Expect Volatility In Markets This Summer

CHUCK DANEHOWER

RIPLEY, TENN.

Comments and prices are through Wednesday, June 15, 2011. Corn, soybean, and wheat prices are down with cotton mixed through mid-week. The September U.S. Dollar Index was trading at 76.09, up .89 since last Friday. The Dow Jones Industrial Average closed at 11,897; down 94 points through mid-week. Crude Oil was trading at 94.86 a barrel, down 4.51 a barrel since last Friday. There has not been any real bullish information out this week and this is a market that needs continued bullish information in order to maintain its price level and maybe advance. Bearish information has centered on a stronger dollar from European concerns on the Greece financial bailout, weak economic data in the U.S. and good growing conditions throughout the Midwest this week. Fund selling across the board has also attributed to the selloff. Corn and cotton for the most part have gotten planted with soybean planting about on schedule. Acreage of the crops and more importantly harvested acreage are and will be the question as we go through the growing season. Although acreage will be reported by USDA on June 30, questions will still linger as there will be some uncertainty in the numbers. At this point, it is looking more like the markets are trading yield potential and demand or usage of the crops. Have prices gone too high and started reducing demand? The answer may come throughout the summer as currently fundamentals are strong for prices and it will take trend line to above trend line yields to rebuilt stocks. Expect volatility in the markets and outside influences such as the dollar and economy may dictate direction.

Corn:

Nearby: July futures closed today at $7.25 ¾ a bushel, down $0.61 through mid-week. Support is at $7.01 with resistance at $7.74 a bushel. Technical indicators have changed to a sell bias. Price action this week is looking like a top as been put in. There have been some indications that wheat has taken the place of corn in some rations. Ethanol production reported today indicated production slowed to 880,000 barrels a day from the previous week of 915,000 barrels. The market had some concern of a U.S. Senate amendment to eliminate the 45 cent per gallon blenders' credit as well as the 54 cent per gallon ethanol import tariff, but it was voted down. It is expected to come back up in some form on June 24.

Current Crop: September closed at $7.04 ¾ a bushel, down $0.51 bushel through mid-week. Support is at $6.77 with resistance at $7.48 a bushel. Technical indicators have changed to a hold bias. As of June 12, 99 percent of the corn crop was planted compared to 94 percent last week, 100 percent last year and the 5 year average of 99 percent. Nationwide, corn emergence is 91 percent compared to 79 percent last week, 97 percent last year and the five year average of 96 percent. Corn crop condition ratings as of June 12 were 69 percent good to excellent compared to 67 percent last week, and 77 percent last year. Poor to very poor ratings are 6 percent compared to 6 percent last week, and 5 percent a year ago. Iowa has 84 percent of its crop in the good to excellent category. Although acreage questions have not gone away, the market is shifting more to yield potential, crop condition scores and growing weather. End users may provide some level of support if they step in and buy these price breaks. I am currently 50 percent priced and would hold at this level until we get further along in the growing season. Put options would set a floor and buying a December $6.70 Put option would cost $0.65 and set a $6.05 floor on the December market while keeping an upside.

Cotton:

Nearby: July futures contract closed at 151.96 cents/lb., up 1.93 cents/lb. through mid-week. Support is at 145.71 cents per pound, with resistance at 161.13 cents per pound. Technical indicators have a strong sell bias. Concerns over a slowdown in global economic activity and its affect on demand have been attributed to the selloff at mid week.

