

Summary of overnight US trading session

Symbol	Market	Settlement	24hr change	24hr change %	Open*	Low*	High*
INDU Index	DOW JONES INDUS. AVG	12197.88	22.71	0.00	12221.19	12197.88	12272.92
SPX Index	S&P 500 INDEX	1310.19	3.61	0.00	1315.45	1310.19	1319.74
NDX Index	NASDAQ 100 STOCK INDX	2303.1	13.26	0.01	2325.13	2303.06	2326.12
VIX Index	CBOE SPX VOLATILITY INDX	19.44	1.53	0.09	18.31	17.96	19.44
GCJ1 Comdty	GOLD 100 OZ FUTR Apr11	1420.6	0.70	0.00	1421	1419.5	1422.9
SIA Comdty	SILVER FUTURE May11	37.110	0.022	0.00	37.17	37.085	37.25
CLA Comdty	WTI CRUDE FUTURE May11	103.78	0.20	0.00	103.94	103.65	104
NGJ1 Comdty	NATURAL GAS FUTR Apr11	4.347	0.027	0.01	4.333	4.333	4.349
HOJ1 Comdty	HEATING OIL FUTR Apr11	302.41	0.08	0.00	302.25	302.07	302.41
W K1 Comdty	WHEAT FUTURE(CBT) May11	722.500	2.750	0.00	723.75	721.25	724
C K1 Comdty	CORN FUTURE May11	669.750	1.250	0.00	671	667.75	671.25
S K1 Comdty	SOYBEAN FUTURE May11	1343.500	5.000	0.00	1345.250	1341.000	1346.500
KCK1 Comdty	COFFEE 'C' FUTURE May11	263.95	4.65	0.02	269.6	263.05	269.7
JOK1 Comdty	FCOJ-A FUTURE May11	162.5	0.05	0.00	162.4	159.55	164.4
CCK1 Comdty	COCOA FUTURE May11	3248	6.00	0.00	3201	3201	3274
SBK1 Comdty	SUGAR #11 (WORLD) May11	27.05	0.81	0.03	27.8	26.8	28
CTK1 Comdty	COTTON NO.2 FUTR May11	197.49	7.00	0.03	202.89	197.49	204
LCJ1 Comdty	LIVE CATTLE FUTR Apr11	117.775	0.17	0.00	117.850	117.775	117.875
DX Index	DOLLAR INDEX SPOT	76.2	0.05	0.00	76.301	76.034	76.43501

US Stocks

U.S. stocks fell, erasing the Standard & Poor's 500 Index's gain in the final 20 minutes of trading, as Marriott International Inc. led consumer shares lower and concern grew that Japan is failing to contain hazardous materials at its damaged nuclear plant. Marriott lost 6.3 percent after the largest U.S. hotel chain said revenue growth is being held back by weak North American demand. Starwood Hotels & Resorts Worldwide Inc. slumped 5.7 percent. eBay Inc. slipped 4.3 percent after announcing a \$2.4 billion takeover of GSI Commerce Inc. Goodyear Tire & Rubber Co. fell 5.7 percent as it sold preferred stock. RadioShack Corp. rallied 5 percent, the most in the S&P 500, after saying it will sell Apple Inc.'s iPad 2 starting tomorrow. The S&P 500 lost 0.3 percent to 1,310.19 at 4 p.m. in New York after climbing as much as 0.5 percent earlier. The Dow Jones Industrial Average decreased 22.71 points, or 0.2 percent, to 12,197.88. Trading volume on U.S. exchanges totaled 5.96 billion shares, the lowest since Dec. 31. "I'd expect the market would struggle more, particularly with unknowns, not only in Japan, but all across the Mideast and north Africa," said Bruce Bittles, chief investment strategist at Milwaukee-based Robert W. Baird & Co., which oversees \$85 billion. "There's a lot of uncertainty out there." Equities rallied earlier, sending the Dow average 52.33 points higher, after consumer spending and sales of existing homes topped projections. Stock indexes dropped as radiation levels that can prove fatal were detected outside reactor buildings at Japan's Fukushima Dai-Ichi plant.

Consumer spending increased 0.7 percent, the most since October, to beat the 0.5 percent median forecast in a Bloomberg survey of economists, Commerce Department figures showed. Incomes rose 0.3 percent, less than projected. The index of pending home resales increased 2.1 percent after a 2.8 percent drop the prior month, according to the National Association of Realtors. Policy makers should review whether to complete a second round of asset purchases scheduled to end in June because of

strong U.S. economic data, Fed Bank of St. Louis President James Bullard said to reporters in Marseille, France, on March 26. Philadelphia Fed President Charles Plosser and Richmond Fed President Jeffrey Lacker have also urged a review of the stimulus measures in light of a strengthening economy and concern over future inflation.

