Economy Brings Grain, Cotton Markets Down

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Grain, soybean, and cotton markets are down for the week despite a friendly USDA Supply & Demand report, weather concerns, and somewhat strong export data. Price weakness is attributed to a lower stock market, stronger U.S. Dollar and weaker crude oil prices. The U.S. Dollar is trading around 83.11 on Friday up.47 for the week. After being up 10 percent last week, crude oil is down 2.08 for the week at 56.55. The Dow Jones Industrial Average is trading down 3.6 percent for the week on a decline in retail sales and an overall lack of any bullish news. The monthly USDA Supply & Demand report was released on Tuesday, May 12. A summary table for the current marketing year and the 2009/2010 year is at the end of this report and more detailed comments can be found at http://economics.ag.utk.edu/outlook.html .

Corn:

Nearby: July 2009 futures closed at $4.17 bushel on Friday, down $.04 from last week. Weekly exports sales were 46.6 million bushels, above expectations and above pace to meet the revised projections. Ending stocks for the 08/09 marketing year are projected to be 1.6 billion bushels, a decline of 100 million bushels from the April report. Still a large carryover, but expected to decrease in the next marketing year.

New Crop: The September 2009 futures contract closed at $4.27 bushel on Friday, down $.02 from last week. The USDA report projects ending stocks for the 09/10 marketing year to be 1.145 billion bushels, less than the trade estimated. Although this could be interpreted as bullish, prices were about unchanged leading me to believe this has had more of a stabilizing effect as the market watches closely the next few weeks. As of May 10, 48 percent of the corn crop was planted, with the 5 year average at 71 percent. I would note that last year at this same time we were also at 48 percent planted in the U.S. and still produced a decent crop. Nevertheless, it is unlikely but not impossible that corn planted this late can achieve trend line yields. A fair amount of corn may also have to be replanted also reducing yields. This could be the highest production estimate we see for the year as future reports may reflect a yield reduction or lower planted acres. September corn has resistance at the January high of $4.57. I would increase forward pricing, but suggest waiting to make sure the crop has and keeps a good stand before committing many more bushels. I would currently be 25 percent forward priced and would stick with a goal of 40 percent - 50 percent priced by early summer. Using a trailing stop strategy the next trigger point is $3.93 bushel. A December $4.50 strike price put would cost $.53 bu. and set a futures floor of $3.97 bushel for December. Adjusting for September delivery would make a futures floor of around $3.86 bushel.

Cotton:

Nearby: The July Cotton futures closed at 56.30 cents/lb Friday, down 3.55 cent/lb from last week. Weekly exports sales were weak at 79,000 bales, at the low end of expectations. USDA raised ending stocks in the May 12 report by 100,000 bales to 6.8 million bales. World ending stocks were decreased 109,000 bales to 62.3 million bales. The recent rally in cotton could have priced U.S. cotton out of the world market. After any run up, profit taking is to be expected.

New Crop: The December 09 futures closed at 59.07 cent/lb. down 3.30 cents/lb. from last week. The projected ending stocks for 2009/2010 in USDA's monthly report showed carryover decreasing to 5.6 million bales and an estimated average price of 55 cents/lb. A friendly report compared to where we have been in the past with burdensome ending stocks. As of May 10, 32 percent of the crop had been planted nationwide compared to the 5 year average of 39 percent. Not too far behind as a whole, but this has been a prime planting week and it is doubtful that some of the higher yielding states have made much progress. There is still uncertainty in the crop as parts of the Mid-South are wet and Texas is dry. Cotton currently is in the middle of the range that cotton marketing experts at the May 14 Ag Market Network conference call projected. They were looking at a range of 52-54 cents to 65 – 68 cents during this production year with the suggestion of buying call options on the low end and buying put options on the top end. If will take production problems or a higher than average acreage abandonment to support prices in the 68 cent range.

Soybean:

Nearby: July 2009 futures closed at $11.30 bushel on Friday, up $.20 from last week. Weekly exports were 27.7 million bushels, about expected, and above pace to meet the revised USDA export projections. Ending stocks in the latest report of 130 million bushels were as expected and makes the stocks to use ratio of 4.3 percent, the lowest since 1965.

New Crop: The November 2009 futures contract closed at $9.76 bushel on Friday, down $.04 from last week. Projections for the 2009/2010 marketing year, estimate soybean ending stocks at 230 million bushels, and a season average price of $9.45. As of May 10, 14 percent of the soybean crop was planted nationwide compared to the average of 25 percent. Trouble spots are Illinois with 0 percent planted compared to the average of 28 percent and Indiana with 2 percent planted compared to a 31 percent average. Still a lot of time to plant and it will dry up, but yields will be impacted. USDA's projections are using 76 million acres for soybeans. Most likely, that is a low number as some wheat and corn acreage and maybe cotton gets switched to soybeans. We could very easily go from the current tight carryover to a plentiful one. From a technical standpoint, the market is having trouble pushing through $10 as it currently is topping out or consolidating for a move upward. There is chart resistance at the January high of $10.35. I would currently have 35 percent of anticipated production priced. The trailing stop trigger point is at $8.87 bushel. The trailing stop trigger can serve as a floor to make sure something gets priced. Continue to look at and seriously consider a put option strategy. Using put options a futures floor of $8.77 bu. could be locked in – $9.80 strike price minus $1.03 premium. Put options set a floor, but allow an upside if the market goes up.

Wheat:

New Crop: The July 2009 futures contract closed at $5.78 bushel on Friday, down $.13 bu. from last week. Weekly exports were 8.6 million bushels, less than expected, but still on pace to meet USDA export projections. Ending stocks were reduced more than expected to 669 million bushels, still a large carryover. Spring seeded wheat continues to lag the 5 year average as only 35 percent was seeded as of May 10 compared to the average of 78 percent. Planting delays have given support to the wheat market along with dryness in Australia and Argentina. USDA estimated wheat ending stocks for the 2009/2010 year at 637 million bushels, less than the current marketing year and about what the trade expected. World ending stocks are expected to increase to 6.675 billion bushels. U.S. wheat has been looking overpriced in the world market and has been unable to push through resistance at the $6.00 level. Because of this, I would increase forward pricing 5 percent to 35 percent overall. The next trailing stop trigger is $5.03. Using put options, a futures floor of $5.47 bushel could be established – $5.80 bu. July strike price – $.33 premium.

Deferred: The September 2009 futures contract closed at $6.04 bushel, down $.14 for the week. Producers planning on storing wheat should look closely at using put options as a price risk management tool. A $6.00 put would cost $.42 bushel and offer a futures floor of $5.58 bushel. Δ

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