Prices High At Week's End

Recession, Deflation Concerns Could Derail Prices

CHUCK DANEHOWER

RIPLEY, TENN.

Corn, cotton, soybean and wheat prices are all up for the week. The September U.S. Dollar Index was trading before the close at 74.10, down 0.65 since last Friday. The Dow Jones Industrial Average was trading down 401 points for the week at 10,868. Crude Oil was trading before the close at 82.35 a barrel, down 3.03 a barrel since last Friday. The U.S. Drought Monitor (http://drought.unl.edu/dm/monitor.html) continues to show expanded dryness and beginning drought condition, particularly in the Eastern Midwest. The Farm Service Agency in an unprecedented move released their database online with certified acres this week. The data is large, raw, and provides an insight to USDA acres, but is just a piece of the acre puzzle. A high majority of crop acres are certified, but there is a very small percent that is not and most likely there are acres that were certified after the deadline and will be reported in additional updates. However, the data looks to support the notion that there were fewer acres of corn and soybeans planted than thought and more of cotton. What is not known is whether USDA in its monthly reports has made adjustments in the harvested acres that more or less reflect the planted and failed acres situation. Crop fundamentals remain strong but will have to battle recession and deflation concerns that could derail prices. The Pro Farmer Crop Tour starts August 22 and finishes up on Friday, August 26 and should give a good indication of yields throughout the Midwest.

Corn:

Current Crop: September closed today at $7.11 a bushel, up $0.09 a bushel since last Friday. Support is at $6.85 with resistance at $7.27 a bushel. Technical indicators have changed to a strong buy bias. Weekly exports were below expectations at 20.6 million bushels (9.6 million bushels for 2010/11 and 11 million bushels for 2011/12). The corn crop has 52 percent in the dough stage compared to 32 percent last week, 71 percent last year and the five year average of 58 percent. Corn dented is 17 percent compared to 7 percent last week, 30 percent last year and the five year average of 21 percent. Corn crop condition ratings as of August 14 were 60 percent good to excellent compared to 60 percent last week, and 69 percent last year. Poor to very poor ratings were 15 percent compared to 16 percent last week and 11 percent a year ago. Iowa's good to excellent rating dropped 6 percent while the poor to very poor increased 1 percent. A couple of private yield estimates are projecting corn yields at 150 bushels per acre or slightly below compared to the USDA August estimate of 153. Certified FSA corn acres planted are at 88 million acres, compared to the latest USDA estimate of 92.3 million acres. Additional certified acres will probably be updated and not all planted acres are certified, but it is looking like USDA will have to make a downward adjustment in future reports. One analyst suggests harvested acres will need to be lowered by 500,000 acres. Lower yields and less acres means lower supply and tighter fundamentals. I am currently 50 percent forward priced and 25 percent priced using a December Put option locking in a futures floor of $6.34. Put options would set a floor and buying a December $7.30 Put option today would cost $0.53 and set a $6.77 floor on the December market while keeping an upside. Why use put options when fundamentals look so positive? Because non agriculture influences could trump fundamentals at any time and cause a selloff with prices going lower. There certainly are other reasons, but that would be the one I am most concerned with. Remember, daily futures limits for corn will increase from 30 cents to 40 cents on August 22.

Deferred: March closed at $7.38 a bushel, up $0.11 bushel since last Friday. Technical indicators have a strong buy bias. Support is at $7.10 with resistance at $7.55 a bushel. Producers with un-priced storage may want to look at March or May Put options to protect the storage corn. A March $7.40 Put option would cost $0.76 cents and set a $6.64 futures floor. September 2012 corn closed at $6.84 ½ a bushel.