U.S. equities fell on concern that Japan is failing to contain hazardous materials at the damaged Fukushima Dai-Ichi plant. The discovery of plutonium particles outside the plant north of Tokyo means there has been degradation of the nuclear fuel in at least one of the reactors, International Atomic Energy Agency Deputy Director General of Safety Denis Flory said today at a press briefing in Vienna. Nine out of 10 industry groups in the S&P 500 fell, led by an index of companies dependent on discretionary spending by consumers, which slid 1.1 percent. Marriott tumbled 6.3 percent to \$35.30 for the biggest drop in the S&P 500. The company expects first-quarter revenue per available room to rise about 7 percent, at the low end of the company's forecast of 7 percent to 9 percent, as North American demand has been below expectations, the hotel chain said. Starwood, the owner of the St. Regis and W hotel brands, slid 5.7 percent to \$55.37.

EBay fell 4.3 percent to \$30.34 after the owner of the largest e-commerce market agreed to buy GSI for about \$2.4 billion to add services that help retailers market and distribute wares. GSI investors will get \$29.25 a share in cash, San Jose, California-based EBay said today in a statement. Goodyear Tire lost 5.7 percent to \$14.57 after the largest U.S. tiremaker said it started a public offering of \$435 million of mandatory convertible preferred stock. RadioShack surged 5 percent to \$15.01. The electronics retailer will start selling Apple Inc.'s iPad2 tablet computer tomorrow at 500 locations. Stifel Nicolaus raised the Fort Worth, Texas-company to a "buy" from a "hold" with a forecast price of \$21. Some energy companies surged, as Bank of America Corp. said oilfield activity will accelerate in Saudi Arabia. "A rapid increase in Middle East activity is imminent," according to a Bank of America note today, which "could cause pricing power to shift to oil service companies."

Schlumberger Ltd., the world's largest oilfield contractor, climbed 4.1 percent to \$90.43 for the second-biggest gain in the S&P 500. The Houston-based company was awarded \$100 million in contracts in Iraq. The impact from disruptions from Middle East as well as weather will be 8 cents a share to 10 cents a share, Chief Executive Officer Andrew Gould said at Howard Weil Inc.'s energy conference in New Orleans. Halliburton Co., the world's second-largest oilfield- services provider, jumped 4 percent to \$47.90 for the third- largest increase in the S&P 500. Baker Hughes Inc. climbed 3.8 percent to \$73.76. Eastman Kodak Co. jumped 5.3 percent to \$3.58 after the U.S. International Trade Commission said it will review a judge's findings from January that Apple Inc.'s iPhone and Research In Motion Ltd.'s BlackBerry don't violate Kodak's patent on a way to preview digital images using less processing power and storage space. The victory may add more than \$1 billion in revenue from royalty payments, Kodak Chairman and Chief Executive Officer Antonio Perez said in an interview. AT&T Inc. rose 1.8 percent to \$29.36 to help lead telephone companies in the S&P 500 to a 1.4 percent advance, the only gain among 10 groups. Robert Baird raised the shares to "outperform" from "neutral." AT&T may rally as much as 15 percent in the next year if the acquisition of T-Mobile USA is approved, Barron's reported. The company plans to expand 4G wireless to cover 95 percent of the U.S., up from 80 percent, after the proposed \$39 billion takeover, Barron's reported.

Shares of the following companies may have unusual moves in U.S. trading tomorrow. Stock symbols are in parentheses, and prices are as of 6:12 p.m. in New York. Standard & Poor's 500 Index futures expiring in June rose 0.1 percent to 1,302.90.

Energy Transfer Partners LP (ETP US) fell 2.5 percent to \$50.50. The owner of gas pipelines began a sale of 11.8 million common units.

GSI Group Inc. (GSIG US) rose 3.8 percent to \$12.30. The provider of laser-based systems to industrial companies reported fourth-quarter sales of \$91.6 million, matching the estimate of an analyst in a Bloomberg survey.

Halliburton Co. (HAL US) dropped 2.1 percent to \$46.90. The world's second-largest oilfield-services provider said disruptions in the Middle East and North Africa will "severely" affect first-quarter results,

reducing earnings in the range of 3 cents to 4 cents a share. It also said first- quarter earnings will face seasonal declines.

Hertz Global Holdings Inc. (HTZ US) slid 3.3 percent to \$15.73. The car-rental company estimated a first-quarter adjusted net loss of between \$17.3 million and \$22.2 million as worldwide car rental revenue was hit by winter storms.

InterDigital Inc. (IDCC US) declined 2.7 percent to \$43.15. The designer of mobile-phone technology said it will offer \$150 million in senior convertible notes to fund a hedge.

Lululemon Athletica Inc. (LULU US) rose 1.4 percent to \$86.47. The board of directors of the athletic clothing company approved a 2-for-1 stock split.

