

# Index Fund Reallocation Spurs Corn, Wheat Prices

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**B**est wishes for a safe and profitable New Year! Corn and wheat are up with cotton and soybeans prices down for the week on this first trading week of 2010. The commodity markets were set for a good week until Thursday when overnight news from China indicated that they were raising interest rates to tighten credit and slow economic growth. Along with affecting the U.S. Dollar and quieting inflation talk, many Chinese traders liquidated positions. Cotton and soybeans have been most affected by this news. It has been widely anticipated that index funds would reallocate and start buying commodities, particularly corn and wheat as the New Year starts. It does not appear to have happened yet, but has offered support to the corn and wheat markets the last few weeks. We will have to wait and see if the buying on the scale rumored materializes. The March U.S. Dollar before the close is down .90 for the week at 77.67, support is at 77.32 with resistance at 78.66. The Dow Jones Industrial Average at mid day was trading at 10,582 up 154 points for the week. February Crude Oil was trading before the close at 82.67 a barrel, up 3.31 a barrel. January 12 will be an informative day as USDA will release their monthly supply and demand report, crop production annual summary, grain stocks, and winter wheat seedings. The January report is typically known to have some surprises, so prices could get interesting next week. Comments on this report will be posted at <http://economics.ag.utk.edu/outlook.html> on the afternoon of January 12.

## Corn:

*Nearby:* March 2010 futures closed at \$4.23 a bushel on Friday, up \$0.09 bushel for the week. Support is at \$4.09 a bushel with resistance at \$4.28 a bushel. Weekly exports sales were 14.4 million bushels, below expectations. Although the January 12 report is the annual summary, there will still be uncertainty in the final production numbers as 2 - 3 million un-harvested acres is estimated still in the field and largely under snow. The average trade estimate is for yields of 162.5 bushel/acre versus the last USDA number of 162.9 bushel/acre. The trade also estimates total production of 12.844 billion bushels compared to the previous USDA projection of 12.921 billion bushels. Ending stocks are estimated to drop to 1.608 billion bushels from 1.675 in December. I would note that there are wide ranges on these corn estimates.

*New Crop:* The September 2010 contract closed at \$4.46, up \$0.08 a bushel for the week. Support is \$4.34 with resistance at \$4.48 a bushel. Analysts' estimates for 2010 acreage have been for an increase of 2 - 3 million acres of corn. Corn and soybeans may compete for acreage this winter to early spring. Fund buying or lack of buying will affect prices. Consider pricing up to 20 percent for 2010 production at this time.

## Cotton:

*Nearby:* The March 2010 futures closed at 72.44 cents/lb. down 3.16 cents/lb. for the week. Support is at 71.63, resistance at 74.75 cents per pound. Weekly exports sales were about expected at 216,400 bales (208,500 for 09/10 and 7,900 for 10/11). Prices corrected hard on Tuesday from what appears to be a reaction from a Commodity Futures Trading Commission report that the price spike in 2008 was not from manipulation in cotton prices. Traders sold contracts and took profits on that news. Trade estimates for the January 12

USDA report put cotton production at 12.3 - 12.5 million bales, compared to the December estimate of 12.59 million bales. Carryover is estimated to drop to 4.2 million bales from 4.5. Keep in contact with your cotton buyer for current quotes on loan equities.

*New Crop:* The December 2010 futures contract closed at 74.14 cents/lb., down 2.07 cents/lb. for the week. Support is at 74.08 cents per pound, resistance at 74.90 cents per pound. Acreage is expected to increase 500,000 - 1 million acres in 2010. If the economy recovers worldwide, cotton will benefit. The recent news on tightening of credit in China would however, be considered bearish for cotton. In late 2009, I think there were opportunities for starting pricing for 2010. On rallies to 76 - 78 cents, I would consider pricing cotton for 2010, at least a percentage of the crop.

## Soybeans:

*New crop:* March futures closed at \$10.22 bushel, down \$0.27 bushel for the week. Support is at \$9.99 bushel, with resistance at \$10.76 bushel. Weekly exports were about expected at 26.7 million bushels. Trade estimates for the January 12 report are for an average yield of 43.7 bushels/acre versus 43.3 bushels/acre in the last USDA report. Production is estimated at 3.346 billion bushels compared to 3.319 billion bushels in December. Ending stocks are expected to be decreased 14 million bushels to 241 million bushels from USDA's December projection of 255 million bushels. Besides the credit tightening news, other news from China is that they will be switching soybean purchases to South America. With a record South American crop expected, this has been widely anticipated. It will be closely watched whether this switch over will cause cancellations of sales already on the books. Currency valuations will most likely play a key role in where the best deal is.

*Deferred:* The November 2010 contract closed at \$9.99 bushel, down \$0.16 bushel this week. Support is at \$9.80 with resistance at \$10.35 bushel. One acreage estimate for 2010 has soybean acres increasing 2.5 million acres from 2009 at just under 80 million acres. The acreage increase is expected to come from a drop in wheat acreage. I am currently priced 15% for the 2010 soybean crop.

## Wheat:

*Nearby:* The March 2010 futures contract closed at \$5.69 bushel, up \$0.27 bushel for the week. Weekly exports were 3.4 million bushels, below expectations. Trade estimates put ending stocks for wheat at 921 million bushels compared to 900 million bushels in USDA's December report. Exports, most likely will be reduced.

*New Crop:* The July 2010 futures closed at \$5.91 bushel, up \$0.25 bushel for the week. Support is at \$5.71 with resistance at \$5.94 a bushel. The Winter Wheat Seedings report is estimated to show 40.59 million acres compared to 43.31 million acres in 2009, a drop of 2.72 million acres. A bullish report is expected, but fundamentally, production will need to be reduced further or demand increased for the carryover to be reduced. Wheat has not been trading fundamentals, but more so a follower of corn and soybeans as well as a speculative value buy from funds. I would currently have up to 20 percent of the 2010 wheat crop priced. Because of previous year's wheat production problems, I would be hesitant to forward price too much at this growing stage.  $\Delta$

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