

Cotton Prices Have Potential To Rise Over Next Year



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Cotton and grain prices continued their rally this week, with new crop cotton prices topping \$85/cwt.

Corn:

Short Run: Cash corn prices ranged from \$5.08 to \$5.36 across Tennessee Thursday. The March futures price closed at \$5.4325 Thursday, almost 19 cents higher than last Thursday's close. With an increase projected in corn for ethanol use in the 2008/09 marketing year, carryover stocks may drop again. That possibility continues to support prices and adds weather premium to the new crop price.

Long Run: Harvest 2008 cash contract prices across Tennessee ranged from \$4.77 to \$5.36 Thursday. The December 2008 futures contract closed Thursday at \$5.655, 12.5 cents higher than last Thursday's close. Prices continue to climb as demand remains strong and the market keeps weather premium in its prices. I think there will be opportunities to capture some weather premium this spring by forward pricing the 2008 crop. For now, consider having up to a third of expected production priced at the current price level using cash forward contracting. Consider pricing another third using put options, which will establish a price floor with the opportunity of taking advantage of higher prices.

Cotton:

Short Run: The March futures contract closed Thursday at \$78.13, \$4.90 higher than last Thursday's close. With the prospect of much lower stocks for 2008/09, prices rallied again this week.

Long Run: The December 2008 futures contract closed Thursday at \$84.77, \$3.83 higher than last Thursday's close. I think cotton prices have the potential to continue to rise over the next year. If prices rise too soon, however, the U.S. might swing back to more acres than is currently projected. So if the December market rises into the low to mid \$90s by April, consider pricing additional 2008 production. For now, consider having up to 20 percent of expected 2008 production priced using December put options.

Soybeans:

Short Run: Cash soybean prices ranged from

\$14.33 to \$14.72 across Tennessee Thursday. The March 2008 futures contract closed Thursday at \$14.985, almost 93 cents higher than last Thursday's close. Prices continue to react to much lower old crop stocks, and the possibility of similar stock levels in 2008/09. I think the market is still trying to buy in more soybean acreage this year.

Long Run: The November 2008 futures price closed Thursday at \$14.24, 45.5 cents higher than last Thursday's close. Harvest prices for 2008 ranged from \$13.24 to \$13.59 across Tennessee Thursday. A projection of less than a 170 million bale carryover for the 2008/09 marketing year creates a significant amount of uncertainty and weather premium. It also gives additional pressure for the market to buy in more soybean acres this year. Prices could go higher, especially if there are yield concerns this year. For now, consider having up to a third of 2008 expected production priced now using cash forward contracting. Consider pricing another third using November put options as the planting season nears.

Wheat:

Short Run: The March futures contract closed at \$11.69 Thursday, \$1.395 higher than last Thursday's close. With average yields this year, U.S. stocks will likely increase, perhaps substantially. Prices of competing grains will still influence the wheat price, but the wheat price could weaken this spring and summer if domestic supplies move well above 500 million bushels.

Long Run: Cash contract prices for July 2008 ranged from \$8.57 to \$9.27 across Tennessee Thursday. The July 2008 futures contract closed Thursday at \$10.57, 88 cents higher than last Thursday's close. For now, consider capturing some of the current market for this year's production by pricing up to half of expected production using a combination of cash forward contracting and buying July put options. Consider also having up to half of expected 2009 and 2010 wheat production priced now, using cash forward contracting or hedge to arrive arrangements. July 2009 and 2010 CBOT futures contracts closed Thursday at \$9.80 and \$9.65, respectively. Δ

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