OCZ Technology Group Inc. (OCZ US) surged 11 percent to \$8.60. The manufacturer of enterprise and consumer solid state drives said 2011 revenue would range between \$300 million and \$330 million after completing the acquisition of Indilinx Co., a provider of flash controller semiconductors and firmware for solid state drives.

PharmAthene Inc. (PIP US) tumbled 4.1 percent to \$3.30. the developer of biological and chemical defense products reported a fourth-quarter loss of 41 cents a share excluding some items, wider than the average estimate in a Bloomberg analyst survey of a loss of 10 cents a share.

Phillips-Van Heusen Corp. (PVH US) climbed 3 percent to \$61.95. The clothing maker reported fourth-quarter profit of 93 cents a share excluding some items, beating the 82 cent average of estimates in a Bloomberg survey.

Progress Software Corp. (PRGS US) dropped 2.1 percent to \$28.55. The maker of business programs said second-quarter profit would be 41 cents a share to 43 cents a share. Analysts estimated a profit of 43 cents a share on average.

### Precious Metals

Gold prices fell for the third straight session as signs the U.S. economy is improving drove U.S. equities higher, eroding demand for the metal as an alternative investment. U.S. consumers increased spending more than forecast in February as incomes climbed, government figures showed today, and an index of pending home resales unexpectedly increased. The economy grew at a 3.1 percent annual rate in the fourth quarter, revised up from 2.8 percent estimated last month, data showed last week. On March 24, gold futures rose to a record of \$1,448.60 an ounce on turmoil in Japan and the Middle East. "The U.S. numbers have not been all that awful," said Afshin Nabavi, a senior vice president at MKS Finance SA, a bullion refiner in Geneva. "The market has had a huge move up, and the higher we go up, the more chance of a bigger correction." Gold futures for June delivery fell \$6.30, or 0.4 percent, to settle at \$1,421.30 at 1:30 p.m. on the Comex in New York. This quarter, prices are little changed after gaining in the previous nine quarters. The Dow Jones Industrial Average rose for the fourth straight session, and Treasury two-year yields gained. "The strong U.S. economic data provided some investors with a good excuse to take profit after gold hit a record," said Hwang Il Doo, a senior trader at Korea Exchange Bank Futures Co. in Seoul. "Bullion can soon resume the rally since there are many uncertainties lingering: the euro zone debt problems and the Middle East unrest, as well as the fallout from the Japanese earthquake." Silver futures for May delivery rose 3.9 cents, or 0.1 percent, to \$37.088 an ounce. The price headed for the ninth straight quarterly gain. Palladium futures for June delivery dropped \$4.70, or 0.6 percent, to \$745.70 an ounce. Platinum futures for July delivery rose \$2.40, or 0.1 percent, to \$1,752.10 an ounce.

### Energy

Oil fell for a third day in New York on speculation that territorial gains by Libyan rebels may speed up a resolution to the country's armed conflict. Futures declined 1.4 percent after insurgents recaptured the

Libyan oil port of Ras Lanuf yesterday while allied warplanes began airstrikes on the capital, Tripoli. Qatar, an OPEC member like Libya, recognized the rebel council as the sole representative of the Libyan people, following a similar move by France earlier this month. "Today's action is driven by the talk that the Libyan rebels have secured eastern Libya," said Bill O'Grady, chief market strategist at Confluence Investment Management in St. Louis. "One of the ways you can support eastern Libya would be to allow them to export oil." Crude for May delivery fell \$1.42 to settle at \$103.98 a barrel on the New York Mercantile Exchange. Earlier, futures touched \$103.60. Oil's three-day decline is the longest drop since a four-day retreat through March 11. Prices have gained 30 percent in the past year. Brent crude for May settlement slipped 96 cents to \$114.63 a barrel on the London-based ICE Futures Europe exchange. Qatar has agreed to market crude from east Libyan fields which are no longer in control of Libyan leader Muammar Qaddafi, a senior Libyan rebel official told Reuters yesterday.

The oil market is "well supplied" and there is no need to compensate for a decline in Libya's output, Algerian Oil Minister Youcef Yousfi said in an interview in Algiers. Algeria is a member of the Organization of Petroleum Exporting Countries. Current prices are "not driven by fundamentals," Ali Al-Yabhouni, the OPEC governor from the United Arab Emirates, told reporters in Abu Dhabi today. Crude has climbed 23 percent in New York since anti-government protests began Feb. 15 in Libya. The conflict is the bloodiest in uprisings that have unseated the presidents of Tunisia and Egypt and spread to Algeria, Bahrain, Iran, Oman, Syria and Yemen. Bullish bets by hedge funds and other large speculators on crude oil rose 5.9 percent in the seven days ended March 22 to 286,812 futures and options combined, according to the Commodity Futures Trading Commission's weekly Commitments of Traders report March 25. Libyan rebel forces advanced westward with support from NATO air strikes on Sirte, the hometown of Qaddafi, hours after the Western alliance agreed to take over command of military operations from the U.S. The rebels were fighting within 100 kilometers (60 miles) of Sirte, and their scouts reported that the road ahead was heavily mined, the Associated Press said.

