Private Forecasters Reduce Crop Expectations

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Corn and wheat prices are down with cotton and soybean prices up for the week. The September U.S. Dollar Index was trading before the close at 74.77, up 1.00 since last Friday. The Dow Jones Industrial Average was trading down 40 points for the week at 11,245. It was down 243 points at midday. Crude Oil was trading before the close at 86.63 a barrel, up 0.84 a barrel since last Friday. The jobs report came in today flat with no new net jobs created and unemployment left at 9.1 percent. An increase in jobs was expected with this report creating some concern that the economy may suffer a setback and could be at an increasing risk of recession. Due to this news there is some speculation that we may see QE 3 (quantitative easing) from the Fed in order to stimulate the economy. Generally speaking that would be positive for commodity prices as the U.S. Dollar would most likely weaken making our products cheaper in the world market. It remains to be seen whether that will happen. There has been some rain in the Midwest but the U.S. Drought Monitor (http://drought.unl.edu/dm/monitor.html) continues to show that dry condition exists and have spread. There is some heat forecast in the Midwest this weekend, but the extended forecast calls for below normal temperatures and below normal rainfall which does not bode well for soybeans trying to fill pods. Private crop forecasters continue to reduce the corn crop and are starting to reduce the soybean crop estimates. With a shorter crop, price rationing will occur and may have already started, but is never fully evident until after the fact.

Corn:

Current Crop: December closed today at $7.60 a bushel, down $0.07 a bushel since last Friday, but up 21 ½ cents today. Support is at $7.29 with resistance at $7.80 a bushel. Technical indicators have a strong buy bias. Weekly exports were at the top end of expectations at 25.1 million bushels (reductions of 12.6 million bushels for 2010/11 and 37.7 million bushels for 2011/12). Corn dented is 53 percent compared to 33 percent last week, 70 percent last year and the five year average of 54 percent. The corn crop has 9 percent in the dough stage compared to 17 percent last year and the five year average of 11 percent. Corn crop condition ratings as of August 28 were 54 percent good to excellent compared to 57 percent last week, and 70 percent last year. Poor to very poor ratings were 19 percent compared to 17 percent last week and 10 percent a year ago. The trade was looking for 56 percent good to excellent rating. Iowa's good to excellent rating dropped another 4 percent while the poor to very poor increased 3 percent. Good to excellent ratings also dropped in Illinois (1 percent), Minnesota (6 percent), and Indiana (1 percent) while Nebraska increased 4 percent. The latest private forecast peg corn yields at 146.3 bushels per acre with production at 12.350 billion bushels, 564 million bushels less than USDA's August estimate. Look for USDA to reduce production in the September 12 report. However, don't look for ending stocks to be reduced bushel for bushel as supplies tighten, price rationing will occur reducing usage. I am currently 50 percent forward priced and 25 percent price using a December Put option locking in a futures floor of $6.34. I would look to sell the remainder 25 percent across the scales. Un-priced storage has some price risk as at some point price rationing will occur, lessening demand to help get more adequate stocks. We are more or less in uncharted price territory so guesses whether prices need to get higher to start that process or if it has already started is speculation. If storage is used, I would be inclined to set a floor price using a March or May Put option. There appears to be about $0.06 bushel per month carry in the market out to March. If a producer can store corn for less than that, they may consider putting corn in the bin and forward pricing for 2012 delivery. Harvest level prices above $7 a bushel are hard to turn down, so un-priced storage needs to be evaluated carefully.

Deferred: March closed at $7.72 ¼ a bushel, down $0.06 bushel since last Friday. Technical indicators have a strong buy bias. Support is at $7.42 with resistance at $7.91 a bushel. September 2012 corn closed at $7.05 a bushel. Consider a pricing program for 2012 especially if inputs like fertilizer can be locked in.

