Commodities Dip As Stocks Show 7 Percent Rise

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Bullish sentiment at the first of the week weakened as commodities retreated in prices while traders position themselves for the March 31 Prospective Plantings report and Quarterly Grain Stock report. Commodities have performed the opposite of the stock market as it is up 7 percent for the week at mid-day on Friday. The U.S. Dollar Index ended the week around 85.58, up 1.24 for the week. Crude oil was up, .28 a barrel for the week at 52.35. The Prospective Plantings report will be released at 7:30 a.m. March 31 and will report expected crop plantings as of March 1, 2009. This report will be viewed tentatively as there are still uncertainties in the crop mix and planting weather. I will put together a summary of the report and post it on-line Tuesday afternoon at http://economics.ag.utk.edu/outlook.html.

Corn:

Nearby: May 2009 futures closed at $3.87 bushel on Friday, down $.10 from last week. Weekly exports sales were 50.9 million bushels, above expectations and ahead of the pace needed to meet USDA projections. The projected corn carryover for this marketing year will continue to put pressure on the nearby market. A favorable planting intentions report could lend a little support, but will have trouble creating a big rally. For un-priced corn in storage, I am inclined to price out any remaining bushels.

New Crop: The September 2009 futures contract closed at $4.07 bushel on Friday, down $.09 from last week. The average corn trade estimate for the Prospective plantings report is 84.321 million acres with ranges of 80 million acres to 89 million acres. Anything below 83 million acres would appear bullish on prices while above 85 million acres would be bearish. The majority of analysts are expecting the report to come in at 84-86 million acres. The report will help give a direction that we will be headed assuming normal weather. I would feel comfortable having 20 percent of the corn crop priced at this time, but look to price more as implications of the report unfold. Using a trailing stop strategy the next trigger point is still $3.71 bushel. Put options could be used to lock in a floor. A December $4.20 strike price put would cost $.59 bu. and set a futures floor of $3.61 bushel.

Cotton:

Nearby: The May futures closed at 43.34 cents/lb Friday, down .74 cent/lb from last week. Weekly exports were a favorable 353,600 bales including 28,100 for the next marketing year. If you have loan cotton to sell, keep in contact with your cotton buyer.

New Crop: The December 09 futures closed at 48.72 cent/lb. up .52 cents/lb. from last week. The cotton market anxiously awaits the planting intentions report to see if it has a reason to move. With the current economy, supply (through production cuts), will have to be reduced or an anticipated reduction before prices can move upward. Analysts are projecting anywhere from 8.3 – 9.0 million acres of cotton in 2009 with the consensus at 8.5 million acres. Earlier in the year, the National Cotton Council survey indicated 8.11 million acres, but since then soybean prices have decreased. What may be more critical for cotton prices will be the level of abandonment later in the year as Texas is currently in drought conditions. For now, we have intended acres to look at and more than 8.5 million acre would be bearish and probably need to have 8.0 – 8.2 million acres to be considered bullish on prices. For now, the cotton loan program can serve as a floor until we get into the production season.

Soybean:

Nearby: May 2009 futures closed at $9.17 bushel on Friday, down $.35 from last week. Weekly exports were 19.9 million bushels, above expectations and ahead of pace to meet USDA export projections. Argentina farmer's strike which is scheduled to end today has given support to exports. If it should continue, that would be favorable to U.S. exports and nearby prices. However, counteracting that may be changes occurring in China that would be negative to imports into that country. That should not have as big an impact as most of their imports this time of year come from South America. As with corn, I am inclined to price out any remaining un-priced bushels of soybeans.

New Crop: The November 2009 futures contract closed at $8.60 bushel on Friday, down $.33 from last week. The trade consensus has planting intentions for soybeans at 79.539 million acres with the range between 75.9 million acres to 83 million acres. A report number below 77 million acres would support current prices while above 80 million acres would be bearish and be a signal that prices will be cheaper in the fall. I feel comfortable with at least 30 percent of the crop priced at this point and a little nervous that we may have seen our highest prices. We are still a ways from planting the crop and actual planted could change from intended depending on the prices in the next month. Also, any weather problems during planting for spring wheat, corn, or cotton could increase soybean planted acres. Price action during the week moved the trailing stop trigger point up to $7.92 bushel. The trailing stop trigger can serve as a floor to make sure something gets priced. With the potential, for soybean prices to be much cheaper this fall, I would look to have up to 40 percent – 50 percent of anticipated production, or production I am comfortable with forward pricing, locked in this spring. Next Tuesday's report may give some guidance on if prices should be locked in sooner than later. Continue to look at a put option strategy and I think it is time to seriously consider put options. Using put options a futures floor of $7.72 bu. could be locked in – $8.80 strike price minus $1.08 premium

Wheat:

Nearby: May 2009 futures closed at $5.07 bushel on Friday, down$.43 bu. from last week. Weekly exports were 14.3 million bushels, in line with expectations and still on pace to meet projections.

New Crop: The July 2009 futures contract closed at $5.20 bushel on Friday, down $.43 bu. from last week. Wheat is continuing to be a follower of corn and soybeans. Rains and snow are forecast to bring moisture in the southern plains which should benefit wheat production. However, there is still severe and record flooding in the Upper Midwest area of the Red River Valley of North Dakota that will impact spring seeded wheat and could move that acreage to soybeans. Trade expectations for spring wheat acres average 13.6 million acres, with estimates ranging from 13.0 – 14.07 million acres. For all wheat, the average estimate is 58.86 million acres with a range of 56.7 million acres to 63.0 million acres. I would want to have priced 20 percent up to this point, and would look to move that percentage up. The next trailing stop trigger is $5.00. Using put options, a futures floor of $4.77 could be established – $5.30 bu. July strike price – $.53 premium. Δ

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