"The gains by the anti-Qaddafi rebels are a good explanation for the short-term weakness," said Christopher Bellew, senior broker at Bache Commodities Ltd. in London. Oil also fell after St. Louis Federal Reserve Bank President James Bullard said policy makers should review whether to curtail a plan to buy \$600 billion in Treasury securities, noting that the U.S. economic recovery may not require that much stimulus. The measure is known as quantitative easing, or, in its second round, as QE2. "The economy is looking pretty good," Bullard told reporters in Marseille on March 26. "It is still reasonable to review QE2 in the coming meetings, especially this April meeting, and see if we want to decide to finish the program or stop a little bit short." Bullard also said oil prices at current levels aren't enough to derail the recovery.

Bullard "is not even a voting Fed member, but they still have influence," said Kyle Cooper, director of research for IAF Advisors in Houston, who attributed some of today's decline in oil prices to the remarks. Oil at "\$104 is still not weak and is still rather pricey." Crude pared declines after reports showed consumer spending in the U.S. rose more than forecast in February as incomes climbed, helping to bolster the expansion in the world's largest economy. The number of Americans signing contracts to buy previously owned homes in February also increased. Purchases increased 0.7 percent, the most since October, after advancing 0.3 percent the prior month, Commerce Department figures showed today in Washington. The index of pending home resales gained 2.1 percent after a 2.8 percent drop the prior month, figures from the National Association of Realtors showed today in Washington. The median estimate in a Bloomberg News survey of economists called for little change. Oil volume in electronic trading on the Nymex was 341,438 contracts as of 2:38 p.m. in New York. Volume totaled 433,173 contracts March 25, 46 percent below the average of the past three months and the lowest level this year. Open interest was 1.52 million contracts.

Hedge funds raised bets on natural gas by the most in three months as colder-than-normal weather in the U.S. and expectations for increased demand from Japan stoked speculation that demand for the heating fuel will increase. Funds and other large speculators boosted net-long positions, or wagers on rising prices, by 49,151 contracts in the seven days ended March 22, according to the Commodity Futures Trading Commission's weekly Commitments of Traders report. The gain was the biggest since Jan. 4 and net-long positions exceeded shorts for the first time since February. Fuel prices advanced on three of the five trading days through March 22 as meteorologists predicted below-normal temperatures in the

eastern and central U.S. The earthquake and tsunami in Japan on March 11, which knocked out a quarter of the country's nuclear power-generating capacity, also lifted prices on expectations of more demand for liquefied natural gas. "The weather is responsible for the increase to a certain extent," said John Kilduff, a partner at Again Capital LLC, a New York-based hedge fund that focuses on energy. "We're also seeing a Japan play. The Japanese nuclear shutdowns are going to lead to increased demand for LNG, which is raising prices both globally and locally." Natural gas jumped 7.9 percent from March 15 through March 22, when it settled at \$4.254 per million British thermal units on the New York Mercantile Exchange, the highest since Feb. 4. It rose 0.1 percent to \$4.408 at 7 a.m. today in New York.

Colder-than-normal weather is likely in the Northeast and Great Lakes region through April 4, Commodity Weather Group in Bethesda, Maryland, said in a March 21 note. Temperatures may be as much as 8 degrees below normal, the forecaster said. Temperatures in New York may fall to 34 degrees Fahrenheit (1 Celsius) on March 29, 5 degrees below normal, according to AccuWeather Inc. in State College, Pennsylvania. The decline in Chicago may reach 25 degrees, 10 below normal. Heating demand across the U.S. may be 30 percent above normal from March 27 through March 30, David Salmon, a meteorologist with Weather Derivatives in Belton, Missouri, said in a report March 21. About 52 percent of the nation's households use natural gas for heating, according to the Energy Department in Washington. Colder weather has left end-of-season gas inventories below analysts' expectations, said Kyle Cooper, director of research for IAF Advisors in Houston. Stockpiles may total 1.549 trillion cubic feet by the end of the winter heating season on March 31, according to the Energy Department. Last year, inventories were 1.665 trillion as of April 1, department data show.

