CFTC Rescinds Letters, Affects Corn, Wheat Markets

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After weakness early in the week, commodities have battled back but will still for the most part finish lower for the week. The Pro Farmer Crop Tour reported results after the close today, pegging the corn crop with a 160.1 bushel per acre average yield and the soybean crop at 41 bushels per acre. This does not change the picture much for corn, but should be supportive to bullish for soybeans. Any bullish information and support from outside markets was offset in mid week by the announcement that the Commodity Futures Trading Commission (CFTC) had rescinded the Letters of Exemption from position limits that two financial groups held. These groups will have a period of time to exit their long only positions and get back to position limits for speculators. This is directly affecting the corn and wheat markets, but will also have implications commodity wide. This was not unexpected and these groups had already started getting into compliance. This also may serve notice to other groups that are holding Letters of Exemption as hedgers that should probably be classified as speculators and subject to position limits. These Letters of Exemption have been attributed to have led to the huge rally and extreme volatility from 2007 to 2008. Volatility generally creates pricing opportunities, but in this case it was so volatile that pricing opportunities were shut down. There could be selling pressure on the market in the short term as these groups and possibly others get into compliance. In the long run, it should be positive as markets will tend to trade more fundamentals and the uncertainty they carry. Hopefully, long range pricing opportunities will return more to normal. The U.S. Dollar is weaker for the week, down .79 at 78.14 before the close. The Dow Jones Industrial Average reached the high for the year ending the week up about 2 percent. Favorable comments by Federal Reserve Chairman Bernanke that the economy was on the verge of a recovery led to the strength on Friday. Crude Oil is up over 6 dollars a barrel trading at 73.89 a barrel.

Corn:

New Crop: September 2009 futures closed at $3.22 a bushel on Friday, up $.03 bushel from last week. Weekly exports sales were 56.5 million bushels (22.7 mb old crop, 33.8 mb new crop), above expectations and on pace to reach USDA projections. Sales have looked good, but the question is whether shipments will be able to meet the USDA old crop projections. To meet USDA projections through the end of August, 164 million bushels of corn will have to be shipped. As of August 16, the crop condition ratings for corn were 68 percent in the good to excellent rating compared to 68 percent the previous week and 67 percent a year ago. The percent dough stage nationwide is 40 percent compared to 24 percent last week, 46 percent last year and 64 percent five year average. The crop is a little later than last year and quite a bit later than the five year average. One of the questions for both corn and soybeans is whether the market has already factored in somewhat of a frost premium. If it has then there may not be much of a price increase if frost does catch part of the crop. If an early frost does not happen, then prices could weaken quickly. This uncertainty could provide support in the near term, but keep in mind the market saying of Buy the rumor, sell the fact. The Pro Farmer Crop Tour yield of 160.1 bushels/acre is assuming normal weather to harvest and has a variance of 1 percent. This is .6 bushels per acre higher than the USDA estimate and provides further validation of the potential for a big crop. There is current support at $3.14 - $3.16 bushel with resistance at $3.23 bushel then $3.32 bushel. I am currently 50 percent forward priced with another 50 percent in put options. A December $3.30 put, costing $.27 bushel would set a futures floor at $3.03.

New Crop Deferred: The March 2010 futures contract closed at $3.40 bushel, down $0.02 from last week. The September 2010 contract closed at $3.66, down $0.01 bushel from last week. The corn market could be influenced by sugar as drier than normal weather in India could produce a shortage of sugar. Sugar accounts for about 60 percent of the world's ethanol and this could have an impact on the price of ethanol, which would be supportive to corn. This relationship between sugar, ethanol, and corn will bear watching and could be what gives life to the corn market for next year. Ethanol blend rates are also being discussed and a decision on whether the rate can be increased from 10 percent to 15 percent is suppose to be known by December.

Cotton:

Nearby: The October Cotton futures closed at 56.45 cents/lb, down 2.76 cents/lb from last week. Weekly exports sales were 38,100 bales, below expectations.

New Crop: The December 09 futures closed at 58.63 cents/lb. down 2.49 cents/lb. from last week. Currently, cotton has support at 57 - 58 cents with resistance in the 60 cent range. Overall crop condition ratings as of August 16 improved to 53 percent good to excellent compared to 50 percent last week and 48 percent last year. The percent setting bolls is 84% compared to 75 percent last week, 81 percent last year, and the five year average of 86 percent. Boll opening is at 9 percent compared to 13 percent last year and the five year average of 13 percent. The Texas crop has improved slightly for the week and this has put pressure on the market that production might exceed USDA projections. Prices appear to be range bound at 57 – 65 cent. With the loan program, there is not any incentive to price cotton until it moves above 63-65 cents. Should prices move into the 65 – 70 cent range, they should be rewarded with either sales or purchase of a put option.

Soybean:

Nearby: September futures closed at $10.23 bushel, down $0.02 from last week. Weekly exports were 31.5 million bushels (10.1 mb old crop, 21.4 mb new crop) above expectations and on pace to exceed the USDA target. Like corn, the question is not in sales but shipments. To meet USDA projections, 52 million bushels of soybeans need to be shipped out by August 31.

New Crop: The November 2009 futures contract closed at $9.73 bushel, down $0.09 bushel from last week. Current support is around $9.50 bushel, if that doesn't hold then $9.25 could be the next level. Initial resistance is at $9.82 then the $10.00 level. As of August 16, crop conditions have the crop rated at 66 percent good to excellent compared to 66 percent last week and 62 percent in 2008. Soybeans setting pods nationwide is at 72 percent compared to 55 percent last week , 73 percent last year and the 5 year average of 85 percent. The Pro Farmer Crop Tour this week estimated soybean yields at 41 bushels per acre with a 2 percent variance. This is .7 bushels per acre less than the USDA estimate and is an indication that an early to normal frost could reduce yields further. This should be supportive to current prices at least in the short term until we get closer to harvest. I am currently 50 percent forward priced with another 50 percent priced with put options. Producers looking to increase pricing might want to consider using $9.50 bushel as a trigger point. If the market stays above $9.50, continue to watch it, but be willing to pull the trigger if it drops back. A November $9.80 strike price put would have a premium of $0.62 bushel and set a futures floor of $9.18 bushel. This option does expire October 23 so producers with a later crop will need to look at January options to extend their coverage until the crop comes out.

Wheat:

Nearby: The September 2009 futures contract closed at $4.60 bushel, down $.08 bushel from last week. Long term support is at $4.50 bushel, then $4.00 bushel. Weekly exports were 14.4 million bushels, about expected, but still short of the pace needed to reach USDA export projection. Prices are starting to get more competitive on a global basis.

Deferred: The December 2009 futures contract closed at $4.87 bushel, down $.22 for the week. The July 2010 futures closed at $5.3175 bushel, down $0.19 bushel from last week. Current prices for wheat indicate that the Soft Red Winter wheat acres will be down for 2010. The wheat market will need a reduction in acres to help reduce supply to assist in reducing the burdensome carryover. For the 2010 crop, I am 5 percent priced at $6.00 bushel. Δ

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