Moderate Price Surge Takes Late Week Dip

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Corn and soybean prices moved moderately higher this week, but lost some of the gain late in the week. Cotton and wheat prices moved lower.

Corn:

Short Run: Cash corn prices ranged from $5.31 to $5.68 across Tennessee Thursday. Prices rallied modestly this week before losing ground on Thursday's market. There is speculation that the August USDA report could increase yield estimates. If ending stock projections increase above 1 billion bushels in the report, I think prices could dip below support at $5.90 on the December market.

Long Run: Harvest 2008 cash contract prices across Tennessee ranged from $5.17 to $5.57 Thursday. The December 2008 futures contract closed Thursday at $6.075, 15.5 cents higher than the previous Thursday's close. Concern over higher production estimates curtailed this week's rally on Thursday. An increase of 2 bushels per acre in the U.S. yield projection over last month could raise new crop carryover stocks to nearly 1 billion bushels. That level could be enough to send prices lower – perhaps down to the $5.50 level. It would not be uncommon to expect a weaker market this time of year if growing conditions are favorable. I still think corn will be looking for additional acres next spring, and in the past two years we have witnessed significant fall price rallies when corn or beans needed new crop acres. For now, consider having up to 50 percent of expected production priced to help manage price risk.

Cotton:

Short Run: Cotton prices continued to trade in a narrow price range, with December trading just below 75 cents all week. The market continues to struggle with huge domestic old crop supplies and a much lower projected new crop.

Long Run: The December 2008 futures contract closed Thursday at 74.50 cents/lb, 0.64 cents lower than the previous Thursday's close. The December 2009 contract is trading over 11 cents higher than the December 2008 contract, so the market is considering lower new crop stocks. U.S. cotton will likely need to add acres next year and the market is beginning to reflect it. I think cotton prices still have away to go to be competitive with corn or beans at their current price levels. If corn prices stay above $5.50, I think cotton prices could top $1/lb. next year.

Soybeans:

Short Run: Cash soybean prices ranged from $13.15 to $13.55 across Tennessee Thursday. Prices moved moderately higher with little market news available to influence prices.

Long Run: The November 2008 futures price closed Thursday at $14.04, 31 cents higher than the previous Thursday's close. Cash forward contracts for harvest ranged from $12.74 to $13.41 across Tennessee Thursday. Like corn prices, bean prices dropped in July. But that drop is generally expected with favorable growing conditions as the market takes out some of the weather premium. For beans however, August is a more critical time period for establishing yields. Consider having up to 50 percent of expected production priced at this time.

Wheat:

Short Run: The September futures contract closed at $7.8375 Thursday, 4 cents lower than the previous Thursday's close. Cash prices ranged from $5.18 to $6.43 across Tennessee Thursday. Support in the September contract of $7.47 could be a target for prices in August, but for now I don't think prices will drop below that level. So local cash prices could fall another 37 cents or so before that support if the basis continues at its current level. Longer term, a fall price rally might depend more on corn and bean prices. Wheat will likely give up some acres next year to corn. If the fall acreage drops significantly, that could help support higher prices later in the year.

Long Run: The July 2009 futures contract closed Thursday at $8.5725, 2.5 cents below last Thursday's close. Hedging 2009 production may be too risky at this time – there is still significant upside potential in this market. If cash contracts for July 2009 are available, they are likely to be based on current basis levels, which would generate a cash price well below $7 in most areas of Tennessee. While historically that is a high price, with today's input prices, the profit potential for next year has diminished. So for now, pricing the 2009 crop is a challenge. Consider pricing a small portion of next year's expected production if a cash contract is available. Δ

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