Stockpiles totaled 1.612 trillion cubic feet in the week ended March 18, 2.2 percent above the five-year average and 0.7 percent below last year's level. "At the beginning of the winter, a lot of folks were saying we'd end up with 2 trillion cubic feet in storage," Cooper said. "We've definitely had some indicators turn more bullish." The Japanese earthquake and resulting tsunami disabled about 25 percent of the nation's nuclear power capacity, according to Goldman Sachs Group Inc. The country boosted spot imports of LNG from the Atlantic Basin fivefold after a 2007 earthquake shut the Kashiwazaki-Kariwa nuclear plant. Japan may need to import as much as 1.5 million metric tons of LNG scheduled for the Atlantic Basin to meet additional demand of 4.1 million tons, Bank of America Merrill Lynch said in a March 22 note. Japan is the biggest user of LNG, accounting for 35 percent of global trade in 2009, according to BP Plc.

Net-long positions in natural gas held by managed money, including hedge funds, commodity pools and commodity-trading advisers, in futures and options combined in four contracts increased to 34,924 in the week ended March 22, the CFTC data showed. The speculators were net short natural gas by 14,227 futures and options combined in the week earlier. The measure of net longs includes an index of four contracts adjusted to futures equivalents: Nymex natural gas futures, Nymex Henry Hub Swaps, Nymex Henry Hub Penultimate Swaps and ICE Henry Hub Swaps. Henry Hub, in Erath, Louisiana, is the delivery point for Nymex futures, a benchmark price for the fuel. In other markets, bullish bets on crude oil rose 5.9 percent to 286,812 futures and options combined, the CFTC said. Net-long bets on heating oil climbed 5 percent to 35,650, while those in gasoline increased 2.8 percent to 58,096, the data showed.

## Grains

Corn fell to a one-week low and wheat dropped on speculation that U.S. grain exports will trail expectations, and that farmers will boost acreage to take advantage of higher prices. The Department of Agriculture didn't report any foreign purchases of corn or wheat today, after saying March 25 that the U.S. sold 1.25 million metric tons of corn to unknown buyers. Traders speculated the corn was for China. The USDA on March 31 may forecast the second-largest corn plantings since 1944 and a rebound in wheat acres after the grains surged more than 56 percent in the past year, according to a Bloomberg News survey. "Everyone is expecting an announcement about China, and if that doesn't happen, that's probably bearish," said Tomm Pfitzenmaier, a partner at Summit Commodity Brokerage in Des Moines, Iowa. In addition, "there's always the prospect of a bearish surprise lurking in Thursday morning's report," he said. Corn futures for May delivery fell 18.5 cents, or 2.7 percent, to settle at \$6.71 a bushel at 1:15 p.m. on the Chicago Board of Trade. Earlier, the price touched \$6.6825, the lowest since March 18. The grain

climbed to \$7.4425 on Feb. 22, the highest since July 2008, after the USDA said domestic supplies before the harvest would fall to the lowest since 1996. Wheat futures for May delivery slid 8 cents, or 1.1 percent, to \$7.2525 a bushel. Prices were up 1.4 percent last week. Corn has jumped 6.7 percent this quarter, while wheat dropped 8.7 percent. U.S. farmers may plant 4 percent more corn this year than in 2010, according to a Bloomberg survey of 32 analysts. Wheat acres may rebound from a 40-year low, and soybean planting may drop 0.8 percent, the survey showed. Corn is the biggest U.S. crop, valued at \$66.7 billion in 2010, government figures show. Soybeans ranked second at \$38.9 billion, and wheat was fourth at \$13 billion, behind hay. The U.S. is the largest exporter of corn, wheat and soybeans.

## Softs

Cotton prices tumbled the most allowed by ICE Futures U.S. on speculation that global production will climb. Farmers in the U.S., the world's biggest cotton exporter, may boost planting by 20 percent this year after prices jumped to a record, a Bloomberg News survey showed last week. The Department of Agriculture will release a survey-based forecast for acreage on March 31. Global production may rise to an all-time high of 27.6 million metric tons in the year starting Aug. 1, the International Cotton Advisory Committee has said. "Traders anticipate that the USDA could show more cotton to be planted," Jack Scoville, a vice president at Price Futures Group Inc. in Chicago, said in a report. Cotton for May delivery dropped by the daily limit of 7 cents, or 3.4 percent, to settle at \$1.9749 a pound at 2:52 p.m. on ICE in New York, the biggest drop since March 15. The fiber has more than doubled in the past year, reaching a record of \$2.197 on March 7. The fiber may plunge to \$1 by Dec. 31, according to the median in a Bloomberg survey of 14 analysts and traders. "We are probably in a topping-out process for prices," said Peter Egli, the director of risk management in Chicago at Plexus Cotton Ltd., a U.K.-based merchant. "Prices for the upcoming crop are already much lower." In the week ended March 22, hedge funds and money managers reduced bets on higher cotton futures for the seventh straight week, government data show.

