Prospective Planting Report Shows Few Surprises

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The commodity market strengthened during the week as all crops posted gains. The Dow Jones Industrial average was also strong, up 6 percent for the week. The U.S. Dollar was weaker ending the week at 84.64 down .94. This strength in the stock market can somewhat be tied to the decision to relax standards in valuing assets held by banks by allowing companies to use significant judgment in valuing assets to reduce write downs on certain investments. Essentially, this makes the Mark to Market rules more flexible. In theory, this should allow lenders to lend the stimulus money they had earlier received. This is perceived as inflationary; however when the results will be seen is uncertain. This will keep pressure on the Dollar and should support commodity prices. Crude oil ended the week unchanged at 52.34 although inventories were reported up. The Prospective Planting report was released on Tuesday, March 31 and contained a few surprises. We must keep in mind that this is just a preliminary estimate and acreage will change in response to prices as well as planting weather. A summary of the report is posted at http://economics.ag.utk.edu/outlook.html. It is interesting to note that the USDA survey indicates a drop of 7.5 million planted acres from 2008. Most likely, when the reduction of double crop acres, due to a drop in wheat acres, is taken out 3 million acres will be the unplanted acres in row crops. Will those acres be planted in row crops or will they go or to hay and pasture or remain idle? At this time it is unknown, and along with weather concerns can create uncertainty. It is not bad to have a little uncertainty in the market as that can create opportunities if we are willing to take them. Be realistic in your price goals and evaluate marketing tools available to you such as forward pricing and options. This is setting up to be a year where put options can help you manage the risk of an uncertain market and protect you on the down side while leaving some upside available.

A couple of notes on the farm bill. Sign up for the DCP and ACRE program has been extended to August 14, 2009. FSA has an informational web site available at www.fsa.usda.gov/dcp . They have fact sheets, presentations, and other information that will be useful in deciding on whether to sign up for ACRE. Lastly, USDA has reinstated base acres on Federal ground, so producers will be eligible for program payments.

Corn:

Nearby: May 2009 futures closed at $4.05 bushel on Friday, up $.18 from last week. Weekly exports sales were 49.6 million bushels, reflecting strengthening demand and above expectations. The projected corn carryover for this marketing year will continue to put pressure on the nearby market. I still do not see any reasons to be holding stored corn. For un-priced corn in storage, I am inclined to price out any remaining bushels.

New Crop: The September 2009 futures contract closed at $4.235 bushel on Friday, up $.17 from last week. The planting intentions report was 85.986 million acres and most likely we will see fewer acres than that planted as forecasted weather could cause planting delays or see acres switch to soybeans. I would take recent opportunities to catch up to 20 percent forward priced and start looking at put options as a tool to lock in a floor. Using a trailing stop strategy the next trigger point is $3.79 bushel. A December $4.30 strike price put would cost $.55 bu. and set a futures floor of $3.75 bushel.

Cotton:

Nearby: The May futures closed at 47.60 cents/lb Friday, up 4.26 cent/lb from last week. Weekly exports were again strong at 432,400 bales. Demand appears to be picking up. If you have loan cotton to sell, keep in contact with your cotton buyer.

New Crop: The December 09 futures closed at 52.69 cent/lb. up 3.97 cents/lb. from last week. The planting intentions indicated that 8.8 million acres of cotton would be planted this year. While reduced from 2008, it was more than expected. I still think the critical question for cotton prices will be the level of abandonment in Texas as they are still in dry to drought conditions. I am becoming more of the opinion that it will be 2010 before we see cotton prices response enough to net more than current loan offerings. It is encouraging to see exports holding strong and could signal that demand will help lead prices higher rather than depending on a reduction in supply. Purchasing call option may be worthwhile exploring as a means to capture a price increase that the loan program will not be able to reflect as well as serving as a hedge on cotton counter cyclical payments.

Soybean:

Nearby: May 2009 futures closed at $9.96 bushel on Friday, up $.79 from last week. Weekly exports were 43.4 million bushels, above expectations and ahead of pace to meet USDA export projections. It was encouraging that exports were from customers other than China, reflecting broad support. China as expected has started importing from South America. The Quarter Grain Stocks report was favorable to soybeans giving an indication that USDA will have to increase their export projections in this current marketing year. I would use this recent price increase to price out any remaining soybeans.

New Crop: The November 2009 futures contract closed at $9.23 bushel on Friday, up $.63 from last week. The USDA report had soybean intentions at 76 million acres, while a record; it was 3.5 million less than expected. I would expect this to be the lowest possible acreage planted, especially if prices increase from current levels. This is an excellent opportunity to catch up to 30 percent of the crop priced. Price action during the week moved the trailing stop trigger point up to $8.19 bushel. The trailing stop trigger can serve as a floor to make sure something gets priced. Continue to look at and seriously consider a put option strategy. Using put options a futures floor of $8.01 bu. could be locked in – $9.00 strike price minus $.99 premium.

Wheat:

Nearby: May 2009 futures closed at $5.64 bushel on Friday, up $.57 bu. from last week. Weekly exports were 14.1 million bushels, in line with expectations and still on pace to meet projections.

New Crop: The July 2009 futures contract closed at $5.76 bushel on Friday, up $.56 bu. from last week. Wheat continues to be a follower of corn and soybeans. Planting intentions for all wheat acres were 58.6 million acres, slightly more than expected. We could see fewer acres due to flooding in the Upper Midwest. There is also the possibility of freeze damage in the southwest plains that could impact yields in that region. I would want to have priced 20 percent up to this point, and would look to move that percentage up. The next trailing stop trigger is $5.00. Using put options, a futures floor of $5.16 bushel could be established – $5.70 bu. July strike price – $.54 premium. Δ

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