Cotton:

Current Crop: December closed at 105.89 cents per pound, up 1.57 cents since last week. Support is at 103.88 cents per pound, with resistance at 107.96 cents per pound. Technical indicators have a sell bias. All cotton weekly export sales were higher than expected with sales of 227,500 bales (sales of 227,000 bales of upland cotton for 2011/12; sales of 2,800 bales of upland cotton for 2012/13; and a reduction of 2,300 bales of Pima cotton for 2011/12. The Adjusted World Price for September 2 – September 8 is 91.20 cents/lb.; down 0.76 cents/lb. from last week. Quotes on 2011 loan equities are in the 45.75 cent range. Keep in contact with your cotton buyer for current quotes on loan equities and pricing alternatives. As of August 28, cotton bolls opening were at 27 percent compared to 16 percent last week, 28 percent last year and the five year average of 23 percent. Cotton crop condition ratings as of August 28 were 30 percent good to excellent compared to 31 percent last week and 60 percent last year. Poor to very poor ratings are 41 percent compared to 41 percent last week and 12 percent a year ago. Cotton opening up in the South may be at risk to excessive rainfall from tropical storms in the Gulf. Markets appear to have factored in lower production and are more concerned with demand. Lower production than expected or positive economic news will be needed to push prices above the sideways trading range we are in. I am currently at 45 percent priced and would hold at that level.

Deferred: March cotton closed at 102.66 cents per pound, up $0.78 cents for the week. Support is at 101.02 cents per pound, with resistance at 104.86 cents per pound. Technical indicators have a sell bias. December 2012 prices closed at 98.12 cents/lb.

Soybeans:

Current Crop: The November contract closed at $14.45 ¾ a bushel, up $0.22 since last Friday. Support is at $14.26 with resistance at $14.60 a bushel. Technical indicators have a strong buy bias. Weekly exports were at the high end of expectations at 21.8 million bushels for 2011/12. As of August 28, soybeans setting pods were 93 percent compared to 83 percent last week, 96 percent last year and the five year average of 94 percent. Soybeans dropping leaves were 2 percent compared to 7 percent last year and the five year average of 6 percent. Soybean crop condition ratings as of August 28 were 57 percent good to excellent compared to 59 percent last week, and 64 percent last year. This was a 1 percent more drop than expected. Poor to very poor were rated at 15 percent compared to 14 percent last week and 12 percent a year ago. Iowa's good to excellent ratings dropped 2 percent with Illinois dropping 4 percent, Minnesota (5 percent) and Indiana even and Nebraska increasing 3 percent. One private estimate out this week put soybean yields at 41.05 bushels per acre with production projected at 3.03 billion bushels, 53 million bushels less than USDA's August report. As in corn, look for USDA to lower ending stocks in future reports, but not on a bushel for bushel basis. In these comments, I am currently priced 50 percent for 2011 and have locked in a $13.21 futures floor with a November $14 put option on 25 percent of production. If prices stay above $14 a bushel, I would look to sell the remainder at harvest. Currently, buying a November $14.50 Put option would cost $0.51 a bushel and set a $13.99 futures floor. This option expires on October 21, 2011 so producers need protection longer than that may want to consider a January, 2012 Put option. A January $14.60 Put would cost $0.80 and set a $13.80 futures floor. It expires December 23 and could give some partial protection for a stored crop.

Deferred: May soybeans closed today at $14.57 ¾ a bushel, up $0.27 since last week. Support is at $14.39 with resistance at $14.69 a bushel. Technical indicators have a strong buy bias.

Wheat:

Nearby: December futures contract closed at $7.75 ¾ a bushel, down $0.21 a bushel since Friday. Support is at $7.50 with resistance at $7.91 a bushel. Technical indicators have changed to a sell bias. Weekly exports were about expected at 13.6 million bushels for 2011/12. Spring wheat as of August 28 is 50 percent harvested as compared to 29 percent last week, 66 percent last year and the five year average of 71 percent. Spring wheat crop condition ratings as of August 28 were 61 percent good to excellent compared to 62 percent last week and no report last year.

New Crop: July 2012 wheat closed at $8.22 ¾ a bushel, down $0.13 since last week. Support is at $8.02 with resistance at $8.38 a bushel. Technical indicators have a sell bias. NOAA climatologists give a 2nd La Nina a greater than 50-50 chance of developing. This could have grave implication on a winter wheat crop in the Southern Plains where moisture will soon be needed before producers seed a crop in that area. This along with a strong corn market should give support to wheat prices. Δ

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