Raw sugar fell, heading for the biggest quarterly drop in a year, on signs output may rise in Thailand, the world's second-largest exporter. Cocoa and orange juice gained, while coffee declined. Sugar output in Thailand climbed almost 12 percent to 7.573 million metric tons in the season through March 20 and may reach a record this year, German research-company F.O. Licht said today. Prices have slumped 16 percent this quarter. "News from Thailand is affecting the market," said Sterling Smith, an analyst at Country Hedging in St. Paul, Minnesota. "We could see prices come down further." Raw-sugar futures for May delivery declined 0.81 cent, or 2.9 percent, to settle at 27.05 cents a pound at 2 p.m. on ICE Futures U.S. in New York. Brazil is the biggest shipper. In London, refined-sugar futures for May delivery dropped \$10.20, or 1.4 percent, to \$701.60 a ton on NYSE Liffe. Cocoa futures for May delivery gained \$6, or 0.2 percent, to \$3,248 a ton on ICE. Orange-juice futures for May delivery climbed 0.05 cent to \$1.625 a pound. Arabica-coffee futures for May delivery fell 4.65 cents, or 1.7 percent, to \$2.6395 a pound in New York. The commodity has still advanced 9.8 percent this quarter, heading for the ninth straight gain, a record rally. In London, robusta-coffee futures dropped, and cocoa futures climbed.

The rally that drove cotton prices to the highest since America was recovering from the Civil War is ending as farmers from Texas to New South Wales plant record crops and replenish stockpiles for the first time since 2007. Cotton will drop 51 percent to \$1 a pound by Dec. 31, according to the median in a Bloomberg survey of 14 analysts and traders. Hedge funds are already cutting bets on higher prices by the most in three years. Output may rise 11 percent to 127.5 million bales in the year that starts Aug. 1, three times faster than a 3 percent gain in demand to 120 million bales, the U.S. Department of Agriculture estimates. One 480-pound bale is enough for 215 pairs of jeans. "We have had quite a nice run, and I don't see it sustaining," said John Stephenson, who helps manage more than C\$2 billion (\$2 billion) at First Asset Investment Management Inc. in Toronto. "More acreage will be dedicated to cotton, and in a scenario where consumers are facing higher food and fuel prices, clothing will take a back seat." Cotton rose to \$2.197 on March 7, the highest in 140 years of trading in New York, after flooding in Australia and Pakistan and freezes in China ruined crops. Adidas AG, the second-largest sporting-goods maker, said this month that cotton was a cost threatening margins, and Wal-Mart Stores Inc., the world's biggest retailer, paid more for garments including jeans.

Farmers are responding by planting more cotton, which may come at the expense of corn and soybeans, First Asset's Stephenson said. Corn gained 79 percent since July 1 and soybeans climbed 50 percent, driving global food costs to a record, the United Nations estimates. An extra 44 million people were driven into "extreme" poverty since June, according to the World Bank, and riots spread across North Africa and the Middle East, toppling leaders in Egypt and Tunisia. While March 7 marked the peak, it's much less than in previous decades. In 1973, cotton jumped to the highest in at least 14 years to 99 cents, the equivalent of \$4.92 today, according to a calculator on the website of the Federal Reserve Bank of Minneapolis. Cotton closed at \$2.0449 on March 25, after surging 178 percent since mid-July, the most among the 24 commodities in the Standard & Poor's GSCI index. The raw-materials gauge climbed 42 percent, the Standard & Poor's 500 Index gained 20 percent and Treasuries lost 0.2 percent, a Bank of America Merrill Lynch index shows. Cotton slumped by the exchange maximum of 7 cents, or 3.4 percent, to settle at \$1.9749 a pound today.

Hedge funds and other money managers cut bets on higher prices by 64 percent from a September peak, the steepest drop since 2008. Their wagers declined for seven consecutive weeks, the longest stretch since at least June 2006, and total 29,185 contracts, U.S. Commodity Futures Trading Commission data show. One contract equals 50,000 pounds. Futures anticipate a drop to \$1.2792 by December, according to ICE Futures U.S. data. Costs won't fall to the \$1 predicted in the Bloomberg survey until October 2012, the data show. Even \$1 would still be 64 percent higher than the 10-year average of 61.16 cents. Stockpiles in warehouses monitored by ICE Futures U.S. plunged 81 percent since June and in October fell to the lowest level since at least August 2002. "Global plantings are set to expand impressively this year," said Gary Raines, an economist at FCStone Fibers & Textiles in Nashville, Tennessee. "Even if this production overshadows mill demand, the gap may not be enough to rebuild world inventories enough to pull prices down to their long-term average in just one marketing year."

Prices could still rally to \$2.30 by June because supply is so scarce and more "weather problems or other external catastrophes" could mean a high of \$2.90, said John Flanagan, president of Flanagan Trading Corp. in Fuquay-Varina, North Carolina. Demand is still strengthening. In the year ending July 31, China will use 17.5 million more bales than it grows, the USDA estimates. China's economy will expand 9.5 percent this year, more than three times the growth of the U.S. and the euro zone, according to the median of as many as 68 economists' forecasts compiled by Bloomberg. While farmers will grow more cotton this year, not all of it may reach global markets. India, the second-biggest producer after China, limited cotton-yarn exports in December because of concern about domestic shortages. It eased some of those restrictions last month.

