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Corn, soya decline as rising dollar cuts commodity allure

Speculators, investors cut agricultural holdings

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Corn fell the most in almost two weeks as the dollar approached a seven-month high, reducing the appeal of commodities as an investment hedge against inflation. Soyabean also dropped.

The dollar rose as much as 0.8 per cent against a basket of currencies including the euro and yen, heading for its fifth straight weekly gain, on signs that an economic slowdown may reduce demand for raw materials. Investors and speculators have cut their agricultural holdings, as the number of open corn contracts on the Chicago Board of Trade dropped 21 per cent since late February and soybean contracts slumped 36 per cent.

"It is about unwinding all these trades," said Mr Thomas Uhlmann, a floor broker for Penson GHCO in Chicago. "Open interest is plummeting" because the surge in China's economic growth that boosted raw-material demand before the Olympics is now over, he said.

Corn futures for December delivery fell 27.75 cents, or 4.8 per cent, to $5.495 a bushel on the Chicago Board of Trade, the biggest decline since Aug. 4, after gaining 12 per cent in the previous three days. Earlier, futures fell the exchange limit of 30 cents a bushel.

Corn still rose 6 per cent for the week, after tumbling for six straight weeks since reaching a record $7.9925 on June 27. Corn touched $5.045 on Aug. 12, the lowest since Feb. 14.

BIGGEST DROP

Soyabean futures for November delivery fell 55 cents, or 4.3 per cent, to $12.19 a bushel in Chicago, the second straight decline and the biggest drop since August 8. Earlier, the price fell the 70-cent maximum allowed by the exchange.

The price still rose 3.3 per cent for the week, after falling for five straight weeks. The most-active contract dropped to $11.68 on Aug. 11, the lowest since April 1, and is down 26 per cent since reaching a record $16.3675 on July 3.

Commodities, as measured by the UBS Bloomberg CMCI Index of 26 raw materials, have advanced for six consecutive years, bolstered by demand from China, the world's largest consumer of grains and biggest importer of soyabeans. The index, which on August 12 fell to the lowest since March 20, is down 18 per cent since a record on July 3.

Soyabean prices also fell on speculation Chinese buyers may cancel earlier purchases of the oilseed and of vegetable oil because domestic prices are falling faster than international prices.

Traders in China, the world's biggest oilseed consumer, cancelled orders for almost 150,000 tonnes of palm oil and some soyabeans on weak domestic demand and plunging prices, an agricultural market researcher said.

"It appears that China has likely overbooked their needs to fight internal food inflation, and now that prices are falling, they are able to back out of some of these purchase.,"

CHINESE CANCELLATIONS

In the past two weeks, some of the biggest dealers in China have declined to take delivery of palm-oil shipments and sold back five cargoes of soyabeans, said Mr Gao Yingbin, an analyst at the China Cereals and Oils Business Net.

It is common for smaller buyers to ditch cargoes when prices drop, a process called "washout," and it happened last month as well, Mr Gao said. "Now it's happening to some of the big traders, who are probably trying to recover their losses on the futures market."

Vegetable oils dropped on China's Dalian Commodity Exchange. Soyabean oil fell 278 yuan, or 3.2 per cent, to close at 8,418 yuan ($1,225) a tonne, after earlier losing as much as 4.8 per cent to a 10-month low. The price has fallen 42 per cent since reaching a record in March.

Palm oil for January delivery fell 4.2 per cent to 7,488 yuan a tonne, down 28 per cent in the past month.

US exporters reported overseas buyers cancelled more soyabean cargoes than they purchased during the week ended Aug. 7, the US Department of Agriculture said in a report. Cancellations exceeded new purchases by 49,700 tonnes, including 56,300 tonnes cancelled by China.

"It appears that China has likely overbooked their needs to fight internal food inflation, and now that prices are falling, they are able to back out of some of these purchases," said Mr James Gerlach, president of A/C Trading Inc. in Fowler, Indiana.

Soyabean-oil futures for December delivery fell 2.07 cents, or 3.9 per cent, to 50.83 cents a pound in Chicago after earlier falling to 50.41, the lowest since April 1. The price fell 1.3 per cent for the week, the fifth straight weekly decline. The most-active futures have fallen 30 per cent since reaching a record 72.69 cents on March 4.

GOLD DROPS 4.5%

Gold futures fell as much as 4.5 per cent to $777.70 an ounce, the lowest since Nov. 20 on the COMEX division of the New York Mercantile Exchange, before closing at $792.10. The metal fell 8.4 per cent for the week, the biggest such decline since February 1983.

Silver lost as much as 14 per cent, dropping to the lowest price since Sept. 5, before closing down 10 per cent at $12.93 an ounce, the biggest drop in more than two years.

"There's a perception that demand for commodities might be weakening," Mr David Jollie, editor of Johnson Matthey Plc's publication on platinum-group metals, said today by telephone from Royston, England. "North America and Western Europe are struggling, but the emerging economies remain strong."

GASOLINE DEMAND

Crude oil for September delivery dropped as much as $3.67, or 3.2 per cent, to $111.34 a barrel on the NYMEX, and closed at $113.77. Gasoline demand was down 2.1 per cent in the first seven months of the year as record prices and slower economic growth cut consumer spending, the American Petroleum Institute said on Aug. 13.

Oil's drop of 23 per cent since reaching a record $147.27 on July 11 should help slow inflation a "great deal," Federal Reserve Bank of Atlanta President Mr Dennis Lockhart said in a Bloomberg Television interview