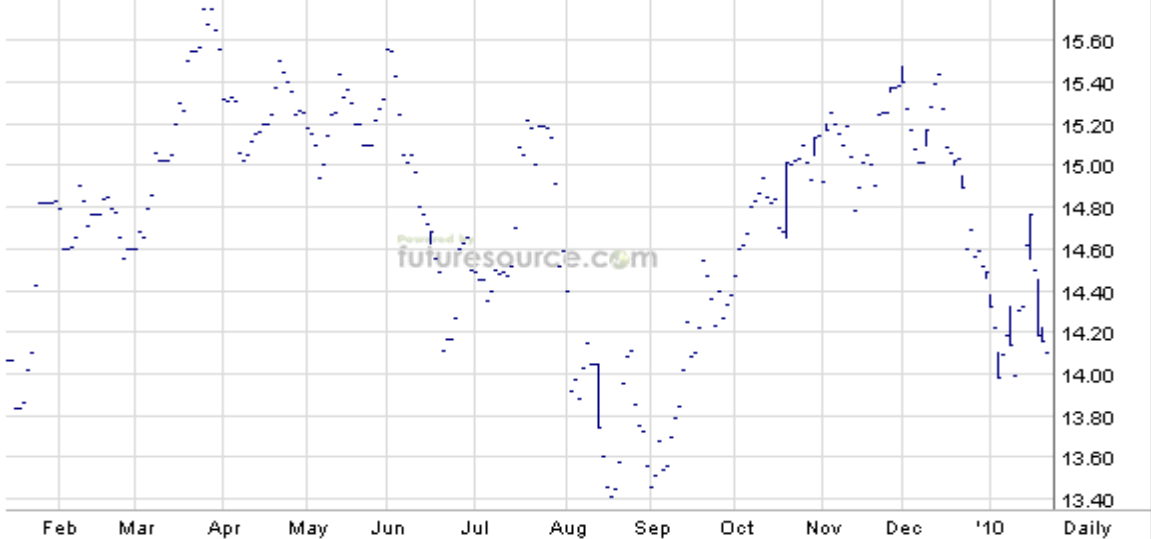
LC J0 [10] - LIVE CATTLE LAST: 89.30 CHANGE: ▼ 0.88 HIGH: 89.75 LOW: 89.30 1/26/2010



LH J0 [10] - LEAN HOG LAST: 68.70 CHANGE: ▼ 1.80 HIGH: 69.75 LOW: 68.58 1/26/2010



DA HO [10] - MILK CLASS III LAST: CHANGE: HIGH: LOW: 1/26/2010



CL HO [10] - LIGHT CRUDE OIL LAST: 74.69 CHANGE: ▼ 0.57 HIGH: 75.39 LOW: 73.82 1/26/2010



DX HO [30] - US DOLLAR INDEX LAST: 78.59 CHANGE: ▲ 0.24 HIGH: 78.84 LOW: 78.24 1/26/2010



DJ HO [10] - DOW JONES INDUS.(DAY)-\$10 LAST: 10234 CHANGE: ▲ 94 1/26/2010



PRODUCER MEETINGS AVAILABLE

Crop insurance decisions will be made soon. If you would like to learn how those products can be used in concert with other methods, let me know and we can schedule informal producer meetings in a local Farm Bureau office – lunch or dinner can be provided.

 January 29 – Bowling Green – Rappahannock Grain Conf.

 February 4 – Chesapeake, VA – SE VA Field Crop Conference

 February 18 – Williamsburg, VA – VA Crop Improvement Assoc.

 February 25 – Franklin, VA – VA Cotton Growers Annual Mtg.

 March 4, – Dinwiddie, VA – Risk Mgt./Crop Insurance

 March 3,4 – Norfolk, VA – Agricultural Trade Conference