Prices Lower This Week, USDA Report Could Impact Prices

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Grain and cotton prices were lower this week in very volatile trading. Next Tuesday's USDA report could impact prices significantly.

Corn:

Short Run: Cash corn prices ranged from $4.52 to $4.97 across Tennessee Thursday. Prices fell sharply this week as the December futures price fell below $5.50 for the first time since late March. Reasons for the drop this week stem from a larger expected yield for this year's crop and a higher dollar. Support is at $5.20 on the December market, but prices traded below $5.20 Friday morning. A close below $5.19 could signal additional weakness. Next Tuesday's USDA report is expected to show much higher yields relative to July's forecast.

Long Run: Harvest 2008 cash contract prices across Tennessee ranged from $4.40 to $4.87 Thursday. The December 2008 futures contract closed Thursday at $5.42, 65.5 cents lower than the previous Thursday's close. Corn markets have been hit with the prospect of higher production and lower export demand the past two weeks. If next Tuesday's report changes production and use estimates enough to drive ending stocks above 1 billion bushels, prices could continue to weaken. But I think most of that expected impact has already been reflected in the market. If stock levels are projected at 1.2 billion or higher, prices could weaken further. For now, consider having up to 50 percent of expected production priced to help manage price risk.

Cotton:

Short Run: Cotton prices fell early in the week only to bounce back on Thursday's market. Markets will be watching next Tuesday's USDA report for any signs of lower demand. The drop in grain prices this week does not help cotton prices, but cotton will still most likely need to buy in acres next year – the question is where will the acres come from?

Long Run: The December 2008 futures contract closed Thursday at 71.38 cents/lb, 3.12 cents lower than the previous Thursday's close. The price drop and rebound this week have some analysts considering that the market has made a bottom. It may be a bit early for the market to bottom, but if next Tuesday's USDA report keeps new crop ending stocks near 5 million bales, prices could remain above 70 cents. I think another and perhaps bigger concern is the value of the U.S. dollar. A strengthening dollar could curtail exports. For now, consider holding cotton pricing at 20 percent to 25 percent of expected production.

Soybeans:

Short Run: Cash soybean prices ranged from $11.65 to $11.89 across Tennessee Thursday. Bean prices fell sharply along with corn prices this week. While it is too early for the market to take out soybean production risk completely, the drop in corn prices has an impact on the bean market also.

Long Run: The November 2008 futures price closed Thursday at $12.39, $1.65 lower than the previous Thursday's close. Cash forward contracts for harvest ranged from $10.92 to $11.78 across Tennessee Thursday. Tuesday's USDA report may not change this year's production estimates for beans, but bean prices could be impacted by the corn market. Bean production has little wiggle room this year, with current estimates at only a 140 million bushel carryover. Consider having up to 50 percent of expected production priced at this time.

Wheat:

Short Run: The September futures contract closed at $8.22 Thursday, over 38 cents higher than the previous Thursday's close. Cash prices ranged from $5.16 to $6.82 across Tennessee Thursday. Thursday's rally helped boost prices above last week's level, but prices fell back sharply on Friday. Wheat prices have likely followed corn prices lately, and the stronger dollar could also hurt exports.

Long Run: The July 2009 futures contract closed Thursday at $8.9575, 38.5 cents above last Thursday's close. Will there be another post harvest price rally this year? I think it is possible, and likely depends on other grain prices to a large extent. Hedging appears to be a risky alternative currently, both from the standpoint of possible margin calls, and a continued weak basis. If available, consider using cash forward contracting to price a small portion of expected 2009 production at this time to help reduce risk. Δ

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