Reduction In Corn Stocks May Have Implications

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Corn, and wheat prices are up; cotton down; and soybean prices are mixed for the week. Outside market support has been mixed this week as the Dow is down; the U.S. Dollar is down and crude oil down for the week. The September U.S. Dollar Index is 84.65 before the close on Friday, down .92 for the week. Disappointing news has affected the Dow Jones Industrial Average all week as the latest reports showing weak job growth has the Dow before the close at 9,668; down 5 percent for the week. August Crude Oil was trading before the close at 72.35 a barrel, down 9 percent for the week. The USDA Acreage Report and Quarterly Grain Stocks Report were released on June 30. Comments on these reports were posted at http://economics.ag.utk.edu under News and Events. These reports, particularly the Quarterly Grain Stocks Report have been described as a game changer by some analysts. The reduction in corn stocks was a huge surprise and may have implications for months to come. It has taken a couple of days to digest, but it looks like the market is back to trading the normal influences – weather, exports, as well as non ag influences. The next USDA report on July 9 will be closely watched to see what adjustments are made in the supply and demand and ending stocks. Comments on this report will be posted at http://economics.ag.utk.edu/outlook.html that day. Commodity markets will be closed on Monday, July 5 in the observance on 4th of July. Happy 4th of July!

Corn:

Nearby: July futures closed Friday at $3.64 a bushel, up $0.23 a bushel for the week. Support is at $3.60 with resistance at $3.69 a bushel. Technical indicators have a slight buy bias. Weekly exports were less than expected at 28.6 million bushels (25.6 million bushels in 2009/10 and 3.0 million bushels in 2010/11). The Quarterly Grain Stocks report came in at 4.3 billion bushels, 288 million bushels less than expected reflecting a greater disappearance of corn. Most likely, this has to do with low test weight corn from 2009 and it taking a higher volume to meet demand. This changes fairly adequate ending stocks to one that is tight to barely adequate. It is expected that USDA will make adjustments in the July 9 Supply and Demand report with lower ending stocks the results. It bears watching how USDA will handle the corn usage for the last quarter of the marketing year. Will it also need to be adjusted for low test weight corn? If may be September before we know the answer.

New Crop: The September contract closed today at $3.73, up $0.23 a bushel for the week. Support is at $3.68 and resistance at $3.78 a bushel. Technical indicators have a slight buy bias. As of June 27, 7 percent of the corn crop is silking compared to 4 percent last year and the five year average of 5 percent. Currently, 73 percent of the crop is rated good to excellent compared to 75 percent last week, and 72 percent last year. The June 30 Acreage report also contained a bullish surprise for corn as 87.87 million acres is estimated as have been planted, 1.4 million acres less than the average pre report guess and 926,000 acres less than the March planting intentions. This has the potential to have reduction of 200 – 300 million bushels of corn available in the new crop year. The situation for the 20010/11 marketing year is such that at the projected demand levels, a record to above record crop is needed to now just maintain fairly adequate stocks. There is always the possibility that demand is overstated and that outside non ag influences could help reduce demand. Otherwise, this growing year will not be able to stand any yield concerns. I look for the corn market to trade sideways at least until yield and demand confirmation is made. I would be forward priced 50 percent for 2010 production. Make catch up sales or implement an option strategy as corn trades in the upward end of the trading range, in the $3.75 - $3.90 range. In options, a December $3.70 strike price put option would cost $0.17 bushel and set a $3.53 futures floor.

Cotton:

Nearby: July futures closed Friday at 81.64 cents/lb. down 3.08 cents/lb. for the week. Support is at 81.04, and resistance at 83.28 cents per pound. Technical indicators have a hold bias. All cotton weekly exports sales were above expectations at 408,700 bales (116,700 bales of upland cotton for 09/10; 275,100 bales of upland cotton for 10/11; 2,500 bales of Pima for 09/10 and 14,400 bales of Pima for 2010/11). The Adjusted World Price for July 2 – July 8 is 68.81 cents/lb.

New Crop: The December futures contract closed today at 75.53 cents/lb., down 3.38 cents/lb. for the week. Support is at 74.49 cents per pound, with resistance at 77.43 cents per pound. Technical indicators have a sell bias. Contracted equities have been in the 16 - 17 cent range. Keep in contact with your cotton buyer for current quotes on loan equities. As of June 27, 48 percent of the cotton crop was squaring compared to 27 percent last week, 29 percent last year and the 5 year average of 39 percent. Nationwide, as of June 27, 8 percent of the cotton crop was setting bolls compared to 4 percent last week, 8 percent last year and the 5 year average of 10 percent. The crop is rated 62 percent good to excellent compared to 62 percent last week and 42 percent last year. Cotton acreage came in at 10.91 million acres, slightly higher than expected. This increase in acreage along with above average yields could take out the tightness in ending stocks. There is still a lot of the production year left, so weather as it will be in all crops will be the key. I would currently be forward priced 20 percent for 2010 production with that 20 percent covered by buying call options. Based on the acreage report, I would have covered 20 percent of production with a 76 cent December Put at a cost of 3.95 cents. This set a 72.05 cent futures floor. This will give protection on the downside, but still allow an upside should yields be below average and prices go up. Today, a 76 cent December Put would cost 4.14 cents and set a 71.86 futures floor.

