Production Concerns Spur Grain, Cotton Price Rally

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Grain and cotton prices rallied again this week due to U.S. production concerns.

Corn:

Short Run: Cash corn prices ranged from $6.95 to $7.29 across Tennessee Thursday. The July futures price closed at $7.5375 Thursday, 26 cents higher than the previous Thursday's close. Corn prices surged Thursday along with other commodities. Uncertainty about the size of this year's crop continues to keep prices volatile. July traded up to its high of $7.60 Thursday. Monday's acreage report may have some market impact, but analysts have already suggested that the report may have to be updated later in July to account for flooding and late planting in the Midwest.

Long Run: Harvest 2008 cash contract prices across Tennessee ranged from $6.74 to $7.33 Thursday. The December 2008 futures contract closed Thursday at $7.88, 26.5 cents higher than the previous Thursday's close. Thursday's December market set another all time high price, as corn prices moved higher along with other commodities. So far most of the market's attention has been on new crop production. But will exports and feed/food use suffer? It is likely corn use will drop, but alternative gr-ains are also in short supply. Monday's market will be interesting, as many expect corn acreage to drop in USDA's updated acreage report. If you have already priced up to 50 percent of expected new crop production, co-nsider keeping sales at that level for now.

Cotton:

Short Run: The July futures contract closed Thursday at 74.09 cents/lb, 2.65 cents higher than the previous Thursday's close. Demand is still a concern, but cotton prices moved higher this week along with other commodities. There is also a lot of uncertainty about Monday's acreage report. A further drop in new crop expected production could support higher prices, but huge stock levels will likely limit old crop price rallies.

Long Run: The December 2008 futures contract closed Thursday at 81.77 cents/lb, 1.70 cents higher than the previous Thursday's close. A close above $82.50 could support a price move back above $85. Monday's report could accomplish that move if acreage expectations drop significantly. Consider holding new crop pricing at 25 percent of expected production.

Soybeans:

Short Run: Cash soybean prices ranged from $14.17 to $15.10 across Tennessee Thursday. The July 2008 futures contract closed Thursday at $15.7425, almost 29 cents higher than the previous Thursday's close. Thursday's market set a new high for a market close on the July contract. Prices could move even higher and hit $16 if Monday's acreage report is bullish. Local prices continue to be well below the Chicago price, as old crop basis weakened again in some areas this week.

Long Run: The November 2008 futures price closed Thursday at $15.615, 40 cents higher than the previous Thursday's close. Cash forward contracts for harvest ranged from $14.21 to $14.84 across Tennessee Thursday. It will be difficult to get a handle on this year's production, even with an acreage report due out on Monday. Conditions have likely changed since some of the surveys for this report were taken. I think beans still have the potential to show a larger than expected acreage projection. For now, current prices look profitable at average yields. Consider having up to 40 percent of 2008 expected production priced to help manage price risk this year.

Wheat:

Short Run: The July futures contract closed at $9.24 Thursday, 43 cents higher than the previous Thursday's close. Cash contract prices for July 2008 ranged from $5.99 to $7.24 across Tennessee Thursday. Wheat prices moved along with other commodity prices this week. And although U.S. and foreign wheat stocks are expected to increase this year, support from other crop prices have helped to keep wheat prices moving higher. Could wheat prices move back above $10? Yes – especially if corn prices continue to rally. Higher corn prices strengthen wheat feed demand, and could cut back on expected wheat stocks this year.

Long Run: The July 2009 futures contract closed Thursday at $9.99, 40 cents higher than last Thursday's close. Consider pricing a small portion of expected 2009 production now using hedging or hedge to arrive arrangements. Δ

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