Corn Prices Rose As Traders Braced For Holiday

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Crop prices were up for the week with additional weakness in the dollar, strength in crude oil, higher stock market, good export data, and concern that soybean ending stocks will get too tight. Some of the price increase could be attributed to traders positioning themselves for the Memorial Day weekend as commodity and stock markets would be closed on Monday, May 25. Funds are continuing to show interest in the commodity market, particularly grains and soybeans. The U.S. Dollar at mid afternoon is trading around 80.09 on Friday down 3.14 or 4 percent for the week and the lowest since October, 2008. Crude oil in mid afternoon on Friday is up 4.83 or 8.5 percent for the week at 61.56 on a decline in oil stocks and unrest in Nigeria. Inflationary concerns have also returned giving support to the commodity markets. The Dow Jones Industrial Average is up about 1 percent for the week.

Corn:

Nearby: July 2009 futures closed at $4.30 bushel on Friday, up $.13 from last week. Weekly exports sales were 32.4 million bushels, about expected and above pace to meet projections.

New Crop: The September 2009 futures contract closed at $4.40 bushel on Friday, up $.14 from last week. As of May 17, 62 percent of the corn crop was planted, with the 5 year average at 85 percent and last year at this time 70 percent had been planted. At the beginning of the week, 32 million acres of corn lacked being planted with almost half of that in Missouri, Illinois, and Indiana. Planting progress was made this week, but rain is forecast to move into the unplanted areas by late this weekend to early next week. Weather concerns may be easing, but this later planted crop will most likely ensure below trend line yields. September corn has resistance at the January high of $4.57. I believe we are getting at a point where a few rains in the eastern Corn Belt will help push prices higher, but a lack of additional planting delays will top out the market at least for now. Closely evaluate your corn crop, I hear of several reports in Tennessee of poor stands, corn being destroyed, and some being replanted. If you are comfortable with what is planted, then advance forward pricing 5 percent to 30 percent overall. Using a trailing stop strategy the next trigger point is $3.95 bushel. What is an acceptable floor? Using a December $4.50 strike price put costing $.52 bu. would set a futures floor of $3.98 bushel for December. Adjusting for September delivery would make a futures floor of around $3.85 bushel. Evaluate put options for setting a floor and leaving some upside.

Cotton:

Nearby: The July Cotton futures closed at 57.11 cents/lb Friday, up .81 cent/lb from last week. Weekly exports sales were 210,700 bales, above expectations.

New Crop: The December 09 futures closed at 60.38 cent/lb. up 1.31 cents/lb. from last week. As of May 17, 42 percent of the crop had been planted nationwide compared to the 5 year average of 53 percent and 2008 at 46 percent. With good planting weather in the Mid-South this week, planting should be close to catching up or just lag slightly. Still concern in the Texas cotton crop, if dry weather continues, a high abandonment of planted acreage will be expected. Cotton is currently priced in a range where the best marking alternative will be the loan program. However, should prices fall back to the mid 50 cent range, purchasing call options would be an alternative to hedge cotton counter cyclical payments and be in position to participate in any rallies. Should prices move to the high 60 cent range, then put options should be explored for protection for any price decline.

Soybean:

Nearby: July 2009 futures closed at $11.66 bushel on Friday, up $.35 from last week. Weekly exports were 50.2 million bushels, above expectations, and above pace to meet USDA export projections. Private estimates are putting soybean ending stocks at the end of the 2008/2009 marketing year in a range of 70 - 110 million bushels. The current USDA estimate is 130 million bushels. At the low end of that range, additional price rationing will occur, moving old crop prices up. China is still actively buying U.S. soybeans, but has shifted their focus to new crop deliveries. This is leading some concern that once China reaches their stockpile level, they will discontinue purchases. This has more implications for 2010 than it does currently.

New Crop: The November 2009 futures contract closed at $10.32 bushel on Friday, up $.56 from last week. The tight old crop ending stocks have helped support November soybeans. Although planting is behind normal it has yet to become a huge concern as long as the crop is planted by early June. As of May 17, 25 percent of the soybean crop was planted nationwide compared to the average of 44 percent and on the same pace as 2008. Illinois only advanced to 1 percent planted compared to the average of 50 percent and Indiana had 6 percent planted compared to a 49 percent average. Good progress should have been made this week. November soybeans have pushed through $10 this week and are trying to move through the January high of around $10.35 bushel. I would currently have 35 percent of anticipated production priced. If the market fails to push through the $10.35 level, I would look to increase the level of forward pricing. The trailing stop trigger point is at $9.27 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. As in corn, I would ask what is an acceptable floor price? I think we are there or very close to being able to set an acceptable floor. Using put options a futures floor of $9.26 bu. could be locked in – $10.40 strike price minus $1.14 premium. Put options set a floor, but allow an upside if the market goes up.

Wheat:

New Crop: The July 2009 futures contract closed at $6.13 bushel on Friday, up $.35 bu. from last week. Weekly exports were 20.7million bushels, more than expected, and on pace to meet USDA export projections for the marketing year ending May 31. Wheat finally broke through the $6.00 level this week with concerns on the spring seeded acreage, dryness in Argentina's wheat growing area, and the weakness in the U.S. Dollar. Wheat has been overpriced in the world market, but weakness in the dollar makes it more competitive. Spring seeded wheat continues to lag the 5 year average as 50 percent was seeded as of May 17 compared to the average of 90 percent. Some spring seeded wheat acres will most likely be shifted to soybeans. I would currently be forward priced 35 percent.The next level of resistance is around $6.20 bushel. If wheat cannot push through $6.20, I would look to increase forward pricing 5 percent.The next trailing stop trigger is $5.23. Using put options, a futures floor of $5.78 bushel could be established – $6.10 bu. July strike price – $.32 premium. This option expires June 26 so a September put may give better coverage.

Deferred: The September 2009 futures contract closed at $6.39 bushel, up $.35 for the week. Producers planning on storing wheat should look closely at using put options as a price risk management tool. A $6.50 put would cost $.72 bushel and offer a futures floor of $5.78 bushel. Δ

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