Cotton:

Current Crop: December closed at 106.22 cents per pound, up 5.70 cents since last week. Support is at 103.01 cents per pound, with resistance at 109.53 cents per pound. Technical indicators have changed to a sell bias. All cotton weekly export sales were 51,300 bales (reduction of 337,000 bales of upland cotton for 2011/12; sales of 387,200 bales of upland cotton for 2012/13; sales of 200 bales of Pima cotton for 2011/12 and sales of 900 bales of Pima cotton for 2012/13). The Adjusted World Price for August 19 - 25 is 89.94 cents/lb.; up 2.16 cents/lb. from last week. Quotes on 2011 loan equities are in the 45.50 cent range. Keep in contact with your cotton buyer for current quotes on loan equities and pricing alternatives. As of August 14, cotton setting bolls was rated at 88 percent compared to 79 percent last week, 90 percent last year and the five year average of 84 percent. Cotton bolls opening were at 11 percent compared to 9 percent last week, 14 percent last year and the five year average of 11 percent. Cotton crop condition ratings as of August 14 were 31 percent good to excellent compared to 30 percent last week and 62 percent last year. Poor to very poor ratings are 40 percent compared to 41 percent last week and 11 percent a year ago. Supporting prices this week has been heavy rain in Pakistan, causing crop losses. FSA certified acres released this week were 14.4 million acres for cotton, compared to 13.7 million acres in USDA's latest report. By appearance that looks bearish with higher acres, however, 3 million of that was certified failed. Additional acres are also thought to have been abandoned so I would look for production to be less than the current USDA estimate. Cotton prices may not be guided as much by a lower supply or production number, but by the world economic picture and concerns of recession. I am currently at 45 percent priced and would hold at that level.

Deferred: March cotton closed at 102.89 cents per pound, up 4.49 cents for the week. Support is at 99.85 cents per pound, with resistance at 105.75 cents per pound. Technical indicators have changed to a sell bias. December 2012 prices closed at 97.02 cents/lb.

Soybeans:

Nearby: The September contract closed at $13.59 ¾ a bushel, up $0.32 since last Friday. Support is at $13.29 with resistance at $13.81 a bushel. Technical indicators have changed to a buy bias. Weekly exports were below expectations at 15.5 million bushels (sales of 8.3 million bushels for 2010/11 and sales of 7.2 million bushels for 2011/12). The National Oil Seed Processors Association reported July crush at 122.95 million bushels compared to the average trade estimates of 117.5 million bushels which puts crush on track to meet USDA expectations.

Current Crop: November soybeans closed at $13.68 ½ a bushel, up $0.34 a bushel since last week. Support is at $13.37 with resistance at $13.90 a bushel. Technical indicators have changed to a buy bias. As of August 14, 94 percent of the soybean crop is blooming compared to 87 percent last week, 96 percent last year and the five year average of 94 percent. Soybeans setting pods were 70 percent compared to 51 percent last week, 82 percent last year and the five year average of 78 percent. Soybean crop condition ratings as of August 14 were 61 percent good to excellent compared to 61 percent last week, and 66 percent last year. Poor to very poor were rated at 13 percent compared to 12 percent last week and 11 percent a year ago. Iowa's good to excellent ratings dropped 5 percent with their poor to very poor increasing 2 percent. Dry conditions in the Midwest look to lessen the chance that nationwide yields will be above the August USDA estimate of 41.4 bushels per acre, but August is the month when soybeans are made. Certified planted acres from FSA for soybeans are currently 73.2 million acres compared to 75 million in this month's USDA report. Most likely, the final tally will be higher, but not as high as earlier thought as 1.4 million acres were prevented planted. I would look for harvested acres to be reduced somewhat in future USDA reports. 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. Currently, buying a November $13.70 Put option would cost $0.48 a bushel and set a $13.22 futures floor.

Wheat:

Nearby: September futures contract closed at $7.30 ¾ a bushel, up $0.28 a bushel since Friday. Support is at $6.89 with resistance at $7.54 a bushel. Technical indicators have changed to a buy bias. Weekly exports were at the low end of expectations at 20.2 million bushels for 2011/12. Nationwide, 91 percent of the winter wheat crop has been harvested compared to 85 percent last week, 90 percent last year and the five year average of 94 percent. Spring wheat as of August 14 is 13 percent harvested as compared to 6 percent last week, 31 percent last year and the five year average of 39 percent. Spring wheat crop condition ratings as of August 14 were 66 percent good to excellent compared to 66 percent last week, and 82 percent last year.

Deferred: December wheat closed at $7.61 ¼ a bushel, up $0.29 since last week. Support is at $7.20 with resistance at $7.85 a bushel. Technical indicators have changed to a buy bias. July 2012 wheat closed at $8.05 ¼ a bushel. Δ

CHUCK DANEHOWER: Extension Area Specialist/Farm Management, University of Tennessee