The same surge in prices that is helping boost U.S. farm profit by 20 percent to a record \$94.7 billion is hurting manufacturers, retailers and consumers. The "headwinds on costings, particularly on cotton out of Asia, will affect everyone," Myron E. Ullman, the chairman and chief executive officer of J.C. Penney Co., the third-biggest U.S. department-store chain, said March 9. Gap Inc., the largest U.S. apparel chain, is facing similar issues, Chairman and CEO Glenn K. Murphy said on a conference call the same day. Raw materials, labor and transport costs are all creating "a gross margin headwind," Herbert Hainer, CEO of Herzogenaurach, Germany-based Adidas, said on a conference call March 2. Nike Inc., the world's largest sporting-goods firm, began to see the impact in the third quarter, Chief Financial Officer Don Blair said on a call two weeks later. Wal-Mart, based in Bentonville, Arkansas, already paid more for some cotton garments including jeans, and "we're told that by later this year, there will be substantially more" increases, William Simon, President and CEO of Wal-Mart U.S., said on a conference call March 10.

Some U.S. textile makers are canceling orders or using more synthetic fibers on concern they won't be able to pass costs to customers, said Cass Johnson, president of the Washington-based National Council of Textile Organizations, which has more than 80 companies as members. Cotton's share of the global textile market will shrink to about 30 percent by 2020 from about 37 percent as mills switch to synthetics, according to the International Cotton Advisory Committee. The Washington-based group has 43 member countries. Best Western International Inc., the world's biggest hotel chain by rooms, said it's paying 53 percent more for towels than it did a year ago. Orders for towels and sheets can take as long as two months to fill, compared with two weeks normally, the company said in an e-mailed response to

questions. In the year that begins Aug. 1, global cotton plantings will increase by 7.9 percent to 36 million hectares (89 million acres), the most in 16 years, according to the committee.

Production in the U.S., the biggest exporter, will rise 6.6 percent to 19.5 million bales in the next crop year, according to USDA estimates. Indian output may climb to a record, according to Bhadresh Trading Corp., the nation's top exporter. Output in Australia, the fourth-biggest shipper, may also surge to an all-time high, the Australian Bureau of Agricultural & Resource Economics & Sciences forecast March 1. By the end of the next crop year, in July 2012, global stockpiles may have expanded by 18 percent to 50 million bales, according to the USDA. "The prices are exaggerated, and the shortage in the market has been overstated," said Christoph Eibl, co-founder of Zug, Switzerland-based Tiberius Group, a fund manager overseeing more than \$2 billion. "The market has been pushed up a lot by speculators and this is not sustainable."

Coffee futures in New York may drop 15 percent by mid-April if it completes a so-called head-and-shoulders pattern, according to Steel Vine Investments LLC, a Chicago hedge fund. If prices close below about \$2.60 a pound this week, the commodity will break through the so-called neckline of the bearish formation, said Spencer Patton, the chief investment officer at Steel Vine who correctly predicted sugar would surge in July using technical analysis. A head-and-shoulders model occurs when a price forms three consecutive peaks or valleys, the middle being the largest. The highest peak, or "head," was formed when May futures reached \$2.9665 on March 9, the highest since May 1997, Patton said. A late-February high of \$2.784 formed the "left shoulder," and the price is now poised to complete the "right shoulder," he said. If the pattern is completed, coffee may fall to \$2.28 within two weeks. "It looks textbook: prices have had a tremendous run-up and are now acting very weak," Patton said by telephone. Last week, arabica-coffee futures for May delivery dropped 2.8 percent to \$2.686 on ICE Futures U.S. in New York. "It's looking more and more like prices have peaked," though news of supply risks could prevent the pattern's completion, Patton said. Steel Vine invests in commodities including metals, grains, coffee and sugar, he said. In technical analysis, investors and analysts study charts of trading patterns and prices to forecast changes in a security, commodity, currency or index.

Robusta coffee may rise 23 percent to its highest in at least three years because supply from Vietnam, the biggest grower, will decline at a time when demand from roasters is accelerating, according to F.O. Licht. The commodity may advance to \$3,000 a metric ton in the next two months, from \$2,430 today, because much of Vietnam's harvest that ended in January has already been sold, said Stefan Uhlenbrock, the analyst at F.O. Licht in Ratzeburg, Germany, who correctly forecast this year's jump in arabica coffee prices. New supply will come in April after the start of the harvest in Indonesia, the third-biggest grower, he said. Robusta prices that gained 81 percent in a year are adding to food costs the United Nations says rose to a record last month. There will be coffee shortages in the crop year beginning in October as farmers fail to keep up with demand that will rise to an all-time high, according to Rabobank International. While the worst shortages are in arabica beans, robusta is also gaining because roasters are seeking alternatives. "Roasters tried to max out the potential inclusion of robusta in blends, and that has raised demand for robusta," said Uhlenbrock, who has covered commodities for Licht since 2003. "That demand is something that will continue because the arabica market will stay tight for at least another year."