Soybeans:

Nearby: July futures closed Friday at $9.63 bushel, up $0.06 bushel for the week. Support is at $9.44 a bushel, and resistance at $9.78 a bushel. Technical indicators have a hold bias. Weekly exports were above expectations at 26.3 million bushels (9.7 million bushels for 2009/10 and sales of 16.6 million bushels for 2010/11). The Quarterly Grain Stocks report also held a bullish surprise for nearby soybeans as soybean stocks as of June 1 were estimated at 571 million bushels, 23 million bushels lower than expected. This makes the stocks at the end of the current marketing year tighter and should be reflected in beginning stocks for the next marketing year.

New Crop: The November contract closed at $9.06 bushel, down $0.06 for the week. Support is at $8.98 with resistance at $9.17 a bushel. Technical indicators have a sell bias. As of June 27, 97 percent of the soybean crop was planted compared 93 percent last week and 95 percent last year and the 5 year average of 97 percent. As of June 27, 93 percent of the crop has emerged, compared to 87 percent last week, 90 percent last year and the five year average of 93 percent. The soybean crop is currently rated 67 percent good to excellent compared to 69 percent last week and 68 percent last year. The new crop soybean market has been struggling with a bearish soybean acreage report to go along with the bullish stocks report. The planting acreage was estimated at a record 78.9 million acres, 685,000 acres higher than the average pre report guess and 770,000 acres higher than the March planting intentions. Expected trend-line yields at the current demand estimates would generate more than adequate ending stocks and put downward pressure on prices. There are still concerns about dry weather later in the summer trimming soybean yields. Demand is expected to drop in the next marketing year, mainly due to the large South American crop, but that remains yet to be seen. Also, La Nina could affect the next growing season in South America. Watch for volatility in the soybean market to create pricing opportunities to make catch up sales or implement an option strategy. I would be forward priced 50 percent for 2010 production. Put options may also offer some downside protection, but still leave some upside. Buying a November $9.20 strike price Put Option would cost $0.52 a bushel and set an $8.68 futures floor.

Wheat:

New Crop: The November contract closed at $9.06 bushel, down $0.06 for the week. Support is at $8.98 with resistance at $9.17 a bushel. Technical indicators have a sell bias. As of June 27, 97 percent of the soybean crop was planted compared 93 percent last week and 95 percent last year and the 5 year average of 97 percent. As of June 27, 93 percent of the crop has emerged, compared to 87 percent last week, 90 percent last year and the five year average of 93 percent. The soybean crop is currently rated 67 percent good to excellent compared to 69 percent last week and 68 percent last year. The new crop soybean market has been struggling with a bearish soybean acreage report to go along with the bullish stocks report. The planting acreage was estimated at a record 78.9 million acres, 685,000 acres higher than the average pre report guess and 770,000 acres higher than the March planting intentions. Expected trend-line yields at the current demand estimates would generate more than adequate ending stocks and put downward pressure on prices. There are still concerns about dry weather later in the summer trimming soybean yields. Demand is expected to drop in the next marketing year, mainly due to the large South American crop, but that remains yet to be seen. Also, La Nina could affect the next growing season in South America. Watch for volatility in the soybean market to create pricing opportunities to make catch up sales or implement an option strategy. I would be forward priced 50 percent for 2010 production. Put options may also offer some downside protection, but still leave some upside. Buying a November $9.20 strike price Put Option would cost $0.52 a bushel and set an $8.68 futures floor.

Deferred: September futures closed at $5.03 bushel, up $0.32 for the week. Support is at $4.89 with resistance at $5.15 a bushel. Technical indicators have a buy bias. As of June 27, 84 percent of spring wheat is rated good to excellent compared to 84 percent last week, and 76 percent last year. July, 2011 wheat closed at $5.81 a bushel today. Producers planning on wheat in 2011 should look closely at pricing wheat at these levels or set pricing targets. I would recommend producers thinking about wheat develop their budget and put a pencil to it to see if it will be profitable in 2011. Δ

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