Good Growing Conditions Reported For 2010

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Corn, cotton, soybeans, and wheat prices are up for the week. Yesterday's USDA Supply & Demand report was positive for corn and cotton and neutral for soybeans and wheat. Positive outside markets have also contributed to the rally as the Dollar is weaker, with the Dow and Crude Oil up for the week. The June U.S. Dollar Index is 87.44 before the close on Friday, down .70 for the week. The Dow Jones Industrial Average before the close was 10,211; up 2.8 percent for the week. July Crude Oil was trading before the close at 74.19 a barrel, up 3.8 percent for the week. Good growing condition exist for the near and intermediate term for most crops, but weather forecasts are still uncertain on the timing of La Nina and the effects it might have here in the U.S. and abroad. I still look for weather forecast to be market movers this summer – down if the forecasts are favorable, up if we see growing problems develop. USDA released their monthly supply and demand report June 10 and a summary of the data can be found at the end of these comments. More detailed comments on this report have been posted at http://economics.ag.utk.edu/outlook.html. USDA will release their Acreage Report and Quarterly Stocks Report on June 30 with the next Supply & Demand report on July 9, 2010.

Corn:

Nearby: July futures closed Friday at $3.50 a bushel, up $0.10 a bushel for the week. Support is at $3.40 a bushel with resistance at $3.54 a bushel. Technical indicators have a sell bias. Weekly exports were greater than expected at 45.7 million bushels (40.1 million bushels in 2009/10 and 5.6 million bushels in 2010/11). USDA lowered 2009/10 ending stocks 135 million bushels from the May report to 1.603 billion bushels, 121 million bushels lower than the average trade guess. Usage was raised 150 million bushels on corn for ethanol, 10 million bushels for food usage, and lowered 25 million bushels for feed and residual.

New Crop: The September contract closed today at $3.59, up $0.09 a bushel for the week. Support is at $3.50 and resistance at $3.63 a bushel. Technical indicators have a sell bias. As of June 6, 94 percent of the crop has emerged, compared to 85 percent last week, 85 percent last year and the five year average of 91 percent. As of June 6, 76 percent of the crop is rated good to excellent compared to 76 percent last week, and 69 percent last year. USDA forecast ending stocks for 2010/11 at 1.573 billion bushels, a reduction of 245 million bushels from May and 258 million bushels lower than the average pre report guess. Demand is projected 220 million bushels higher in 2010/11 than 2009/10. This latest report may tend to keep the market on edge and allow it to trade sideways until August when the first survey based yield results are factored in. Projected ending stocks are adequate, but a drop in yield from the current projection of 163.5 bushels nationwide could tighten up stocks and drive prices higher. Weather forecasts in the short term do not look to cause production problems. Favorable growing conditions could result in another record yield and that possibility may keep a lid on prices, even with the increasing demand. Outside markets, increased exports, or a higher than expected increase in the blend rate for ethanol could influence corn prices to move back to the $3.60 - $3.90 trading range. I would use rallies into that range to make catch up sales or implement an option strategy. Currently, I would be forward priced 50% for 2010 production. A December $3.70 strike price put option would cost $0.30 bushel and set a $3.40 futures floor.

Cotton:

Nearby: July futures closed Friday at 81.54 cents/lb. up 4.48 cents/lb. for the week. Support is at 80.77, and resistance at 83.19 cents per pound. Technical indicators have a buy bias. All cotton weekly exports sales were above expectations at 824,100 bales (a marketing year high of 624,200 bales of upland cotton for 09/10; 198,700 bales of upland cotton for 10/11; 300 bales of Pima for 09/10 and 900 bales of Pima for 2010/11). The Adjusted World Price for June 11 – June 17 is 73.36 cents/lb. USDA lowered old crop ending stocks to a tight 2.9 million bale carryover, mainly on an increase in exports. This week's export report helped confirm that adjustment.