Current Crop: December closed at 125.80 cents per pound, down 7.85 cents through mid-week. Support is at 121.48 cents per pound, with resistance at 134.4 cents per pound. Technical indicators have changed to a sell bias. Current quotes on 2011 loan equities range from 60 to 62.50 cents per pound. Keep in contact with your cotton buyer for current quotes on loan equities and pricing alternatives. As of June 12, 95 percent of the cotton crop was planted compared to 87 percent last week, 95 percent last year and the 5 year average of 94 percent. Nationwide, 12 percent of the cotton crop is squaring compared to 9 percent last week and 15 percent last year and the five year average of 14 percent. Cotton crop condition ratings as of June 12 were 28 percent good to excellent compared to 62 percent last year. Poor to very poor ratings are 34 percent compared 4 percent poor a year ago. Texas cotton was rated at only 18 percent good to excellent with 44 percent very poor to poor. Georgia cotton was similar with 20 percent rated good to excellent and 46 percent very poor to poor. Crop conditions in the two largest cotton producing states should provide some measure of support. However, forecast of any rain events will cause market weakness such as the slight possibility of a tropical disturbance in the Gulf of Mexico bringing rain to the Cotton Belt next week. I am currently at 45 percent priced and would hold at that level. Evaluate the option market as a good tool to set a floor price and still leave an upside. A December 126 Put option would cost 14.60 cents and set a 111.40 futures floor. An out of the money December 110 Put would cost 7.25 cents and set a 102.75 futures floor. December 2012 prices closed at 101.61 cents/lb.

Soybeans:

Nearby: The July contract closed at $13.68 a bushel, down $0.19 through mid-week. Support is at $13.45 with resistance at $13.87 a bushel. Technical indicators have changed to a sell bias. National Oilseed Processors Association crush for May came in at 120.3 million bushels and is lagging the pace needed to hit USDA's target.

Current Crop: November soybeans closed at $13.66 ¾ a bushel, down $0.15 a bushel through mid-week. Support is at $13.44 with resistance at $13.82 a bushel. Technical indicators have changed to a buy bias. As of June 12, 87 percent of the soybean crop was planted compared to 68 percent last week, 90 percent last year and the 5 year average of 89 percent. Nationwide, soybean emergence is 64 percent compared to 44 percent last week, 78 percent last year and the five year average of 76 percent. Soybean crop condition ratings as of June 12 were 67 percent good to excellent compared to 73 percent last year. Soybean prices are holding up well considering the world supply and record large Brazilian crop. Again, at this point the acreage is a guess and the market will probably look to how the crop is growing for direction. I am currently priced 50 percent for 2011 and would hold off pricing more. Currently, buying a November $13.80 Put option would cost $0.84 a bushel and set a $12.96 futures floor.

Wheat:

Current Crop: July futures contract closed at $7.08 ½ a bushel, down $0.51 a bushel through mid-week. Support is at $6.81 with resistance at $7.47 a bushel. Technical indicators have a strong sell bias. Nationwide, 22 percent of the winter wheat crop has been harvested compared to 10 percent last week and 10 percent last year and the five year average of 13 percent. Winter wheat crop condition ratings as of June 12 were 35 percent good to excellent compared to 34 percent last week and 66 percent last year. Poor to very poor ratings are 42 percent compared to 44 percent last week and 9 percent a year ago. Seasonal tendencies for market weakness here at harvest seem to be showing up along with a general selloff from a stronger dollar and fund liquidation. Projections from Australia put new crop exports at a record, which would be competing with our wheat. Wheat feeding in the US and abroad does offer some level of support to prices. I am currently at 50 percent priced and would look to sell the remainder either off the combine at harvest or hold in storage, if available. Currently, there is carry in the futures market favoring storage to December. Producers with storage who want to set a floor under their wheat price may want to look at December Put options. A December $7.80 Put would cost $0.75 a bushel and set a $7.05 futures floor.

Deferred: December wheat closed at $7.79 ¾ a bushel, down $0.46 through mid-week. Support is at $7.56 with resistance at $8.16 a bushel. Technical indicators have a strong sell bias. Spring wheat as of June 12 is 88 percent planted compared to 79 percent last week, 100 percent a year ago and the five year average of 100 percent. Spring wheat emergence is 73 percent compared to 57 percent last week, 96 percent last year and the five year average of 97 percent. Spring wheat crop condition ratings as of June 12 were 68 percent good to excellent compared to 86 percent last year. July 2012 wheat closed at $8.33 ½ a bushel. 1Δ

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