# Dollar Weakness Boosts Commodity Export Market

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We are in unprecedented times as recent actions by the Federal Reserve have given a boost to the commodity markets while fundamentals have not changed. The Federal Reserve's nearly $1.2 trillion economic stimulus plan through the purchase of $300 billion of long dated Treasuries and $850 billion of mortgage backed bonds is considered inflationary and has put pressure on the U.S. Dollar. The U.S. Dollar Index ended the week around 84.35, down 3.59 for the week. Crude oil was up 5.30 a barrel for the week at 51.55. Weakness in the Dollar should help exports remain competitive in the world market, but will not create more demand. It also has had the effect of boosting the crude oil market which is favorable to corn. With an increase in crude oil, there are also indications that index fund buying may also support the grain market. Does this mean a return to the high flying markets of 2008? Not necessarily, as fundamentals are quite different in 2009. It does make the importance of having a marketing plan in place even more critical. There is still more downside risk in the market than upside. However, because there are numerous unknowns such as economic policies and crop acreage, the use of put options as a risk management tool will become important. The purchase of put options will allow producers to set a floor, but leave some upside. Each week I list the futures floor that can be set with puts. Producers will need to decide if that is a floor that they can live with. Options can either be purchased through a commodity broker or in some cases tied to an existing grain contract through an elevator.

**Corn:**

*Nearby:* May 2009 futures closed at $3.965 bushel on Friday, up $.08 from last week. Weekly exports sales were 17.3 million bushels, below expectations and almost on the pace needed to meet USDA projections. The changes by the Fed will not really benefit the nearby corn market. For un-priced corn in storage, I am inclined to price out any remaining bushels.

*New Crop:* The September 2009 futures contract closed at $4.16 bushel on Friday, up $.10 from last week. Using a trailing stop strategy the next trigger point has been moved up to $3.71 bushel. I would use the last two week's increases to catch up to at least 20 percent priced at this time and watch the trailing stop on pricing more. It the market should move up, I would move the stop up. The March 31 planting intentions report will give us a good idea of acreage, but is based on conditions around March 1. Actual planted acreage can and will differ as producers watch prices and planting weather. I would still look to increase pricing up to 40 percent during the spring should we see a rally maybe trying to pull acres from soybeans. Put options could be used to lock in a floor. A Sept. $4.20 strike price put would cost $.54 bu. and set a futures floor of $3.66 bushel.

**Cotton:**

*Nearby:* The May futures closed at 44.08 cents/lb Friday, up 1.25 cent/lb from last week. Weekly exports were 218,000 bales, less than expected. Equities are trading between 1-3 cents depending on recap and micronaire. If you have loan cotton to sell, keep in contact with your cotton buyer.

*New Crop:* The December 09 futures closed at 49.24 cent/lb. up 1.41 cents/lb. from last week. The weaker U.S. Dollar will make U.S. cotton more affordable, but it is doubtful that it will create new demand with the shape of the global economy. The main driving factor in cotton will be planted acres and the supply it creates. For now, the cotton loan program can serve as a floor until we get into the production season.

**Soybean:**

*Nearby:* May 2009 futures closed at $9.52 bushel on Friday, up $.75 from last week. Weekly exports were 12.5 million bushels, below expectations and below the pace to meet USDA export projections. Tensions between the Argentina government and farmers are lending support to prices. As with corn, I am inclined to price out any remaining un-priced bushels of soybeans.

*New Crop:* The November 2009 futures contract closed at $8.93 bushel on Friday, up $.69 from last week. Price action during the week moved the trailing stop trigger point up to $7.88 bushel. Another acreage estimate early in the week put soybean acres at record levels. At this point, I would want to have priced at least 30 percent of the crop using rallies to catch up. It is possible we could see a continuation of the rally from competition between corn and soybean. If that occurs, I would increase the pricing percentage to 40 percent – 50 percent of anticipated production. The trailing stop trigger can serve as a floor to make sure something gets priced. It is time to start looking more closely at a put option strategy. Using put options a futures floor of $7.83 bu. could be locked in – $9.00 strike price minus $1.17 premium. There are options strategies out there that can cheapen the cost of the put, but make sure you understand what you are doing.

**Wheat:**

*Nearby:* May 2009 futures closed at $5.50 bushel on Friday, up$.32 bu. from last week. Weekly exports were 8.7 million bushels, below expectations but still on pace to meet projections.

*New Crop:* The July 2009 futures contract closed at $5.625 bushel on Friday, up $.32 bu. from last week. Rains last weekend were not enough to break the dryness in the southern plains as that area is still a concern. Flooding in the Upper Midwest area of the Red River Valley of North Dakota will be a concern over the next month. This could have an additional impact on spring seeded wheat. I would want to have priced 20 percent up to this point, but would be willing to move that up as we get closer to the freeze proof date. The next trailing stop trigger is $5.00. Using put options, a futures floor of $5.06 could be established – $5.60 bu. strike price – $.54 premium. Δ

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