Many Suspect USDA's August Yield Estimates Too High

DR. DELTON GERLOFF

KNOXVILLE, TENN.

Grain and cotton prices fell this week based on export demand concerns and some late season rains.

Corn:

Short Run: Cash corn prices ranged from $5.06 to $5.50 across Tennessee Thursday. Projected corn yields may drop from current expectations, but moisture this week helped to move prices lower.

Long Run: Harvest 2008 cash contract prices across Tennessee ranged from $5.06 to $5.40 Thursday. The December 2008 futures contract closed Thursday at $5.8775, almost 30 cents lower than the previous Thursday's close. Many believe USDA's August yield estimates were too large. Another update won't be out for a couple of weeks, however, and for now, last week's price bounce off of resistance near $6.22 has sent prices lower. With the current market uncertainty, consider having up to 50% of expected 2008 production priced. Likewise, livestock producers should consider locking in prices on at least a portion of their winter feed requirements.

Cotton:

Short Run: Cotton prices rallied, then fell back later this week. Key factors for cotton prices to move higher this fall include grain prices and the dollar's value relative to foreign currency. Higher grain prices set up the possibility of a cotton price rally this winter as U.S. farmers decide which crops to plant in 2009. A weaker dollar helps U.S. cotton to be more competitive on the export market, a crucial and growing element of U.S. cotton demand. Currently, the dollar looks to be stronger, however, which could curtail some exports this winter.

Long Run: The December 2008 futures contract closed Thursday at 69.36 cents/lb, 0.48 cents lower than the previous Thursday's close. The 72 cents price resistance level in the December market appears to be fairly strong. I do expect prices to trade above 72 cents this fall, especially if grain prices hold or increase through the harvest season.

Soybeans:

Short Run: Cash soybean prices ranged from $12.38 to $12.79 across Tennessee Thursday. An up and down market this week closed on the down side in Thursday's trading. Prices have bounced off $13.70 on the November futures market over the past 2 weeks, establishing some resistance.

Long Run: The November 2008 futures price closed Thursday at $13.24, 24 cents lower than the previous Thursday's close. Cash forward contracts for harvest ranged from $11.94 to $12.69 across Tennessee Thursday. Late August rains may help yields for the 2008 crop, but with stock levels below 150 million bushels, it is a bit early to remove all of the weather premium. For now, I think it is still a good idea to have good portion of this year's crop priced.

Wheat:

Short Run: The September futures contract closed at $7.89 Thursday, over $1.08 lower than the previous Thursday's close. Cash prices ranged from $5.39 to $6.09 across Tennessee Thursday. Prices fell sharply this week as concerns about export demand weighed on the market. There is technical support near the $7.50 level in the September contract. I think that level will hold and the market may wait to see how the winter wheat planting goes later in the year. If acreage is reduced as some suggest, the current price move could be a seasonal low.

Long Run: The July 2009 futures contract closed Thursday at $8.5975, $1.07 below last Thursday's close. Longer term implications of a stronger dollar may be a big factor in this week's price drop. If you have priced a portion of expected 2009 production, consider holding any further sales at this time. I think wheat will be hard pressed to hold on to acreage gains over the past 3 years unless wheat prices are more competitive with competing crops. Of course corn and bean prices could drop also, but for now, it looks to me as if wheat will be trying to hold on to acreage next year. That could help support current price levels this fall and winter. Δ

Dr. Delton Gerloff is professor, Agricultural Economics with the University of Tennessee at Knoxville.