Numbers Suggest 5 Million Less Acres In 2009

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There were numerous reports released today confirming the overall weakness in the economy. The Gross Domestic Product (GDP) for the 4th quarter of 2008 was a -6.2 percent, worse than earlier thought. Unemployment is at 7.6 percent, the highest in 16 years. It will be difficult for the commodity market to develop a rally with a weak economy. Economist can't reach a consensus on when the economy will turn around, some think we will see improvement in the latter half of 2009 and early 2010 while others estimate that it will be 2.5 – 3 years before we see sustainable improvement. The U.S. Dollar Index ended the week around 88.12 up 1.43. Crude oil was up 5.12 for the week at 44.40. Although the commodity markets were down today, they were not much changed from last week. The USDA Outlook Forum released the first glimpse of the 2009/2010 supply and demand estimates. These estimates are not based on producer surveys, but more from statistical analysis. The biggest question in comparing 2008 to the 2009 acreage is whether there will be 5 million less acres in 2009 as was in 2008. The Outlook numbers suggest there will be. The next acreage estimate will come March 31 when the Planting Intentions report is released. A summary of the Outlook Forum with the full report on-line at http://www.usda.gov/oce/forum/2009_Speeches/index.htm .

Corn:

Nearby: May 2009 futures closed at $3.59 bushel on Friday, unchanged from last week. Weekly exports sales were 18 million bushels, less than what was expected and again raising concerns that exports will meet USDA projections. For un-priced corn in storage, I would be inclined to watch the market during the week and stagger sales on any rallies. It is difficult to see much upside with the possibility of declining demand.

New Crop: The September 2009 futures contract closed at $3.78 bushel on Friday, unchanged from last week. For the month, December futures averaged $4.035 and although that is not the official price for crop insurance revenue products, I would expect it to be close. Looking at the USDA Outlook projections, the usage assumes increased ethanol and export use. It may be difficult to meet those numbers unless the economy does improve late 2009 and into 2010. From a pricing perspective, we will have to watch whether corn and soybeans will bid for acres giving pricing opportunities over the next month. I would have at least 20 percent priced at this time and be ready to price more if we should see a rally. The trailing stop trigger is $5.34 bu. Put options could be used to lock in a floor. A Sept. $3.80 strike price put would cost $.47 bu. and set a futures floor of $3.33.

Cotton:

Nearby: The May futures closed at 43.26 cents/lb Friday, down .84 cent/lb from last week. Weekly exports were 589,189 bales up from the previous week and a positive report. If you have loan cotton to sell, keep in contact with your cotton buyer. Equities continue to be flat.

New Crop: The December 09 futures closed at 48.96 cent/lb. down .76 cents/lb. from last week. The USDA Outlook Forum numbers indicated a drop in carryover from 7.7 million bales to 5.7 million bales. A move in the right direction for a hope of higher prices. The supply of cotton will have to be reduced for prices to move upward or a stronger economy. It is more likely that supply will be reduced rather than the economy improving at least in the short term.

Soybean:

Nearby: March 2009 futures closed at $8.72 bushel on Friday, up $.09 from last week. Weekly exports were 12.8 million bushels, half of expected. Exports are still on pace or above pace to meet USDA projections but are slowing. To manage risk I would look to sell storage soybean on rallies, spreading sales out over the next month.

New Crop: The November 2009 futures contract closed at $8.275bushel on Friday, down $.03 from last week. November Soybean Futures have traded through the trailing stop trigger point of $8.53 with the next point being $8.01. At this point, I would want to have priced at least 25 percent of the crop. Using put options a futures floor of $7.20 bu. could be locked in – $8.20 strike price minus $1.00 premium. The USDA numbers out today were not quite as bearish as earlier thought, although it must be emphasized that these acreage numbers are not from surveys and there are 5 million acres from 2008 unaccounted for. There is still a possibility of a spring rally as corn and soybeans bid for acres. I think that possibility is small as there are either adequate stocks in case of corn or projected adequate stocks with soybeans.

Wheat:

Nearby: May 2009 futures closed at $5.215 bushel on Friday, down $.09 bu. from last week. Weekly exports were 21.2 million bushels, above expectations and on pace to meet USDA projections.

New Crop: The July 2009 futures contract closed at $5.33 bushel on Friday, down $.09 bu. from last week. Wheat continues to be a follower of corn and soybeans, although with weather concerns in the southern plains could develop their own direction. As with corn and soybeans, I would continue to watch the market before pricing any additional crop looking for a bounce. I would want to have priced 20 percent up to this point. The next trailing stop trigger is $5.00. Using put options, a futures floor of $4.82 could be established – $5.40 bu. strike price – $.58 premium. Δ

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