Corn Acres Could Be Affected By Flooding, Drought

CHUCK DANEHOWER

RIPLEY, TENN.

Corn prices are mixed with cotton, and soybean prices up and wheat prices down for the week. The June U.S. Dollar Index was trading mid day at 73.82, down 1.08 for the week. The Dow Jones Industrial Average traded mid day at 12,196; down 246 points for the week. Crude Oil was trading mid day at 100.11 a barrel, down 0.34 a barrel for the week. Economic news out this week was not favorable for the overall economy, hence the drop in the Dow. The latest news was a rise in unemployment to 9.1 percent from 9 percent whereas the market was expecting 8.9 percent. Bullish news for the crop market was another private estimate on acres indicating corn acres of 87.2 million acres, a drop of 5 million acres from USDA's intentions and soybean acres of 74.9 million acres, a drop of 1.7 million acres from the March 31 report. Again, this is another estimate but one that reinforces the notion that unless there are better than ideal growing conditions this summer and through harvest, stocks will remain tight and could tighten further. Another area of the country is now being affected by floods as excessive rainfall in Montana and the Dakota's along with snow melt from the Rocky Mountains have swelled reservoirs in South Dakota and the Missouri River basin. Water from these reservoirs are being released into an already full river and are expected to cause flooding from South Dakota to north of St. Louis. Early estimates are that 500,000 acres of the western Corn Belt could be affected. While flooding is affecting areas of the country, drought continues in Texas and the Southeast and is affecting yield potential daily. USDA will release their monthly Supply & Demand report on June 9 and comments on that report will be posted at http://economics.ag.utk.edu/outlook.html. Acreage for 2011/12 is not expected to change in this report as that adjustment will be made in July after the June 30 report.

Corn:

Nearby: July futures closed today at $7.54 a bushel, down $0.05 for the week. Support is at $7.43 with resistance at $7.76 a bushel. Technical indicators have a strong buy bias. Weekly exports were within expectations at 27.6 million bushels (18.6 million bushels for 2010/11 and 9 million bushels for 2011/12).

Current Crop: September closed at $7.31 a bushel, up $0.03 bushel for the week. Support is at $7.20 with resistance at $7.51 a bushel. Technical indicators have a strong buy bias. As of May 29, 86 percent of the corn crop was planted compared to 79 percent last week, 97 percent last year and the 5 year average of 95 percent. Most market analysts were expecting 89 percent of the crop being planted. Nationwide, corn emergence is 66 percent compared to 45 percent last week, 83 percent last year and the five year average of 78 percent. Corn crop condition ratings as of May 29 were 73 percent good to excellent compared to 76 percent last year. Poor to very poor ratings are 6 percent compared to 4 percent a year ago. A few analysts estimates for next week's USDA report put new crop corn ending stocks in the 700 – 850 million bushels range compared to USDA's May number of 900 million. I am currently 50 percent priced and would hold at this level until we get further along in the growing season. Put options would set a floor and buying a December $6.90 Put option would cost $0.70 and set a $6.20 floor on the December market while keeping an upside.

Cotton:

Nearby: July futures contract closed at 161.63 cents/lb., up 8.96 cents/lb. for the week. Support is at 157.05 cents per pound, with resistance at 170.79 cents per pound. Technical indicators have a sell bias. All cotton weekly export sales were below expectations at an overall reduction of 17,800 bales (a reduction of 46,000 bales of upland cotton for 10/11; and sales of 28,200 bales of Pima cotton for 2010/11). The Adjusted World Price for June 3 – June 9 is 146.45 cents/lb.; up 1.97 cents/lb.

Current Crop: December closed at 138.70 cents per pound, up 9.20 cents for the week. Support is at 135.25 cents per pound, with resistance at 142.55 cents per pound. Technical indicators have a strong buy bias. Current quotes on 2011 loan equities are in the low 70s cent per pound range. Keep in contact with your cotton buyer for current quotes on loan equities and pricing alternatives. As of May 29, 73 percent of the cotton crop was planted compared to 57 percent last week, 77 percent last year and the 5 year average of 76 percent. Drought continues in Texas and is spreading in the Southeast. Unless a break in the weather pattern occurs, yields and acreage will be impacted. However, with prices easing up, demand may also be lessened. I am currently at 45 percent priced and would hold at that level. Evaluate the option market as a good tool to set a floor price and still leave an upside. A December 139 Put option would cost 17.85 cents and set a 121.15 futures floor. An out of the money December 110 Put would cost 5.71 cents and set a 104.29 futures floor. December 2012 prices closed at 104.17 cents/lb.

Soybeans:

Nearby: The July contract closed at $14.14 ½ a bushel, up $0.35 for the week. Support is at $13.98 with resistance at $14.28 a bushel. Technical indicators have changed to a strong buy bias. Weekly exports were at the low end of expectations at 5.7 million bushels (sales of 3 million bushels for 2010/11and sales of 2.7 million bushels for 2011/12).

Current Crop: November soybeans closed at $13.97 a bushel, up $0.29 a bushel this week. Support is at $13.85 with resistance at $14.10 a bushel. Technical indicators have changed to a strong buy bias. As of May 29, 51 percent of the soybean crop was planted compared to 41 percent last week, 71 percent last year and the 5 year average of 71 percent. Market analysts were expecting 59 percent of the crop to have been planted. Nationwide, soybean emergence is 27 percent compared to 12 percent last week, 43 percent last year and the five year average of 39 percent. Analysts expect USDA next week to raise ending stocks for 2011/12 to 180 – 190 million bushels. I am currently priced 50 percent for 2011 and would hold off pricing more. Currently, buying a November $14.00 Put option would cost $0.90 a bushel and set a $13.10 futures floor.

Wheat:

Current Crop: July futures contract closed at $7.73 ¾ a bushel, down $0.46 a bushel this week. Support is at $7.50 with resistance at $7.95 a bushel. Technical indicators have changed to a sell bias. Weekly exports were within expectations at 11.3 million bushels (reduction of 1.1 million bushels for 2010/11 and sales of 12.4 million bushels for 2011/12). Nationwide, 73 percent of the winter wheat crop has headed compared to 62 percent last week, 73 percent last year and the five year average of 76 percent. Winter wheat crop condition ratings as of May 29 were 33 percent good to excellent compared to 32 percent last week and 65 percent last year. Poor to very poor ratings are 44 percent compared to 45 percent last week and 9 percent a year ago. Last weekend, Russia announced a resumption of grain exports in July most of which would be wheat and this started the week out on a bearish tone. I am currently at 50 percent priced and would look to sell the remainder either off the combine at harvest or hold in storage, if available. Currently, there is carry in the futures market favoring storage to September or December. The basis (difference in cash and future prices) is rather wide for August delivery negating some of the carry. Producers with storage who want to set a floor under their wheat price may want to look at September or December Put options. A December $8.80 Put would cost $0.94 a bushel and set a $7.86 futures floor.

Deferred: December wheat closed at $8.71 a bushel Friday, down $0.38 since last week. Support is at $8.52 with resistance at $8.93 a bushel. Technical indicators have changed to a sell bias. Spring wheat as of May 29 is 68 percent planted compared to 54 percent last week, 94 percent a year ago and the five year average of 81 percent. Spring wheat emergence is 40 percent compared to 24 percent last week, 81 percent last year and the five year average of 81 percent. July 2012 wheat closed at $9.18 ¼ a bushel. Δ

CHUCK DANEHOWER: Extension Area Specialist/Farm Management, University of Tennessee