Robusta, used in instant coffee and espresso, climbed 16 percent this year on the NYSE Liffe exchange in London, compared with a 10 percent gain in the cost of arabica coffee traded on ICE Futures U.S. in New York. Arabica, used by specialty shops such as Starbucks Corp., is still 2.4 times more expensive than robusta, compared with a three-year average of 1.95 times. Concern about robusta supply is already showing up in futures markets. The May contract costs \$160 more than the July contract on the NYSE Liffe exchange in London, from a discount of \$11 as recently as March 8. That market structure is known as 'backwardation' and indicates concern about near-term supply. Robusta coffee for May delivery fell \$14, or 0.5 percent, to \$2,590 a ton by 9:55 a.m. in London on NYSE Liffe. Prices have erased the 5.3 percent decline after the March 11 earthquake and tsunami in Japan, the world's fourth-largest coffee market, according to the International Coffee Organization. The Standard & Poor's GSCI index of 24 commodities is up 13 percent this year on speculation fighting in the Middle East will disrupt energy supplies as economies benefit from government spending programs to revive growth. Hedge funds have

bet on higher arabica prices for two years, according to data from the U.S. Commodity Futures Trading Commission. Their net-long position was 27,390 contracts by March 22, compared with 9,450 contracts a year earlier. NYSE Liffe doesn't publish positions held in robusta.

Coffee has surged because of speculation and that threatens to curb demand, Howard Schultz, chief executive officer of Starbucks, the world's largest coffee chain, said at a conference in New Orleans on March 18. China and India have raised interest rates this year, in part to curb food price inflation. China's coffee consumption climbed 31 percent over the past decade and India's gained almost 50 percent, according to estimates of London-based ICO, an organization of 29 coffee exporting countries and five importers with the European Union represented as one member. Coffee demand dropped 0.7 percent in 2009 during the worst global recession since World War II, the London-based ICO estimates. In 2010, demand rebounded 1 percent, with the U.S. accounting for 16 percent of global consumption, followed by Brazil, Germany and Japan, the ICO says.

Vietnam's exports will slow after farmers reaped about 19.6 million bags of beans in the last harvest, compared with 18.9 million bags a year earlier, Uhlenbrock estimated. Heavier-than-normal rainfall damaged Indonesia's crop, he said. Brazil won't be able to make up for any shortages this year because its crop will be 14 percent smaller at 47.2 million bags, F.O. Licht estimates. Kraft Foods Inc., based in Northfield, Illinois, raised the price of its Maxwell House and Yuban coffee in the U.S. by as much as 22 percent on March 16, according to Bridget MacConnell, a spokeswoman for the company. Global production of arabica coffee may fall to 77.8 million bags in 2011-12 from 84 million bags a year earlier as robusta output drops to 53.3 million bags from 54.73 million bags, Rabobank estimates. That will leave a shortage of 6.2 million bags, from a surplus of 3.9 million bags in the current crop year.

### Live Cattle

Hog futures fell for the first time in three sessions on signs of increasing pork supplies. Cattle prices also declined. The U.S. hog-breeding herd on March 1 rose 0.5 percent from a year ago, the Department of Agriculture said after markets closed on March 25. On that date, futures rose to the highest since at least 1986 as analysts in a Bloomberg News survey forecast a 0.3 percent drop in the herd, on average. On March 24, hog carcasses averaged 208.79 pounds (94.7 kilograms), up more than 4 pounds from a year earlier, USDA data show. "When you start adding 5, 6, 7 pounds to slaughter weights, that builds the production in a hurry," said Paul Beere, a market adviser at Prime Agricultural Consultants Inc. in Brookfield, Wisconsin. "Production is going to continue to be higher." Hog futures for June settlement slid 0.45 cent, or 0.4 percent, to settle at \$1.0325 a pound at 1 p.m. on the Chicago Mercantile Exchange. On March 25, the price reached \$1.03725, the highest for a most-active contract since at least April 1986. The commodity climbed 3.2 percent in the previous two sessions. Cattle futures for June delivery fell 0.775 cent, or 0.7 percent, to \$1.16975 a pound. The price has climbed 28 percent in the past 12 months. Feeder-cattle futures for August settlement rose 0.375, or 0.3 percent, to \$1.389 a pound.

**Source: Market reports are sourced from Bloomberg News**

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