Agriculture Is Impacted By Economic Downturn

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The commodity market is again mixed this week with soybeans and cotton up, corn down and wheat virtually unchanged. The stock market while weaker mid-week has rebounded to trade slightly higher than last Thursday's close. There still appears to be disagreements between analysts and economists on the status of the recession. Some think there are signs (smaller weekly jobs claims) that the worst is behind us. Others look to the impending bankruptcy of General Growth Properties (largest owner of U.S. malls) that the commercial real estate market will be the next trouble area. Either way, agriculture will be impacted. However, it does appear that the commodity market is starting to trade more the fundamentals than dependent on outside markets. The U.S. Dollar was about unchanged for the week around 86.27 while crude oil was down 2.07 barrel at 50.17.

Corn:

Nearby: May 2009 futures closed at $3.76 bushel onFriday, down $.14 from last week. Weekly exports sales were 40.5 million bushels, above expectations and above pace to meet projections. As May corn approaches $4.00, farmers nationwide are selling grain out of storage putting pressure on the market. It will be difficult for the nearby market to break out of this trading range.

New Crop: The September 2009 futures contract closed at $3.96 bushel on Friday, down $.14 from last week. The corn market is closely watching planting weather as planting is behind schedule, but drying is forecast for next week. Producers can catch up in a hurry on planting if given the opportunity. Based on recent weakness in the market, I would advance forward pricing 5 percent and currently be 25 percent forward priced with a goal of 40 percent – 50 percent priced by early summer. I am concerned that the corn market could get away from us if favorable planting conditions occur. I would continue to evaluate put options as a tool to lock in an acceptable floor. Using a trailing stop strategy the next trigger point is $3.80 bushel. A December $4.10 strike price put would cost $.51 bu. and set a futures floor of $3.59 bushel.

Cotton:

Nearby: The May futures closed at 49.94 cents/lb Friday, up 1.53 cent/lb from last week. Weekly export sales were 418,600 bales of which 298,700 was old crop upland & pima, and 119,400 was new crop. These were higher than expected. If you have loan cotton to sell, keep in contact with your cotton buyer.

New Crop: The December 09 futures closed at 54.95 cent/lb. up 1.60 cents/lb. from last week. The new crop contract has benefitted from the strong export sales and the higher soybean market. Cotton will have to react somewhat to soybeans as producers still have time to change crops. Texas is still in a drought, although rains are forecast that may aid planting. Purchasing call options may be worthwhile exploring as a means to capture a price increase that the loan program will not be able to reflect as well as serving as a hedge on cotton counter cyclical payments. They are expensive as an out of the money December 60 cent call is trading at 3.5 cents. It should warrant a look, especially if we have a near term pullback in the market.

Soybean:

Nearby: May 2009 futures closed at $10.51 bushel on Friday, up $.44 from last week. Weekly exports were 29.7 million bushels, slightly above expectations, and still ahead of the pace to meet USDA export projections. China has accounted for 57 percent of the accumulated 2009/09 export sales of U.S. soybeans. This along with the production decline in Argentina (due to drought) has lead to the strength in the nearby market. There is concern that the U.S. crop is at a premium to the South American crop and we will soon see a drop off in exports which could cause weakness in the market. I would use the recent price increases of the last couple of weeks to price out any remaining soybeans.

New Crop: The November 2009 futures contract closed at $9.35 bushel on Friday, up $.13 from last week. My comments are somewhat unchanged from last week as it looks like soybeans will be trading sideways to possibility up as ending stocks have continued to tighten and uncertainty on the soybean planted acres. I would catch up to at least 30 percent priced of anticipated production and look to increase that to 40 percent – 50 percent by the end of May. From a technical standpoint, there is resistance at $9.50 bushel. I have talked to many producers who are waiting for $10 soybeans to start pricing. Don't let the market get away from you. Price some percentage at this level to at least start pricing. The trailing stop trigger point is at $8.37 bushel. The trailing stop trigger can serve as a floor to make sure something gets priced. Continue to look at and seriously consider a put option strategy. Using put options a futures floor of $8.37 bu. could be locked in – $9.40 strike price minus $1.03 premium. Put options set a floor, but allow an upside if the market goes up.

Wheat:

Nearby: May 2009 futures closed at $5.23 bushel on Friday, up $.01 bu. from last week. Weekly exports were 11.4 million bushels, slightly below expectations and on pace to meet projections.

New Crop: The July 2009 futures contract closed at $5.35 bushel on Friday, up $.02 bu. from last week. Wheat is trading more sideways as it appears to be watching how production will fare from freeze damage, dry weather, and flooding. I would currently be 20 percent priced. The next trailing stop trigger is $5.00. Using put options, a futures floor of $5.00 bushel could be established – $5.40 bu. July strike price – $.40 premium. Δ

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