Dollar, Funds Trading, Commodities Relationship Affects Grain Prices

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Corn, soybeans and wheat prices finished down for the week while cotton prices were mixed. The commodity market was headed for a good week until Thursday when the U.S. Dollar strengthened on concerns in the European financial markets. As a general rule the dollar affects the cost of our commodities in the world marketplace. However, what has been happening as of late has been the relationship of the dollar and commodities from a funds trading perspective. As part of a trade, when the dollar strengthens or goes up, funds will sell commodities. The opposite is true when the dollar weakens or goes down, funds will buy commodities. It is certainty more complex than that explanation, but I think that sums it up from a laymen's point of view. As the year ends and next year begins, funds were expected to be buyers of commodities. Some of these purchases may already be factored in. In the last three weeks, the dollar has strengthened 4 percent while soybeans and corn prices have declined 4 percent and wheat 8 percent. The U.S. Dollar is up 1.30 for the week at 78.25 before the close. The Dow Jones Industrial Average was at 10,308 before the close, down 1.5 percent for the week. Crude Oil before the close was up 2.62 a barrel from last Friday, trading at 74.36. The next marketing comments will be published on December 23.

Corn:

Nearby: March 2010 futures closed at $4.05 a bushel on Friday, down $0.07 bushel for the week. Support is at $3.83 bushel with resistance at $4.17 bushel. Weekly exports sales were 48.3 million bushels; above expectations and a marketing year high. As of December 13, corn harvest was 92 percent complete, compared to 88 percent last week. This puts about 6 million acres and over a billion bushels still in the field. It will be 2010 before some and maybe the majority of these bushels will be harvested. Field and quality losses will keep uncertainty in the market. Corn continues to trade in a sideways pattern.

New Crop: The September 2010 contract closed at $4.24, down $0.07 a bushel for the week. Support is $4.11 with resistance at $4.41 a bushel. Field losses of corn still not harvested will keep fundamentals uncertain. If there is much field loss, corn acreage will need to increase in 2010 to keep adequate supplies. One private estimate currently is projecting a 3.2 million acre increase in corn. Consider pricing up to 20 percent for 2010 production at this time.

Cotton:

Nearby: The March 2010 futures closed at 75.28 cents/lb. up .97 cents/lb. from last week. Support is at 73.69, resistance at 76.83 cents. Weekly exports sales were 242,300 bales (239,700 for 09/10 and 2,600 for 10/11). This was below the previous week and 4-week averages as well as below expectations. As of December 13, cotton harvest is reported at 91 percent finished, compared to 88 percent last week. Price direction for cotton will be dependent on final yields, exports, and direction of the dollar. Producers should be realistic on their price goals for loan cotton. Keep in contact with your cotton buyer for current quotes on loan equities and or cash prices. Equities for loan cotton have been in the 13 - 15 cent range during the week. Producers who are bullish might consider selling their cotton equities and buying May Call options. This would limit your risk on the downside, but leave some upside potential. The Adjusted World Price for December 18 – December 24 is 60.55 cents/lb.

New Crop: The December 2010 futures contract closed at 76.13 cents/lb., down .31 cents/lb. for the week. Support is at 74.97, resistance at 76.93 cents per pound. One estimate for 2010 cotton acres is for an increase of 904,000. This could eventually put pressure on 2010 prices. Fundamentals currently are positive with a decrease in carryover stocks. With increased acres, demand probably through exports will need to keep pace. A strengthening dollar may be hard for exports to overcome. Consider pricing cotton for 2010, at least a percentage of the crop.

Soybeans:

New Crop: January futures closed at $10.12 bushel, down $0.23 bushel from last week. Support is at $9.98, with resistance at $10.32 bushel. Weekly exports were 34.3 million bushels; above expectations and above the seasonal pace to meet the USDA's projection. The start of the second quarter of the marketing year has cumulative sales of 81 percent of USDA's projection for the year. The November crush estimate from the National Oilseed Processors Association was a record at 160.3 million bushels, up 15 percent from a year earlier. Although demand has been strong, soybean prices are feeling the effects of a stronger dollar.

Deferred: The March 2010 contract closed at $10.20 bushel on Friday, down $0.23 bushel from last week. The November 2010 contract closed at $9.94 bushel, down $0.25 bushel for the week. Support is at $9.78 with resistance at $10.10 bushel. Soybean acreage from one private estimate has 2010 acreage expected to drop 517,000 acres. I am currently priced 15 percent for the 2010 soybean crop.

Wheat:

Nearby: The March 2010 futures contract closed at $5.28 bushel, down $0.10 bushel from last week. Weekly exports were 12.7 million bushels, within range of expectations. Through December 10, wheat sales have reached just 66 percent of projected exports and are well below the 5 year average of 78 percent. At this pace, exports for the marketing year would be only 780 million bushels, 115 million bushels off of USDA's projection.

New Crop: The July 2010 futures closed at $5.53 bushel, down $0.07 bushel from last week. Support is at $5.40 with resistance at $5.59 a bushel. I would currently have up to 20 percent of the 2010 wheat crop priced. One estimate for 2010 winter wheat acreage is for a decrease of 3.865 million acres from 2009. This drop in acreage, although helpful, will still result in negative fundamentals. Wheat prices, however, have not been trading fundamentals and are more dependent on soybean and corn prices and fund interest. Δ

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