Dollar-Euro Relationship Is Main Market Mover

CHUCK DANEHOWER

RIPLEY, TENN.

Corn and wheat prices are down, soybeans are down to even, and cotton is mixed for the week. Again, the effects of the European financial markets and the relationship between the Dollar and the Euro have been the main market mover both in ag and non ag markets this week. Earlier in the week, there was some concern in the markets that China would pull out of their European bond investments, which would further weaken European financial markets. Some stability was restored when China came out and said that they were sticking with those investments. However, here at the end of the week, a downgrade of Spain's debt rating seems to be putting a damper on the markets and strengthening the dollar. With the Memorial Day holiday coming on Monday and markets not being open until Tuesday, some of the price action today is due to positioning before the 3 day weekend. The June U.S. Dollar Index is 86.73 before the close on Friday, up over 1 percent for the week. The Dow Jones Industrial Average before the close was 10,119; down 74 points for the week. July Crude Oil was trading before the close at 73.48 a barrel, up 5.5 percent for the week. Several market analysts have advised locking in diesel fuel needs through harvest and with an active hurricane season forecast that probably is a good idea. Meteorologists are not in complete agreement on the weather forecasts for the summer. They do agree that the timing of the establishment of La Nina will affect yields. As in the past, the weather can move markets. Many times, it is the forecast, rather than the actual outcome that causes the most movement. Keep an eye on how the weather may affect the markets.

Corn

Nearby: July futures closed Friday at $3.59 a bushel, down $0.10 a bushel for the week. Support is at $3.49 a bushel with resistance at $3.78 a bushel. Technical indicators have a sell bias. Weekly exports were less than expected at 33.7 million bushels (40.6 million bushels in 2009/10 and a reduction of 6.9 million bushels in 2010/11). Rumors from a private Chinese company that China will issue additional import licenses for 157 – 197 million bushels supported the market early in the week. It should be noted that this information is from a private company and not the Chinese government. If the rumor becomes fact, then the current market support is justified, but if it does not materialize then we could see market weakness develop. It should also be noted that of the export sales reductions, 5.1 million bushels were from China.

New Crop: The September contract closed today at $3.69, down $0.08 a bushel for the week. Support is at $3.59 and resistance at $3.88 a bushel. Technical indicators have a sell bias. As of May 23, 93 percent of the corn crop was planted compared to 87 percent last week, 80 percent last year and the 5 year average of 89 percent. The crop is 71 percent emerged, compared to 55 percent last week, 50 percent last year and the five year average of 62 percent. As of May 23, 71 percent of the crop is rated good to excellent compared to 67 percent last week. The corn market continues its sideways trend. Closely watch the upper end of this trend in the $3.80 - $3.90 range for making catch up sales and evaluating implementing an option strategy. The September futures market could reach $ 3.90 - $4.00 bushel, but to do so it will most likely need a combination of additional exports to China, positive outside markets, a weaker dollar, and either a weather scare or weather event. In other words, it will take a lot to push through $4.00, but it could happen. I would be forward priced 50 percent for 2010 production. A December $3.90 strike price put option would cost $0.38 bushel and set a $3.52 futures floor.

Cotton

Nearby: July futures closed Friday at 80.05 cents/lb. down 2.92 cents/lb. for the week. Support is at 79.03, and resistance at 81.95 cents per pound. Technical indicators have a sell bias. All cotton weekly exports sales were about expected at 354,200 bales (242,200 bales of upland cotton for 09/10; 104,000 bales of upland cotton for 10/11; 1,200 bales of Pima for 09/10 and 6,800 bales of Pima for 2010/11). Data from the Census Bureau indicates that domestic mills used cotton last month at a seasonally adjusted annualized rate of 3.457 million bales compared to the USDA forecast of 3.4million bales for the marketing year. The Adjusted World Price for May 28 – June 3 is 74.22 cents/lb.

