# Positive Economic News From China Spurs Price Rise

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Corn, cotton, soybean, and wheat prices are all up for the week. The September U.S. Dollar Index is 82.12 before the close on Friday, down .84 for the week. The Dow Jones Industrial Average is trading before the close at 10,415; up about 3 percent for the week. Crude Oil was trading before the close at 74.37 a barrel, down .76 a barrel for the week. A better than expected jobs report added strength to the Dow's September rally. Good manufacturing data and positive economic news from China have contributed to this rally. In advance of the September 10 USDA report several private estimates on yields have been released reflecting lower numbers than last month's report. The recent strength in the market this time of year should give some caution as the market has most likely factored in these lower yield estimates. For prices to stay at current levels or even strengthen further, lower yields or an unexpected increase in demand will have to surprise the market. This market has been ideal for put options as buying puts established a floor but allowed an upside. Increased prices have allowed the upside and allowed producers to participate.

**Corn:**

*New Crop:* December futures closed Friday at $4.66 a bushel, up $0.29 for the week. Support is at $4.38 with resistance at $4.81 a bushel. Technical indicators have a buy bias. Weekly exports were above expectations at 65.3 million bushels (reduction of 1.1 million bushels in 2009/10 and sales of 66.4 million bushels in 2010/11). As of August 29, 73 percent of the corn crop is dented compared to 54 percent last week, 30 percent last year and the five year average of 55 percent. The crop is rated 17 percent mature compared to 8 percent last year and the five year average of 5 percent. Currently, 70 percent of the crop is rated good to excellent compared to 70 percent last week, and 69 percent last year. Private yield estimates released this week range from 160.7 to 164.8 bushels per acre with an average guess of 162.7. One estimate expects final yields to be 158.5 bushels per acre. This compares to the August USDA yield projection of 165 bushels per acre. A drop in yield and an increase in usage could put ending stocks in the September 10 report slightly above 1 billion bushels. The market looks to already have factored in a yield of 162 – 163 bushels per acre, anything less would be bullish while a higher yield would put pressure on prices, at least in the short term. Yield reports from producers across the southern Midwest and the Delta have been variable with some disappointing and others better than expected. Managed funds also are holding long positions and if their positions are liquidated could put pressure on the market. They need a steady diet of bullish information to stay long. I am currently at 50 percent forward priced and 25 percent priced with put options. The December Put Options won't expire until November 26 and currently have little value. I would sell those bushels protected by puts as they are being harvested. Although the market has rallied 38 cents in the last three weeks, I would still look at evaluating the remaining 25 percent of production for either selling at harvest or storage at the time of harvest.

*Deferred:* The March 2011 contract closed today at $4.78, up $0.29 for the week. Support is at $4.52 and resistance at $4.92 a bushel. Technical indicators have a buy bias. September 2011 closed today at $4.71 a bushel, up $0.20 for the week. Support is at $4.56 and resistance at $4.80 a bushel. Technical indicators have a buy bias. I would currently be priced 10 percent for 2011 production.

**Cotton:**

*Nearby:* October futures closed Friday at 90.95 cents/lb. up 1.92 cents/lb. for the week. Support is at 89.90, and resistance at 91.74 cents per pound. Technical indicators have a buy bias. All cotton weekly exports sales were within the range of expectations at 269,800 bales (245,800 bales of upland cotton for 10/11; 17,600 bales of upland cotton for 11/12; 6,400bales of Pima for 2010/11). The Adjusted World Price for September 3 – September 9 is 76.94 cents/lb.

