Saga With Greece Will Affect Commodities

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Prices are through Thursday, May 24, 2012. Corn, cotton, soybean, and wheat prices are all down for the week through Thursday. The June U.S. Dollar Index closed at 82.49, up 0.84 for the week. The Dow Jones Industrial Average closed Thursday at 12,530, up 161 points since last Friday. Crude Oil closed at 90.81 a barrel, down 0.99 a barrel for the week. The market's overall bearish tone this week has been focusing on the dollar and the weather along with talk of Chinese cancellations of sales of corn and soybeans. The Dollar has strengthened this week as the probability of Greece pulling out of the euro-zone is increasing. The financial industry is somewhat unsure on the effects of such a move, but the president of the St. Louis Federal Reserve thinks it could be done without a crisis if handled correctly. This saga with Greece as well as any fallout with the rest of Europe look to be with us for a while and will have an effect on commodity prices. The U.S. Drought Monitor Index (http://droughtmonitor.unl.edu/) this week shows dryness expanding throughout the Mid-South, Southern Plains, and the Mid- West. Texas and the Southeast remain in drought conditions. The near term outlook is mixed with chances for showers throughout the Corn Belt and normal to below normal temperature. Agronomists are not as concerned with dryness at this point as rainfall this summer will make or break the crop. The CME did expand electronic trading hours last Monday to 21 hours a day and are set to ask the CFTC to expand pit trade for grain and soy futures to 2 p.m. CST, the same as electronic trade. It is also reported that CME wants to start open-outcry trading at 7:20 a.m. CST on days of USDA grain reports.

Corn:

Nearby: July closed at $5.78 ½ a bushel, down 57 cents a bushel for the week. Technical indicators have changed to a strong sell bias. Support is at $5.78 a bushel with resistance at $6.23 a bushel. Weekly exports were below expectations at 19 million bushels (6.2 million bushels for the 2011/12 marketing year and 12.8 million bushels for the 2012/13 marketing year). Rumors of Chinese cancellations flowed around the market this week. The export report reflecting last week shows cancellations to unknown destinations for old and new crop which could be China, but new sales to China are also reported. Ethanol production increased to 919,000 barrels per day, up 15,000 barrels from the previous week and 17,000 barrels from a year ago.

Current Crop: September closed at $5.18 ¼ a bushel, down 28 ¼ cents a bushel since last Friday. Technical indicators have changed to a strong sell bias. Support is at $5.12 a bushel with resistance at $5.39 a bushel. Corn planted as of May 20 was 96 percent nationwide as compared to 87 percent last week, 75 percent last year and the five year average of 81 percent. Corn emergence is 76 percent compared to 56 percent last week, 38 percent last year and the five year average of 48 percent. Corn condition ratings started this week with 77 percent rated good to excellent and only 3 percent rated poor to very poor. The trade was expecting 70 percent good to excellent and this no doubt contributed to price weakness. As we head into summer, weather will be the main focus of the market. If dryness continues, the corn market could trade sideways to up, but if normal rainfall occurs then look for prices to break hard downward. I am currently priced at 50 percent and will look closely at adding to it if prices rally back to $5.30 to $5.50. From a price risk management standpoint, a December $5.20 Put would cost 48 cents and set a $4.72 futures floor.

Cotton:

Nearby: July closed at 73.94 cents per pound, down 4.05 cents since last week. Support is at 70.81 cents per pound with resistance at 76.07 cents per pound. Technical indicators have a strong sell bias. The Adjusted World Price for May 25-May 31 is 63.78 cents per pound, down 2.58 cents. All cotton weekly export sales were 239,000 bales (118,200 bales of upland cotton for 2011/12; sales of 115,700 bales of upland cotton for 2012/13; and sales of 700 bales of Pima cotton for 2011/12 and 4,400 bales of Pima cotton for 2012/13. Current quotes for 2011 cotton equities are in the 5 cents to 10.50 cent range. I am currently at 80 percent priced for 2011 production and would go ahead and sell the remaining 20 percent at the current market and buy a December 78 cent call for 2.02 cents to stay in. A July 74 cent call would cost 1.45 cents per pound but expires on June 15 which does not allow much time. I think prices are oversold and have the potential to rally.

Current Crop: December cotton closed at 70.67 cents per pound, down 4.54 cents for the week. Support is at 68.06 cents per pound with resistance at 72.36 cents per pound. Technical indicators have a strong sell bias. Current quotes for equities on 2012 production are in the 11.50 cent range. Keep in contact with your cotton buyer for current quotes on loan equities and pricing alternatives. Cotton planting is pegged at 62 percent compared to 48 percent last week, 52 percent last year and the five year average of 53 percent. I am still holding out for prices to rally before pricing the crop, as mentioned earlier prices appear oversold and have the potential to rally. European financial conditions if not resolved will weigh heavy on prices.

Soybeans:

Nearby: The July contract closed at $13.76 a bushel, down 29 cent a bushel since last Friday. Technical indicators have a sell bias. Support is at $13.33 a bushel with resistance at $13.97 a bushel. Weekly exports were just below expectations at 35 million bushels (29.4 million bushels for the 2011/12 marketing year and sales of 5.6 million bushels for 2012/13). China reportedly cancelled purchases of soybeans from Brazil which gave a boost to the soybean market. Argentina's Buenos Aires Grain Exchange reduced its soybean production estimate to 1.466 billion bushels which compares to USDA's estimate of 1.561 billion bushels.

Current Crop: November soybeans closed today at $12.76 ¼ a bushel, down 11 ¾ cents since last week. Technical indicators have changed to a strong sell bias. Support is at $12.32 a bushel with resistance at $12.94 a bushel. Soybean planting has progressed to 76 percent compared to 46 percent last week, 35 percent last year and the five year average of 42 percent. Soybean emergence is 35 percent compared to 16 percent last week, 10 percent last year and the five year average of 13 percent. I am currently 50 percent priced overall. From a price risk management standpoint, a $12.80 Put option would cost 82 cents and set a $11.98 futures floor.

Wheat:

Current Crop: July futures contract closed at $6.63 a bushel, down 32 ¼ cents a bushel since Friday. Technical indicators have changed to a buy bias. Support is at $6.49 a bushel with resistance at $6.92 a bushel. Weekly exports were above expectations at 30.4 million bushels (2.7 million bushels for 2011/12 and 27.7 million bushels for 2012/13). Overall, 79 percent of the winter wheat crop has headed compared to 72 percent last week, 59 percent last year and the five year average of 59 percent. Harvest has started with 3 percent harvested on May 20 compared to 1 percent a year ago. Winter wheat conditions as of May 20 were 58 percent good to excellent compared to 60 percent last week, and 32 percent last year. Poor to very poor conditions are estimated at 14 percent compared to 14 percent last week and 45 percent last year. Prices could trade sideways until more is known on the Southern Plains crop and the crop in the Black Seas region. I would be 70 percent priced as harvest starts and look to price the remainder as it is harvested. A July $6.65 Put option would cost 27 cents and set a $6.38 futures floor. This option expires on June 22. If wheat is stored, look at using a December put option to set a floor.

Deferred: December wheat closed at $7.00 a bushel, down 20 cents since last week. Technical indicators have changed to a buy bias. Support is at $6.84 a bushel with resistance at $7.24 a bushel. Spring wheat planted is at 99 percent compared to 94 percent last week, 50 percent last year and the five year average of 78 percent. Spring wheat emergence is 86 percent compared to 68 percent last week, 21 percent last year and the five year average of 50 percent. Spring wheat condition ratings as of May 20 are 74 percent good to excellent and 5 percent poor to very poor. Δ

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