New Crop: The December futures contract closed today at 78.61 cents/lb., up 1.16 cents/lb. for the week. Support is at 77.72 cents per pound, with resistance at 79.44 cents per pound. Technical indicators have strong buy bias. Keep in contact with your cotton buyer for current quotes on loan equities. Equities for 2010 production are in the 18 – 18.50 cents per pound range. As of May 23, 60 percent of the cotton crop was planted compared to 47 percent last week, 58 percent last year and the 5 year average of 63 percent. I would be forward priced 20 percent for 2010 production. I would target the 79 – 80 cent range to increase pricing. Consider using options in your cotton marketing strategy through either the purchase of a put option or forward pricing your crop and buying a call option. Both strategies are low risk and will set a floor price but still allow for the upside. An out of the money 83 cent December call would cost 3.32 cents per pound and set a 75.68 futures floor on cotton contracted at 79 cent futures or its equity equivalent. A at the money or 79 cent December Put option would cost 4.88 cents and set a 74.12 cent futures floor.

Soybeans

Nearby: July futures closed Friday at $9.38 bushel, down $0.03 bushel for the week. Support is at $9.24 a bushel, and resistance at $9.63 a bushel. Technical indicators have a sell bias. Weekly exports were below expectations at 10.8 million bushels (6.4 million bushels for 2009/10 and sales of 4.4 million bushels for 2010/11). Sales to date exceed the seasonal pace needed to reach USDA's export target for this marketing year by 20 million bushels, but the gap is narrowing. The U.S. Census Bureau reported that processors crushed 136.5 million bushels in April as compared to the trade guess of 138 million bushels. Crush to date in the current marketing year is 1.232 billion bushels compared to the USDA forecast of 1.735 billion bushels. To meet that forecast, census crush would have to average 125.75 million bushels a month over the last four months of the marketing year. Monthly crush has only been that low 3 times since September 2004.

New Crop: The November contract closed at $9.08 bushel, even for the week. Support is at $8.97 with resistance at $9.28 bushel. Technical indicators have a sell bias. As of May 23, 53 percent of the soybean crop was planted compared 38 percent last week and 44 percent last year and the 5 year average of 57 percent. As of May 23, the crop has emerged 24 percent, compared to 13 percent last week, 15 percent last year and the five year average of 23 percent. Planting progress is slightly behind average nationwide, but favorable growing weather has allowed the crop to emerge about average. I would be forward priced 45 percent for 2010 production. I would adjust my pricing target to $9.25 - $9.30 to price additional bushels. However, if prices should drop back to $9.00, I would use that as a signal to increase forward pricing. Put options may also offer some downside protection, but still leave some upside. Buying a November $9.20 strike price Put Option would cost $0.59 a bushel and set an $8.61 futures floor.

Wheat

Nearby: July futures contract closed at $4.58 bushel, down $0.14 a bushel for the week. Support is at $4.46 with resistance at $4.80 a bushel. Technical indicators have a sell bias. Weekly exports were above expectations at 17.9 million bushels with 5.5 million bushels in this marketing year and 12.4 million bushels in 2010/11 marketing year. Winter wheat crop condition ratings as of May 23 were 66 percent good to excellent compared to 66 percent last week and 45 percent last year. Spring wheat as of May 23 is 91 percent planted compared to 79 percent last week, 75 percent last year and the five year average of 91 percent. As of May 23, 70 percent of spring wheat is emerged, compared to 55% last week, 42 percent last year and the five year average of 68 percent. Prices today dropped through the stop loss of $4.60, so I increased pricing 10 percent to 50 percent overall. With harvest not too far away, I am inclined to continue to watch the market and look to price un-priced bushels out of the combine. Wheat prices most likely will follow the direction of corn and soybeans.

Deferred: September futures closed at $4.75 bushel, down $0.14 for the week. Support is at $4.60 with resistance at $5.02 a bushel. Technical indicators have a sell bias. Δ

CHUCK DANEHOWER: Extension Area Specialist/Farm Management, University of Tennessee