Grain Prices Follow Dow Trend Downward

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The Dow Jones Industrial Average has plunged this week and has broken through lows not seen since November 1997. Along the way it has taken corn, cotton, soybeans, and wheat with it despite positive weekly export numbers. The export numbers were about the only ag news this week, so when that happens, the commodity market tends to follow the Dow and other financial markets. The financial market drop was in response to concerns on the recently passed stimulus package and on worries that a financial sector rescue may require some form of bank nationalization. The U.S. Dollar Index ended the week around 86.69 up .12. Crude oil was up 1.76 for the week at 39.28. The commodity selloff would appear to be overdone, but any bounce or rally will require positive news for agriculture and the general economy. Prices have dropped 10 percent- 13 percent in the last month. Producers need to change their mindset and realize that prices will not be at 2008 levels. Typically, there are several opportunities to price crops during the year. Developing and putting in place a marketing plan will be a key to capturing these opportunities. The first glimpse of the 2009 crop will occur next week at the USDA Outlook Forum with planting intentions out at the end of March.

Corn:

Nearby: March 2009 futures closed at $3.50 bushel on Friday, down $.13 from last week. Weekly exports were 52.4 million bushels, more than what was expected and on pace to meet USDA projections. The question is will corn be able to sustain this pace? For unpriced corn in storage, I would be inclined to watch the market during the week and stagger sales on any rallies.

New Crop: The September 2009 futures contract closed at $3.78 bushel on Friday, down $.15 bushel from last week. September Corn Futures have traded through the trailing stop trigger of $3.91. I would price another 5 percent- 10 percent, and have at least 20 percent priced over all. The next trigger price is $3.54, but at this point I am inclined to see if the market is oversold and if we will get a rally into planting season. The last five years we have ended February higher than we started. This year is certainly different and we may not get the February effect. Put options could be used to lock in a floor. A Sept. $3.80 strike price put would cost $.48 bu. and set a futures floor of $3.32.

Cotton:

Nearby: The March futures closed at 43.03 cents/lb Friday, down 1.00 cent/lb from last week. Weekly exports were 435,000 bales up from the previous week. If you have loan cotton to sell, keep in contact with your cotton buyer. Equities continue to be flat.

New Crop: The December 09 futures closed at 49.70 cent/lb. down 1.61 cents/lb. from last week. The drop in intended cotton acres from the National Cotton Council survey was not enough to overcome the dismal general economy and poor financial markets. Production will have to fall and the economy pick up before prices can rally. Planted acre this spring and the weather in Texas will have an impact on the production side.

Soybean:

Nearby: March 2009 futures closed at $8.62 bushel on Friday, down $.94 from last week. Weekly exports were 43.2 million bushels, more than expected and still above pace to meet USDA projections. Exports are expected to slow at some point as the South American crop moves into the marketplace. Although South American drought losses are thought to be priced in the market, there is a possibility of a farmers strike in Argentina that will delay their soybeans hitting the market. To manage risk I would look to sell storage soybean on rallies, spreading sales out over the next month.

New Crop: The November 2009 futures contract closed at $8.30 bushel on Friday, down $.62 from last week. November Soybean Futures have traded through the trailing stop trigger point of $8.89 and the next trigger of $8.53. At this point, I would want to have priced 20 percent of the crop. Rather than make catch up sales, I would watch the market over the next few weeks as we get closer to planting time as well as the March 31 USDA planting intentions report. I would look to make catch up sales on any bounce up. There are still possibilities of rallies, although the trend is now down. Using put options a futures floor of $7.34 bu. could be locked in – $8.40 strike price minus $1.06 premium.

Wheat:

Nearby: March 2009 futures closed at $5.19 bushel on Friday, down $.16 bu. from last week. Weekly exports were 15.9 million bushels, above expectations and on pace to meet USDA projections.

New Crop: The July 2009 futures contract closed at $5.42 bushel on Friday, down $.19 bu. from last week. Wheat continues to be a follower of corn and soybeans. As with corn and soybeans, I would continue to watch the market before pricing any additional crop looking for a bounce. I would want to have priced 20 percent up to this point. The next trailing stop trigger is $5.00. Using put options, a futures floor of $4.84 could be established – $5.40 bu. strike price – $.56 premium. Δ

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