Late Harvest Spurs Grain, Cotton Price Spike

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Grain and cotton prices rose this week as concerns over late harvest entered the market.

Corn:

Short Run: Cash prices across Tennessee ranged from $4.88 to $5.28 Thursday. The December 2008 futures contract closed Thursday at $5.5825, 31 cents higher than the previous Thursday's close. There is some concern about the late crop and how it might impact yields. That concern has likely added a bit more risk premium in the market this past week. Uncertain domestic and global financial markets add to the market risk. Consider a combination of cash sales at harvest and storage this year to spread out the market risk.

Long Run: The December 2009 futures contract is trading near $6.00 currently, indicating that the market is looking at moderately higher prices next year. It appears that unless demand sinks in 2009, the U.S. will need more corn acreage to meet demand. That would indicate higher prices, especially for next spring's planting season. The big question currently is in the financial markets. It does and will effect commodity markets. I think pricing up to 25 percent of expected 2009 production at $5.50 or above can help reduce some of the risk associated with next year's crop. The challenge is finding a way to capture that price. A straight hedge could work, but basis risk is a real issue. Also, based on last winter/spring, margin calls can be expensive. If there are opportunities to cash forward contract the 2009 crop this fall/winter at prices near $5.50 or above, consider pricing up to 20 percent of next year's crop.

Cotton:

Short Run: Monday's rally quickly faded as prices dropped later in the week. The December futures contract closed Thursday at 61.66 cents/lb, 0.90 cents higher than the previous Thursday's close. Until demand strengthens, I think it will be difficult to rally old crop prices. I think current supply projections would favor prices staying above 60 cents, but the export market will be the key if U.S. prices can rally this fall.

Long Run: Cotton markets are watching both the U.S. dollar and Chinese production. Both of those factors are at best uncertain and potentially price reducing. The best argument for higher prices next year continues to be the anticipated shortfall in U.S. stocks, bringing about the need for additional crop acreage in 2009. That additional acreage scenario is dependent on U.S. off-take near 19 million bales, and that level may be difficult to reach. I think prices have a good chance of trading significantly higher next year, but U.S. exports will be the key.

Soybeans:

Short Run: The November 2008 futures price closed Thursday at $11.83, 67 cents higher than the previous Thursday's close. Cash prices ranged from $11.06 to $11.59 across Tennessee Thursday. Prices rebounded this week as concern about late crop conditions entered the market. Consider having at least 50 percent of this year's beans priced at this time.

Long Run: Looking into this winter and next spring, stocks will again be short when the 2009 planting season approaches. Usually that means a lot of volatility and the chance for substantial price rallies. I think there is a good possibility of that happening again next spring, making the case for storage this fall. Currently, I think the conditions favor storing beans over corn, although prices for both will likely move together as the market considers the competition for planted acreage next spring. Consider selling a majority of 2008 production this fall, however, and storing the remainder for delayed sales. An alternative would be to sell all production this fall and buy May 2009 call options. Those options will be expensive, but can provide additional revenue if prices rally substantially this winter.

Wheat:

Short Run: The December futures contract closed at $7.3625 Thursday, 43.5 cents higher than the previous Thursday's close. With higher domestic and foreign stocks this year, I don't think prices will rally this fall/winter similar to last year. A rally similar to last year would likely need support from other grain prices and an indication that winter wheat acreage will be significantly lower this year.

Long Run: The July 2009 futures contract closed Thursday at $7.8075, over 43 cents above last Thursday's close. I think wheat acreage will drop in 2009, but stocks for now appear adequate. Pricing the 2009 crop at this time carries a lot of risk. Consider pricing portions of expected 2009 production this winter on price rallies. I think hedging is still risky, with substantial margin calls still possible for the 2009 crop, and a basis that is difficult to predict. Consider beginning to price this winter if local cash contracts trade above $6.00. Δ

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