Export Demand For Corn, Soybeans Strong

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Commodity pri-ces fell again this week. Export demand showed strength, however, particularly for corn and soybeans.

Corn:

Short Run: Cash prices across Tennessee ranged from $2.95 to $3.55 Thursday. The December 2008 futures contract closed Thursday at $3.845, almost 54 cents lower than the previous Thursday's close. Another week of sharply lower prices resulted in price levels at half what they were this summer. The market appears to be following the general economy, and as the Dow drops, so do the commodity markets. Consider a combination of cash sales at harvest and storage for the 2008 crop.

Long Run: The December 2009 futures contract closed Thursday at $4.375, 53 cents lower than last Thursday's close. Last Friday's USDA report indicated a larger carryover stock for the 2008/09 crop year than had been projected earlier, but still well below the stock level for 2007/08. While the 1.1 billion bushel carryover projection is a comfortable level for the current market price, if demand holds up this year, the market will likely be looking for 2 million acres next spring, or more. Consider pricing some of the 2009 crop at $4.00 or above if cash forward contracts are available locally.

Cotton:

Short Run: The December futures contract closed Thursday at 49.57 cents/lb, 2.87 cents lower than the previous Thursday's close. Last Friday's USDA update dropped export projections, sending U.S. ending stock estimates over 6 million bales. If accurate, that level would significantly dampen the price outlook for the 2008 crop.

Long Run: The December 2009 contract closed Thursday at 60.88, 3.59 cents/lb below last Thursday's close. The difference between 2008 and 2009 prices is still substantial, and reflects the year to year drop in U.S. stocks. Foreign stocks are also projected to drop this marketing year, making the drop in export projections disappointing. A further drop in export demand could potentially drop U.S. prices even further.

Soybeans:

Short Run: The November 2008 futures price closed Thursday at $8.67, $1.13 lower than the previous Thursday's close. Cash prices ranged from $7.67 to $8.17 across Tennessee Thursday. Prices fell sharply again this week, after last Friday's USDA update reported an increase of over 2 million acres to the 2008 crop. With projected carryover stocks now in excess of 200 million bushels, some of the price risk was removed form both this and next year's crops. One positive note was today's export report, which indicated a very active demand. If the export strength continues, stocks could trend lower this winter. Like corn, consider a combination of cash harvest sales and storage for the 2008 crop.

Long Run: The November 2009 futures contract closed Thursday at $9.10, $1.02 lower than last Thursday's close. Consider pricing a portion of the 2009 crop now using cash forward contracting if available. Another alternative to pricing the 2009 crop is to buy November 2009 put options. Those options are expensive, but if you understand and can bear the risk, there are still significant premiums on well out of the money call options that can be written to help offset a portion of the put option premium.

Wheat:

Short Run: The December futures contract closed at $5.5525 Thursday, 49.5 cents lower than the previous Thursday's close. Consider selling a portion of stored wheat, spreading sales out over this fall and winter to help reduce price risk.

Long Run: The July 2009 futures contract closed Thursday at $6.0075, almost 54 cents below last Thursday's close. As recently as late August the July contract traded as high as $10/bu. With the current cash basis up to $2.00 below Chicago in parts of Tennessee, the market is telling us that local cash prices next July could be in the $4.00 range. With the higher level of input prices, $4.00 wheat may not be an attractive alternative this year. At this point, do farmers plant and hope for a price increase? There is always uncertainty in production agriculture, but it may be time to look even more carefully at the financial risk in the 2009 crop. The market price may have over reacted to the current market conditions and I think the wheat price will stabilize soon and perhaps move higher. However, with the current state of the commodity market and the economy in general, consider pricing up to 20 percent of next year's expected production to help reduce price risk. Δ

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