Global Economics Force Grain, Cotton Prices Down

DR. DELTON GERLOFF

KNOXVILLE, TENN.

Grain and cotton prices fell again this week as global economic conditions highlighted market news.

Corn:

Short Run: Harvest 2008 cash contract prices across Tennessee ranged from $4.63 to $4.97 Thursday. The December 2008 futures contract closed Thursday at $5.2725, 6 cents lower than the previous Thursday's close. Current global economic uncertainty adds to the complex nature of this year's market. The December market has dropped nearly a dollar/bu. since late August, even with a drop in expected yields in the latest USDA report. Consider being at least 50 percent priced on this year's crop. Will price gains pay for storage this year? I think so, although it may take awhile to see prices turn around this fall/winter. But I would not suggest storing a majority of the crop this fall.

Long Run: The fundamental supply/demand situation for corn is actually price supportive this year - particularly after harvest . Both foreign and domestic stocks will drop significantly this year. And early in 2009, the market will be looking to buy in additional U.S. corn acres. Unfortunately, input prices may not give much relief next year. Farmers will have to look even more carefully next year to determine crop mix. With lower cash outlays needed for soybean production, it may take a bigger price differential to switch farm ground into corn next year. Look for opportunities to price ahead this winter, but consider limiting 2009 pricing to 20 percent of expected production at this time.

Cotton:

Short Run: Cotton prices continued to drop this week, as the December futures contract fell to 60.76 cents/lb on Thursday, 3.10 cents lower than the previous Thursday's close. Strength in the U.S. dollar and concerns about export demand continue to weaken the market.

Long Run: U.S. cotton's dependence on the export market combined with a higher dollar have weighed on this market. Longer run, fundamentals point toward a need to expand U.S. acreage in 2009 – but again that is based on a demand which is 75 percent exports. I think farmers will have to be convinced in the market place next year that a huge investment in planting and growing cotton has a profit potential. Input costs don't always drop in the short run even though commodity prices may fall. Not everyone can plant soybeans, and I think there will be pressure on prices this winter to move higher.

Soybeans:

Short Run: The November 2008 futures price closed Thursday at $11.16, 60 cents lower than the previous Thursday's close. Cash forward contracts for harvest ranged from $10.37 to $10.70 across Tennessee Thursday. Soybean prices fell sharply again this week after prices fell below technical support on Tuesday's market. Domestic bean supplies are short, and foreign stocks are expected to increase only slightly next year. While that combination is generally price supportive, the market had a lot of risk priced in this year. Consider having at least 50 percent of this year's beans priced at this time.

Long Run: The past two years, the market has rallied significantly in the fall. While I don't think we will see a similar rally to last year, price increases after harvest could pay for storage costs this year. That scenario is likely dependent on corn prices also. Unless input prices drop substantially, U.S. producers may find it difficult to switch over to corn next year. That appears to set up another tight supply/demand relationship next year and will likely result in another spring time of volatile prices.

Wheat:

Short Run: The December futures contract closed at $6.9275 Thursday, 33.5 cents lower than the previous Thursday's close. Cash prices ranged from $4.43 to $5.58 across Tennessee Thursday. On August 21, 2008 the December Chicago futures market contract closed $9.22/bu., so prices have dropped nearly $2.30 in 4 weeks. Will old crop prices recover this fall? Wheat supplies both in the U.S. and abroad have increased substantially since last year and other commodity prices have experienced similar price declines. Those factors have combined to help drop prices, and until these factors turn around it is difficult to predict a significant price rally for old crop prices.

Long Run: The July 2009 futures contract closed Thursday at $7.375, over 36 cents below last Thursday's close. Could conditions change to send prices back to levels seen last year? It is possible. I think winter wheat acreage will drop this year in the U.S. in reaction to the cost/price situation now faced by farmers. If those acres drop enough to affect supply substantially, prices could rebound, especially for the new (2009) crop contracts. Because of the larger carryover crop, however, I don't think prices will challenge those seen last winter. Competing crop acreage could also help boost wheat prices. Next spring, the market will likely be looking for more corn and cotton acres in the U.S. To the extent that those come from wheat, anticipated ending wheat stocks may fall enough provide a price rally. Δ

Dr. Delton Gerloff is professor, Agricultural Economics with the University of Tennessee at Knoxville.