Strong Demand Pushes Cotton, Grain Prices Higher

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Grain and cotton prices rallied this week on news of stronger demand and concerns over yield stress due to hot and dry conditions.

Corn:

Short Run: Cash corn prices ranged from $5.07 to $5.68 across Tennessee Thursday. Similar to last week, corn prices rallied during the week, then traded lower on Friday. The net move has been higher, however, as the market shows signs of another fall rally as we saw in 2006 and 2007.

Long Run: Harvest 2008 cash contract prices across Tennessee ranged from $5.07 to $5.68 Thursday. The December 2008 futures contract closed Thursday at $6.175, over 40 cents higher than the previous Thursday's close. Weather conditions in the Midwest seem to be supporting some of the higher price move this week, although at this point in the year beans are more susceptible to yield reductions than corn. Some are still unsure if the U.S. crop can meet USDA yield expectations even with good conditions through harvest. For now, consider having up to 50 percent of this year's expected production priced currently. Feed users should consider locking in prices for fall and winter feed needs.

Cotton:

Short Run: A brighter demand outlook helped rally prices late in the week, with Thursday's close just under $0.70 on the December futures market. Cotton prices can also receive support this fall from the bean and corn markets, as those commodities will be competing for crop ground in 2009.

Long Run: The December 2008 futures contract closed Thursday at 69.84 cents/lb, 2.36 cents lower than the previous Thursday's close. The fundamental supply/demand situation for cotton appears to me to support higher prices in 2009. The U.S. will likely need up to 1.5 million acres in 2009 to meet existing demand, and those acres will probably have to come from beans or corn. Old crop prices may not gain to the extent that next year's crop prices will, but could still rally significantly by the end of the year. Consider extending this year's marketing season on a portion of production to take advantage of possible higher prices into 2009.

Soybeans:

Short Run: Cash soybean prices ranged from $12.07 to $13.28 across Tennessee Thursday. Bean prices rallied Thursday along with other grains. Hot and dry weather during August has the market worried that bean yields may drop from earlier expectations – and the ending stock level is already projected to be low historically.

Long Run: The November 2008 futures price closed Thursday at $13.48, 74 cents higher than the previous Thursday's close. Cash forward contracts for harvest ranged from $11.44 to $12.95 across Tennessee Thursday. A drop in projected yield on this fall's crop could send prices back toward levels seen earlier this year. To help manage some price/financial risk, consider having up to 50% of 2008 expected production priced.

Wheat:

Short Run: The September futures contract closed at $8.9725 Thursday, almost 33 cents higher than the previous Thursday's close. Cash prices ranged from $6.15 to $7.67 across Tennessee Thursday. I think wheat prices are most at risk for lower prices compared to other grains. If however, grain prices in general continue to rally, that may help to support wheat prices into next year.

Long Run: The July 2009 futures contract closed Thursday at $9.6675, almost 29 cents above last Thursday's close. The ending stock level projected this year would normally call for prices weakening this fall. But with the current market volatility and uncertainty, especially in the bean market, the market may be looking for a little surplus in stocks to take away some of the uncertainty. There is also the possibility that fall planted wheat acreage could drop this year. If available, consider using cash forward contracting to price a small portion of expected 2009 production at this time to help reduce risk. Δ

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