Grain, Cotton Prices Fell This Week As Planting Progress Continued

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Corn: *Short Run:* Cash corn prices ranged from $5.17 to $5.86 across Tennessee Thursday. The July futures price closed at $5.9575 Thursday, over 3 cents lower than the previous Thursday's close. The planting pace quickened last week, but still lags well behind average. The concern about reduced yields this year has kept prices near the $6 level. But strong demand and the prospect of much lower ending stocks also provide support.

Long Run: Harvest 2008 cash contract prices across Tennessee ranged from $5.26 to $5.83 Thursday. The December 2008 futures contract closed Thursday at $6.2325, less than 1 cent higher than the previous Thursday's close. Cash contract bids for harvest delivery in Tennessee are running 50 cents to nearly a dollar below the December futures price. While even harvest time basis levels have not historically been that weak, I would not plan on a stronger basis this fall. Consider holding forward pricing at 40 percent of expected production at this time.

Cotton:

Short Run: The July futures contract closed Thursday at 69.99 cents/lb, 0.14 cents lower than the previous Thursday's close. The July futures contract seems to have found a home at 70 cents/lb., with prices trading near that mark for the past few weeks. It is difficult to come up with a scenario for a rally well above 70 cents at this time, given the high old crop stock level.

Long Run: The December 2008 futures contract closed Thursday at 78.67 cents/lb, 0.17 cents lower than the previous Thursday's close. The spread between old and new crop prices is significant, but reflects a much lower expected stock level for the new crop. I think farm level cotton prices will increase eventually, perhaps beyond 90 cents/lb., but that price may not be reached until after this production year. And, to reach that price level, export demand will likely have to strengthen. At this time, consider pricing up to 25 percent of expected production now using December put options.

Soybeans:

Short Run: Cash soybean prices ranged from $12.64 to $12.95 across Tennessee Thursday. The July 2008 futures contract closed Thursday at $13.475, almost 23 cents lower than the previous Thursday's close. Soybean prices continue to be volatile. July's futures price gapped lower on Monday and traded generally within a 50 cent range the remainder of the week. Unless there is a slowing of demand, I don't think prices will fall dramatically this spring. There is some weather premium built in to the market currently, however, and some forward pricing of the new crop should be considered.

Long Run: The November 2008 futures price closed Thursday at $13.2425, 5 cents higher than the previous Thursday's close. Cash forward contracts for harvest ranged from $12.04 to $12.58 across Tennessee Thursday. There may be a technical reason for November to trade down to $12.50, but the fundamental support of strong demand and relatively low carryover stocks still exists. If crop conditions are good this spring and early summer, I think the $12.50 November price could be reached. But that would not be an abnormal drop if some weather premium is taken out of the market. A weakening demand could then drive prices even lower. But, so far there is no indication that export demand (led by China) is slowing.

If you haven't priced any expected new crop production yet, consider pricing up to 40 percent at the current price level using cash forward contracting.

Wheat:

Short Run: The July futures contract closed at $7.45 Thursday, 26.5 cents lower than the previous Thursday's close. Cash contract prices for July 2008 ranged from $4.95 to $5.78 across Tennessee Thursday. Wheat prices dropped further this week as harvesting pace begins to increase. Prices could drop further over the next few months. But wheat prices are related to other grain prices, which should limit the downside price risk. If you will sell at harvest this year, consider pricing up to half of this year's expected production now. If available, consider storage on a portion of the crop also.

Long Run: The July 2009 futures contract closed Thursday at $8.17, 11.5 cents lower than last Thursday's close. The 2009 crop price is still at a premium to 2008, by about $0.75/bu. There is a possibility that prices will move higher later this year, but I think the current 2009 price is a good opportunity to price a portion of next year's crop. The challenge is finding a way to capture the current price being offered. Basis has been weak and cash forward contracts this far in advance of next year's crop may not be available. Using this year's basis, an at the money put option would likely net less than $5/bu. An out of the money put option might net less than $4.50. Still, it is a way to limit downside price risk while still being able to add to revenue if prices rise. Consider pricing up to 20 percent of next year's expected production at the current price level. Δ

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