Cotton Prices Dip While Grain Prices Surge Upward

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Grain prices rose again this week as concern continued about this year's corn and soybean crops. Cotton prices fell late in the week due to weak export sales.

Corn:

Short Run: Cash corn prices ranged from $6.58 to $7.03 across Tennessee Thursday. The July futures price closed at $7.2775 Thursday, almost 19 cents higher than the previous Thursday's close. Corn prices fell back on Thursday after gaining ground during the week. Uncertainty about new crop yields and acreage will likely keep prices volatile.

Long Run: Harvest 2008 cash contract prices across Tennessee ranged from $6.50 to $7.27 Thursday. The December 2008 futures contract closed Thursday at $7.615, 22 cents higher than the previous Thursday's close. The last time stocks were lower than what has been projected for the 2008/09 marketing year was 1996, when ending stocks dropped to 426 million bushels. The Tennessee average corn price for 1995/96 was $3.50/bu – thought of at the time to be a very high price. Next year's ending stocks are now projected to be 673 million bushels, but prices have rallied to $7.00 plus. What's the difference? First, the May-June period has historically been a time of seasonally higher prices. The Midwest floods have also helped add uncertainty and higher prices this year. Secondly, even though planted acreage in 2008 is over 6 million acres more than in 1996, ethanol off-take in 2008/09 will likely require close to 26 million acres of corn this year. In 1996, the ethanol off-take was barely noticeable in corn usage statistics. So, until more in known about the size of this year's crop and the expected carryover stock level, the market will remain volatile. Volatility doesn't necessarily mean higher prices, but with stock levels already comparatively low, prices still have room to rally if expected yields and acreage drop. For now, consider having up to 50 percent of expected 2008 production priced over the next few weeks. Also consider pricing up to 20 percent of next year's expected production.

Cotton:

Short Run: The July futures contract closed Thursday at 71.44 cents/lb, 1.80 cents higher than the previous Thursday's close. Even though Thursday's price closed higher than last Thursday's price, prices dropped sharply late this week. The drop was blamed on disappointing export demand.

Long Run: The December 2008 futures contract closed Thursday at 80.07 cents/lb, 3.12 cents higher than the previous Thursday's close. The 80 cent level on the December market appears to be a support area. Below that, 75 cents may be the next support. Prices could sag back to the mid 70s, particularly if good crop conditions are reported over the next few weeks. I have been bullish on cotton, especially into 2009 for some time. I think corn will be looking for more acres next year, and soybeans and wheat don't appear to have any to give up. Therefore, I think corn and cotton could be vying for the same acres next year – and cotton prices should be supported by that scenario. Consider holding new crop pricing at 25 percent of expected production.

Soybeans:

Short Run: Cash soybean prices ranged from $14.35 to $15.12 across Tennessee Thursday. The July 2008 futures contract closed Thursday at $15.455, 9 cents higher than the previous Thursday's close. Like corn, soybean crop conditions dominate the market this time of year. And also like corn, this year's crop has gotten off to a questionable start. Stocks are too small for the market to get very comfortable until later in the growing season.

Long Run: The November 2008 futures price closed Thursday at $15.215, 9 cents higher than the previous Thursday's close. Cash forward contracts for harvest ranged from $13.81 to $14.38 across Tennessee Thursday. Could prices move higher? Yes, if yields drop off from current projections. I think it is way too early to talk yield reductions, but the market is taking into consideration weather. With a good growing season, I think bean prices could drop off from their current level, perhaps by a couple of dollars. But the uncertainty is great this year, and managing some price risk by locking in current prices should be considered on a portion of your expected production. Consider having up to 40 percent of 2008 production priced before the June 30 acreage report to help manage price risk this year.

Wheat:

Short Run: The July futures contract closed at $8.81 Thursday, 30 cents higher than the previous Thursday's close. Cash contract prices for July 2008 ranged from $5.41 to $6.81 across Tennessee Thursday. The wheat basis weakened further this week, with local prices dropping to as much as $3.40 below the Chicago price. While transportation costs have increased sharply over the past 6 months, farmers may want to compare buying points to determine the best net price for wheat, given the offered price, transportation costs, and other charges.

Long Run: The July 2009 futures contract closed Thursday at $9.59, 27 cents higher than last Thursday's close. Consider pricing a small portion of expected 2009 production now using hedging or hedge to arrive arrangements.

Feed Outlook: From time to time I am asked about feed prices and how they might be impacted by the current and projected grain situation. Corn prices are a pretty good indicator of feed prices, so the corn price outlook is the first place I start. Typically the spring is when seasonal prices are at their highest for feed grains. It is higher generally because of the uncertainty associated with the newly planted crop. This year's uncertainty has been heightened because of relatively low carryover stock levels projected for next year. If crop yields come out as expected, prices will likely fall as harvest nears. So how can feed buyers reduce the price risk this year? First, consider buying or pricing a bit more feed before the June 30 acreage report. If the report shows a drop in acreage, prices could rally further. Longer term, prices will be influenced heavily by this summer's weather. To protect from prices going even higher, feed buyers can again, carry a larger feed inventory this summer. But I still think historical price patterns call for weaker prices this summer into fall – the exception being if yields or acreage drop unexpectedly. Instead of buying feed ahead, feed buyers can use options to help reduce price risk. A lot of the corn production uncertainty should be answered by the last week in August. Buying a September corn call option would provide protection until the last week in August. For example, an $8.20 call option would cost about $0.33/bu. this week. If the September corn futures price rose above $8.20, the call owner would be able to gain the difference between the futures price and $8.20. Other ideas for managing feed cost include buying direct from farmers or substituting lower price grains in to rations, when possible. Δ

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