Prices On Soybeans Rise While Other Grains, Cotton Prices Drop

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Soybean prices rose this week after last Friday's USDA report signaled strong demand for the new crop. Other grain and cotton prices fell.

Corn:

Short Run: Cash corn prices ranged from $5.53 to $5.79 across Tennessee Thursday. The July futures price closed at $5.99 Thursday, over 31 cents lower than the previous Thursday's close. The July futures price has traded mainly between $5.90 and $6.10 over the past 6 weeks, and the concern is which way will prices break out of this trading range. Delayed planting has kept the $6 plus area in play so far this spring. If there is an indication that yields will be further downgraded this year, we might see this $6.00 area hold until summer and beyond.

Long Run: Harvest 2008 cash contract prices across Tennessee ranged from $5.28 to $6.06 Thursday. The December 2008 futures contract closed Thursday at $6.225, almost 24 cents lower than the previous Thursday's close. Price volatility reflects that the market is not comfortable with a 763 million bushel projected carryover stock level. Until there is a good indication that yields will be well above 150 bushels per acre this year in the U.S., I don't think prices will drop off substantially from current levels. An unexpected downturn in ethanol processing could impact prices, but at least for now, ethanol processing is projected to increase by a third this marketing year. Consider having up to 40 percent of expected production priced on the current market, using cash forward contracting.

Cotton:

Short Run: The July futures contract closed Thursday at 70.13 cents/lb, 0.72 cents lower than the previous Thursday's close. It's difficult to get too optimistic about old crop prices with a with a carryover stock level of 9.9 million bales. If anything, prices are higher than what one would expect from such a high carryover stock – likely due to the continued drop in U.S. planted acres.

Long Run: The December 2008 futures contract closed Thursday at 78.84 cents/lb, 0.51 cents lower than the previous Thursday's close. New crop prices also appear to be generous based on a projected carryover stock level of 5.6 million bales. However, I think it is more the trend that is dictating current prices. And that trend is for fewer U.S. acres and the promise of lower stocks. Foreign stock levels are also projected to drop this year. On the demand side, the foreign situation appears to be the key this year. Another sluggish export year could result in another year of dealing with large carryover stock levels. While I think prices will improve once the U.S. stock level drops, I am not convinced that will take place in calendar 2008. For now, consider pricing up to 25% of expected 2008 production using December put options.

Soybeans:

Short Run: Cash soybean prices ranged from $12.84 to $13.18 across Tennessee Thursday. The July 2008 futures contract closed Thursday at $13.475, 37.5 cents higher than the previous Thursday's close. Thursday's sell off still left prices much higher than last week's level and was an indication of the uncertainty associated with the current price level. Most of the price drop was attributed to news on the Argentine farmer strike.

Long Run: The November 2008 futures price closed Thursday at $13.1925, 73.5 cents higher than the previous Thursday's close. Cash forward contracts for harvest ranged from $11.99 to $12.54 across Tennessee Thursday. Prices are still being supported by last week's USDA report, which projected soybean stocks to remain below 200 million bushels next year, even with a much larger acreage base this year. The continued strong export market is a major component of next year's use and price forecast. If you haven't priced any expected new crop production yet, consider pricing up to 40 percent at the current price level using cash forward contracting.

Wheat:

Short Run: The July futures contract closed at $7.715 Thursday, 50.5 cents lower than the previous Thursday's close. Cash contract prices for July 2008 ranged from $4.92 to $6.10 across Tennessee Thursday. Fundamentally, wheat is one of the few U.S. crops that is projected to add substantially to stock levels this year. Local prices reflect the unwillingness of local buyers to accept current risk levels on this crop. Basis levels are as much as $2.80 below Chicago in some parts of Tennessee. I would expect the basis to narrow to some extent by harvest, but will likely be much weaker than in previous years. Producers may have to consider simply selling at harvest this year, or on-farm storage. It may also pay to look at regional markets and consider paying some transportation costs this year to market wheat.

Long Run: The July 2009 futures contract closed Thursday at $8.285, 34.5 cents lower than last Thursday's close. As harvest begins on the 2008 crop, some may look at the opportunity to price next year's crop. However, finding a tool to price next year's crop is challenging. Hedging brings with it the risk of margin calls which, based on the past year, can be substantial. Hedging also relies on being able to predict and manage basis. Basis has been historically weak over the past year, and doesn't show signs of strengthening. Options are expensive, reflecting the uncertainty of the current market. Options also have the underlying challenge of basis weakness. Cash forward contracting has been a popular pricing tool in the past, but may not be offered this far in advance without a substantial margin to next year's futures price. A hedge to arrive arrangement might be an alternative to consider, if available. It allows producers a hedging instrument, without margin risk, but with the option to set the basis during the life of the arrangement. Currently, with the amount of uncertainty in the market, it may be difficult to set a price on next year's crop, without substantial risk. Δ

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