New Crop: The December futures contract closed today at 78.94 cents/lb., up 3.66 cents/lb. for the week. Support is at 78.33 cents per pound, with resistance at 79.41 cents per pound. Technical indicators have a buy bias. Contracted equities have been in the 18 – 19 cent range. Keep in contact with your cotton buyer for current quotes on loan equities. As of June 6, 91 percent of the cotton crop was planted compared to 79 percent last week, 86 percent last year and the 5 year average of 88 percent. Nationwide, as of June 6, 8 percent of the cotton crop was squaring compared to 5 percent last week, 6 percent last year and the 5 year average of 10 percent. The crop is rated 66 percent good to excellent compared to 63 percent last week. USDA, based on the lowering of beginning stocks, projected U.S. ending stocks for the 2010/11 year at 2.8 million bales. If realized, U.S ending stocks and World ending stocks of 49.6 million bales would be the lowest since the 1994/95 marketing year. An unexpected drop in retail sales contributed to today's decline in the cotton market. I would currently be forward priced 20 percent for 2010 production with that 20 percent covered by buying call options. I would target the 80 cent range to increase pricing and continue to evaluate option strategies. A 79 cent December Put would cost 4.95 cents and set a 74.05 futures floor, but still leave the upside. On any pullback in prices, I would look closely at buying out of the money call options on the amount forward priced. This will allow some upside on contracted cotton.

Soybeans:

Nearby: July futures closed Friday at $9.46 bushel, up $0.11 bushel for the week. Support is at $9.24 a bushel, and resistance at $9.57 a bushel. Technical indicators have a sell bias. Weekly exports were above expectations at 20.2 million bushels (15.4 million bushels for 2009/10 and 4.8 million bushels for 2010/11). USDA lowered old crop ending stocks 5 million bushels from May, in line with pre report guesses. The only adjustment was a 5 million bushel increase in crush. Global stocks were raised 33 million bushels from last month's report. USDA announced today that China had purchased more soyoil from the U.S., a result no doubt of China's trade dispute with Argentina.

New Crop: The November contract closed at $9.09 bushel, up $0.03 for the week. Support is at $8.86 with resistance at $9.28 bushel. Technical indicators have a sell bias. As of June 6, 84 percent of the soybean crop was planted compared 74 percent last week and 76 percent last year and the 5 year average of 84 percent. As of June 6, 66 percent of the crop has emerged, compared to 46 percent last week, 52 percent last year and the five year average of 64 percent. Along with pre report guesses, USDA projected soybean ending stocks at 360 million bushels, a reduction of 5 million bushels from May. Today's strong showing in the soybean market may be a benefit of corn's price move as well as outside markets. There are some concerns on flooding affecting the soybean crop and that also could be influencing today's up move. Although the soybean crop is currently rated 75 percent good to excellent, weather may play an important role later in the summer. I would be forward priced 50 percent for 2010 production. I would use a pricing target of $9.25 - $9.30 to make catch up sales. Put options may also offer some downside protection, but still leave some upside. Buying a November $9.20 strike price Put Option would cost $0.57 a bushel and set an $8.63 futures floor.

Wheat:

New Crop: July futures contract closed at $4.41 bushel, up $0.03 a bushel for the week. Support is at $4.18 with resistance at $4.61 a bushel. Technical indicators have a sell bias. Weekly exports were below expectations at 4.3 million bushels. Winter wheat crop condition ratings as of June 6 were 66 percent good to excellent compared to 65 percent last week and 44 percent last year. Nationwide, 3 percent of the winter wheat crop has been harvested compared to 4 percent last year and the 5 year average of 6 percent. Wheat also seems to be following corn, but is benefitting from a Canadian Wheat Board report of a drop in wheat acres in Canada. I would currently have 50 percent priced for new crop wheat and look to sell the remainder at harvest. From a futures standpoint, there is some carry in the market that would support storage, but it is more than offset by basis deterioration in the deferred months. Overall, I don't look for the cash market to support wheat storage.

Deferred: September futures closed at $4.57 bushel, $0.03 for the week. Support is at $4.34 with resistance at $4.76 a bushel. Technical indicators have a sell bias. Spring wheat as of June 6 is 90 percent emerged compared to 84 percent last week, 82 percent last year and the five year average of 94 percent. As of June 6, 84 percent of spring wheat is rated good to excellent compared to 85 percent last week, and 73 percent last year. Producers planning on 2011 wheat may want to consider pricing a portion at current levels or at least watch the market for July 2011. It is currently trading at $5.52 bushel. Δ

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