Outside Markets Could Help Commodities Rally

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Corn, cotton, soybeans and wheat prices are all down for the week as the market continues to digest the January 12 USDA report. Fundamentally, the report was bearish for corn and wheat, neutral for soybeans, and neutral to friendly for cotton. For price rallies the commodity market will need help from outside markets which was not providing support today. The March U.S. Dollar before the close is down .24 for the week at 77.43. The Dow Jones Industrial Average before the close was trading at 10,575 down 43 points for the week, but down 135 points for the day. February Crude Oil was trading before the close at 77.93 a barrel, down 4.74 a barrel for the week. Comments on the January 12 USDA report, as well as historical data are posted at http://economics.ag.utk.edu/outlook.html . A brief summary of the supply and demand data is at the end of this report.

Corn:

Nearby: March futures closed at $3.72 a bushel on Friday, down $0.52 bushel for the week. Support is at $3.65 a bushel with resistance at $3.80 a bushel. Weekly exports sales were 12.9 million bushels, below expectations. In its latest report, USDA raised yields to a record 165.2 bushels per acre. This compares to the previous estimate of 162.9 and the trade estimate of 162.5. Tennessee yields were also raised to a record 148 bushels per acre. Demand was raised 140 million bushels with ending stocks projected to be 1.764 billion bushels, an increase of 89 million bushels from December. The trade expected ending stocks to drop. Some of the demand increase may be contributed to low test weight in 2009 corn and an increase in volume to meet current needs. With still an estimated 500 million un-harvested bushels of corn in the field, USDA is anticipating resurveying states where corn harvest was not completed and possibly update production in the March report. It is no doubt that this was a bearish report for corn. There have been some comparisons to January 2009 when the market initially dropped on USDA news, bounced up for a short time, then trended downward. If that should happen this year, expect the bounce to be short lived.

New Crop: The September contract closed at $3.99, down $0.47 a bushel for the week. Support is $3.94 with resistance at $4.05 a bushel. Projections for 2010 acreage are for an increase in corn, especially with the drop in wheat acres. Demand for corn in ethanol is expected to increase which will necessitate some of the need for increased acreage, but not all. With an increase in ending stocks and potential increase in corn acreage, the corn market will have difficulty trading back to and or maintaining the $4.30 - $4.45 level. It may be difficult to maintain the $4.00 level without weather problems this summer. Corn and soybeans may still compete for acreage in 2010, but this increase in ending stocks will reduce some of the competitiveness. Forward pricing corn futures at $4.00 or better should seriously be considered. I would increase pricing to 40 percent for 2010 production at this time. Catch up pricing on any rallies as well as evaluate option strategies.

Cotton:

Nearby: The March futures closed at 72.08 cents/lb. down .36 cents/lb. for the week. Support is at 71.31, resistance at 73.27 cents per pound. Weekly exports sales were above expectations and a marketing year high at 437,000 bales (437,400 bales of upland cotton for 09/10; 3,300 bales of Pima for 09/10 and reductions of 3,700 bales of Pima for 10/11). USDA reduced cotton ending stocks 200,000 bales from December to 4.3 million bales on a cut in production. Nationwide, yields were reduced to 774 pounds, a drop of 8 pounds per acre from December. Tennessee yields were also reduced 34 pounds to 857 pounds per acre. Equities for the 2009 crop were in the 12 cent range. Keep in contact with your cotton buyer for current quotes on loan equities. The Adjusted World Price for January 15 – January 21 is 61.18 cents/lb.

New Crop: The December futures contract closed at 73.73 cents/lb., down .41 cents/lb. for the week. Support is at 72.93 cents per pound, resistance at 74.81 cents per pound. Cotton prices will be sensitive to the strength or weakness in the U.S. Dollar as well as economic recovery news. Acreage is expected to increase in 2010, but some analysts have projected demand to also increase, leaving ending stocks in the next marketing year to be constant or slightly decrease. On rallies to 76 – 78 cents, I would consider pricing cotton for 2010, at least a percentage of the crop. Equities for the 2010 cotton could be booked in the 14 cent range.

Soybeans:

Nearby: March futures closed at $9.74 bushel, down $0.48 bushel for the week. Support is at $9.63 bushel, with resistance at $9.91 bushel. Weekly exports were about expected at 27.7 million bushels. The National Oilseed Producers Association reported soybean crush at 164.4 million bushels in December, 3.3 million bushels above expectations. Soybean yields in the January 12 USDA report were a record 44.0 bushels per acre compared to the previous estimate of 43.3 and the trade expectations of 43.7 bushels/acre. Tennessee yields were also a record at 45 bushels per acre breaking the previous record by 3 bushels. USDA is also expecting to resurvey soybean acres in areas where soybean production was not completed and update production in March if necessary. Usage was increased 50 million bushels with exports increased by 35 million and soybean crush by 15 million bushels. Ending stocks decreased 10 million bushels to 245 million bushels from USDA's December projection of 255 million bushels. Global ending stocks were increased 99.6 million bushels to 2.2 billion bushels on the anticipation of a record South American crop. USDA estimated the season average price for the 2009/10 marketing year to range from $8.90 – $10.40 bushel.

New Crop: The November contract closed at $9.42 bushel, down $0.57 a bushel this week. Support is at $9.31 with resistance at $9.61 bushel. The new crop contract will be influenced by China's intentions. Some analysts are looking for China to continue buying U.S. soybeans as well as South American soybeans to build protein reserves as a matter of national security. If this holds true, export sales should be strong on this recent price break and give support to the market. If that is not China's intention, then soybean prices could drop back to $9.00 bushel this winter. With the drop in wheat acres, soybean acreage like corn is expected to increase. I am currently priced 15 percent for the 2010 soybean crop.

Wheat:

Nearby: The March futures contract closed at $5.10 bushel, down $0.59 a bushel for the week. Weekly exports were 6.7 million bushels, below expectations. USDA raised ending stocks 76 million bushels for the current marketing year projecting them at a burdensome 976 million bushels. This was on lower expected domestic use and exports. Seed use is lowered 6 million bushels based on the 37.1 million acres reported in the Winter Wheat Seedings report. This planted acreage is down 14 percent and the lowest since 1913. Tennessee reduced its wheat acreage 140,000 acre, planting 290,000 acres. Exports are projected at 825 million bushels, a reduction of 50 million bushels from last month and the lowest since 1971/72. The current pace suggests exports will have to be reduced further in future reports. U.S. is overpriced in the world market. World ending stocks also increased 172 million bushels to 7.2 billion bushels. The season average price is projected to range from $4.70 - $5.00 bushel.

New Crop: The July 2010 futures closed at $5.35 bushel, down $0.56 bushel for the week. Support is at $5.01 with resistance at $5.63 a bushel. Despite the fact that winter wheat seedings dropped 6.2 million acres from 2009 and are lower than expected, the fundamentals of wheat are still bearish. It will be difficult for wheat prices to make another run at $6.00. It will have to have help from corn and soybeans, weaker dollar, fund buying interest and probably weather problems in a wheat growing area or country. Wheat has considerable downside risk. I would currently have up to 20 percent of the 2010 wheat crop priced. I expect lower prices this summer, but I am hesitant to price more at the current growing stage. Put options could be used to set a floor price and leave an upside. A July $5.40 put option would cost $0.45 a bushel and set a $4.95 futures floor. There are other option strategies that could lessen the cost of the put, but would require a margin account. Δ

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