Specialist Offers Options To Set Floor/Ceiling Prices

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Cotton and wheat prices are up with corn and soybean prices down for the week. The March U.S. Dollar Index was trading mid day at 78.31, down .09 for the week. The Dow Jones Industrial Average traded before the close at 11,823; down 59 points for the week. Crude Oil was trading before the close at 89.37 a barrel, about unchanged for the week but up 3.73 today. In the absence of bullish information, the corn and soybean markets have pulled back. No one can accurately predict the direction of this market so putting in place a marketing plan is critical. From a price risk management standpoint, put options are expensive but could lock in an acceptable floor. Selling or writing call options to cheapen up the cost of the put option could be an alternative, but may carry more margin risk than producers want. That is a strategy (fence) that can create a floor and a ceiling and can be a good tool, but it is imperative that your lender be involved in the process. This market does have the potential to go higher under the right conditions which would create margin calls and the need for deep pockets using a fence strategy. It would work or create the acceptable selling range in the end, but could cause some anxious moments where your lender would need to agree to stay with you in this strategy. Forward pricing is a more understood tool, but does require delivery on contracts and tends to create regret if prices go up after booking. Scale up pricing where a certain percentage of a crop is booked at incremental levels as prices move up may help remove the sting of lower priced contracts. Another strategy to consider is to watch the market as it goes up and use trigger points should it fall back within a range. Producers won't price at the high, but this does allow some pricing before the trend turns completely down. The 50 day moving average could be a good indicator for setting trigger points. The website www.barchart.com has the moving average price as well as charts comparing it to prices. It can be found under technical analysis under the commodity and month contract of interest. Contact me at cdanehow@utk.edu if you have questions on where to find it.

Corn:

Nearby: March futures closed today at $6.44 a bushel, down $0.13 since Friday. Support is at $6.33 with resistance at $6.63 a bushel. Technical indicators have a strong buy bias. Weekly exports were within expectations at 21.5 million bushels (16.3 million bushels for 2010/11 and 5.2 million bushels for 2011/12). I am continuing to hold a little longer the remaining 15 percent of 2010 production in storage or through call options.

New Crop: September 2011 closed at $6.11 ¾ a bushel, down $0.11 since Friday. Support is at $6.01 with resistance at $6.30 a bushel. Technical indicators have a strong buy bias. On my comments I am priced 30 percent for 2011 production. The 50 day moving average is $5.70.

Cotton:

Nearby: March futures contract closed Friday at 164.75 cents/lb., up 7.81 cents/lb. for the week. Support is at 160.45 cents per pound, with resistance at 173.63 cents per pound. Technical indicators have a strong buy bias. A new all time high for futures of 172.83 cents was reached this week. All cotton weekly exports sales were above expectations at 535,500 bales (261,600 bales of upland cotton for 10/11; 238,000 bales of upland cotton for 11/12; 20,000 bales of Pima for 2010/11 and 12,900 bales of Pima for 2011/12 The Adjusted World Price for January 28 – February 3 is 171.58 cents/lb., up 15.46 cents/lb.

New Crop: December 2011 closed at 111.96 cents per pound, up 3.22 cents for the week. Support is at 109.52 cents per pound, with resistance at 116.12 cents per pound. A new contract high of 114.74 was reached today before prices pulled back. Technical indicators have a strong buy bias. Equities have been quoted in the 48 to 49 cent range today. Keep in contact with your cotton buyer for current quotes on loan equities. I would currently be priced up to 40 percent. The 50 day moving average is 97.90 cents. December 2012 prices closed at 91.04 cents/lb.

Soybeans:

Nearby: The March contract closed at $13.98 a bushel, down $0.14 for the week. Support is at $13.73 with resistance at $14.35 a bushel. Technical indicators have a strong buy bias. Weekly exports were above expectations at 34.5 million bushels (28.7 million bushels for 2010/11 and 5.8 million bushels for 2011/12). Rains in Argentina were at least one reason for price weakness. U.S. Census crush for December was 153.05 million bushels, about 1 million bushels greater than expected.

New Crop: November 2011 soybeans closed at $13.23 a bushel, down $0.25 this week. Support is at $13.01 with resistance at $13.55 a bushel. Technical indicators have a strong buy bias. I currently have priced 30 percent of 2011 anticipated production. The 50 day moving average is $12.48.

Wheat:

Nearby: March futures contract closed at $8.25 ¾ a bushel, up $0.01 a bushel since Friday. Support is at $8.08 with resistance at $8.58 a bushel. Technical indicators have a strong buy bias. Weekly exports were within expectations at 38.5 million bushels (32.9 million bushels for 2010/11 and 5.6 million bushels for 2011/12). Wheat prices have led the grain markets this week as concerns and in some place riots over food prices in North Africa and parts of the Middle East have given support. It is not as much that they are running out of food, but that the governments are passing on the increase in prices to the consumers.

New Crop: July, 2011 wheat closed at $8.74 ¾ a bushel Friday, up $0.08 since last week. Support is at $8.58 with resistance at $9.05 a bushel. Technical indicators have a strong buy bias. On my comments, I am currently 40 percent priced for 2011 production. Producers with a buy up level of crop insurance may want to consider a higher level of forward pricing. The 50 day moving average is $8.07. Δ

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