*New Crop:* The December futures contract closed today at 89.45 cents/lb., up 3.38 cents/lb. for the week. Support is at 87.91 cents per pound, with resistance at 90.63 cents per pound. Technical indicators have a buy bias. Prices pushed up to a 2.5 year high with some mention of $1 cotton. I would be afraid that $1 cotton would hurt the demand base and I would not hold out for a $1 or at least hold out the entire crop. Current quotes for 2010 production equities have been in the 27 – 29 cent range today. Keep in contact with your cotton buyer for current quotes on loan equities. As of August 29, 29 percent of the cotton crop was opening compared to 21 percent last week, 18 percent last year and the 5 year average of 23 percent. The crop is rated 60 percent good to excellent compared to 62 percent last week and 51 percent last year. I am 50 percent forward priced on estimated production for 2010 with 20 percent of production covered by buying call options. I looked at taking profits on the call options last week. I would also have an additional 20 percent of production covered by buying December Put Options. I would consider physically pricing the production covered by the Put Options. On today's close, pricing out the production covered by put options that cost 3.95 cents would net 85.50 cents in futures or around 25 cents in an equity equivalent. The remaining 15 percent of production, I will leave un-priced for now.

**Soybeans:**

*New Crop:* The November contract closed at $10.35 bushel, up $0.09 for the week. Support is at $ 9.95 with resistance at $10.61 a bushel. Technical indicators have a buy bias. Weekly exports were slightly below the range of expectations at 22.6 million bushels (33,693 bushels for 2009/10 and sales of 22.5 million bushels for 2010/11. As of August 29, 8 percent of the crop has dropped leaves, compared to 3 percent last year and the five year average of 7 percent. The soybean crop is currently rated 64 percent good to excellent compared to 64 percent last week and 69 percent last year. Private estimates out this week projected the nationwide soybean yield to range from 43.2 to 44.1 bushels per acre with an average of 43.6 bushels. This compared to the August USDA projection of 44 bushels. Projections of increased demand, possibility of dryness in South America, and a tag along with corn prices seem to be influencing the soybean market. Unless major changes are made in next week's USDA soybean projections, fundamentals do not support higher prices. However, the market is not necessarily trading soybean fundamentals. If corn stocks do tighten up and corn prices strengthen, soybean prices to some extent will need to stay strong to insure adequate production for 2011. Drought and dryness could be a real threat to 2011 South American production, particularly Argentina and southern Brazil. I am currently forward priced 60 percent for 2010 production. I am also priced 25 percent of anticipated production using put options. Put options may also offer some downside protection, but still leave some upside. Buying a November $10.40 strike price Put Option would cost $0.37 a bushel and set a $10.03 futures floor. If prices stay up above $10.00 a bushel, I am inclined to sell the remainder at harvest.

*Deferred:* March soybeans closed at $10.49 bushel, up $0.10 a bushel for the week. Support is at $10.13 with resistance at $10.72 a bushel. Technical indicators have a buy bias. November 2011 soybeans closed at $10.22 bushel, up $0.07 for the week. Support is at $9.93 with resistance at $10.42 a bushel. Technical indicators have a buy bias. I currently have priced 20 percent of 2011 anticipated production.

**Wheat:**

*Nearby:* December futures contract closed at $7.41 bushel, up $0.46 a bushel for the week. Support is at $7.04 with resistance at $7.60 a bushel. Technical indicators have a buy bias. Weekly exports were above expectations at 37.6 million bushels for the 2010/11 marketing year. Spring wheat is currently 69 percent harvested as compared to 53 percent last week, 36 percent last year, and the five year average of 75 percent.

*Deferred and New Crop:* March 2011 futures closed at $7.64 a bushel, up $0.44 for the week. Support is at $7.26 with resistance at $7.84 a bushel. Technical indicators have a buy bias. July, 2011 wheat closed at $7.30 a bushel today, up $ 0.25 for the week. Support is at $7.09 with resistance at $7.40 a bushel. Technical indicators have a buy bias. Russia has in some areas received enough rain for winter wheat seeding, but more is needed. USDA will most likely increase exports in next week's report, whittling down a burdensome supply. I would be 40 percent priced for 2011 wheat. Put options are expensive for July 2011; a $7.30 July Put option would cost $0.99 and set a $6.31 futures floor. Other option strategies are also available, but do understand what you are doing. Also check with your grain elevator for delivery contracts they may have that can set a price, but allow some upside. Producers should make sure they can secure seed for planting before pricing much of their 2011 crop. Δ

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