Corn Planting Slower Than Average, Prices Rise

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Corn prices rose this week, as planting continued at a slower than average pace. Cotton prices fell as the export market remained sluggish.

Corn:

Short Run: Cash corn prices ranged from $5.64 to $5.93 across Tennessee Thursday. The May futures price closed at $6.035 Thursday, over 9 cents higher than the previous Thursday's close. Have prices topped out or are they just taking a breather before another rally? The answer likely depends on how this spring's planting goes. So far, planting progress is well below average. With some drier weather that can change in a hurry. I look for prices to weaken if planting progress picks up over the next few weeks.

Long Run: Harvest 2008 cash contract prices across Tennessee ranged from $5.40 to $5.86 Thursday. The December 2008 futures contract closed Thursday at $6.26, almost 15 cents higher than the previous Thursday's close. The April rally of near 40 cents/bu was brought about by lower than expected 2008 corn acreage estimates. It was a late season effort for the market to buy in some additional corn acres after the planting intentions report was released. If the report is correct, it is not difficult to project ending stocks below 500 million bushels next year. There is likely a significant weather premium in the market, but it is because of this low stock projection. A poor production year could mean more market rationing. In this situation, consider taking advantage of some of the weather premium by pricing up to a third of expected production at current price levels. If available consider cash forward contracting and/or hedging as pricing tools.

Cotton:

Short Run: The May futures contract closed Thursday at 71.75 cents/lb, 3.00 cents lower than the previous Thursday's close. A sluggish export market helped weaken prices this week. Recent price rallies seem to end with the concern about huge U.S. stocks and weak exports. It is very difficult to support the current price level based on fundamentals. Perhaps funds see cotton as a long term investment, based on lower production. But at some point demand will likely have to strengthen for prices to rally substantially in 2008.

Long Run: The December 2008 futures contract closed Thursday at 83.31 cents/lb, 2.09 cents lower than the previous Thursday's close. Some of the higher price expectation can be attributed to a projected lower stock level at the end of the 2008/09 marketing year. The challenge has been that old crop stocks keep growing. Prices still look higher to me longer term, after the U.S. has dropped stock levels. But the funds perhaps see this as an opportunity to invest well before an anticipated rally. For now, consider pricing up to 25 percent of expected 2008 production. Option premiums are quite expensive based on the uncertainty in the market. Two pricing tools involving margin risk can be considered for those who understand and can manage price risk. One method involves buying an at the money put option and selling an out of the money call option to help reduce the price of the put premium. Another method is hedging and buying an out of the money call option. Both of these methods can result in margin calls, so be sure you understand the risk involved before using these methods.

Soybeans:

Short Run: Cash soybean prices ranged from $12.70 to $13.25 across Tennessee Thursday. The May 2008 futures contract closed Thursday at $13.505, 5.5 cents lower than the previous Thursday's close. Old crop prices could be vulnerable to higher new crop acreage. Consider selling a portion of stored beans at current prices.

Long Run: The November 2008 futures price closed Thursday at $12.7825, over 7 cents higher than the previous Thursday's close. Cash forward contracts for harvest ranged from $11.58 to $12.01 across Tennessee Thursday. A wet spring so far has analysts concerned of even more U.S. soybean acres this year. Even so, there will continue to be a lot of uncertainty in the market. If you haven't priced any 2008 production yet, consider cash forward contracting up to a 40 percent of expected production at the current market price.

Wheat:

Short Run: The May futures contract closed at $9.13 Thursday, 10 cents lower than the previous Thursday's close. A much larger U.S. crop is expected this year, along with a smaller export market. That combination could weaken prices further, especially if yields are trend or better.

Long Run: Cash contract prices for July 2008 ranged from $6.53 to $7.97 across Tennessee Thursday. The July 2008 futures contract closed Thursday at $9.28, almost 8 cents lower than the previous Thursday's close. Some producers may be unable to forward price wheat this year using cash contracting. With some cash harvest prices $2.50 below July futures, local buyers appear unwilling to assume the risk of buying ahead this year. Options are expensive and hedging brings with it the risk of margin calls. If available, storage could allow for a stronger basis after harvest, but there is still the risk of falling prices. If you have to sell at harvest this year, consider hedging on the July futures market and buying an out of the money July call option to limit potential margin calls. Δ

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