Summer Begins Sideways Market, Anticipating Acreage, Yield Prospects

CHUCK DANEHOWER

RIPLEY, TENN.

Corn, cotton, soybeans and wheat prices are all up for the week. The June U.S. Dollar Index was trading mid day at 75.57, down 0.40 for the week. The Dow Jones Industrial Average traded mid day at 12,551; down 45 points for the week. Crude Oil was trading mid day at 100.14 a barrel, up 0.89 a barrel for the week. Markets rallied mainly through mid-week, mainly on weather problems or potential problems, a private estimate on a drop in corn and soybean acres, and weakness in the U.S. Dollar. Generally, as summer starts we see some seasonal weakness in the market. This year may be one where the summer begins a period of a sideways market at least until there is a better handle on production which is a function of acreage and yields. Flood water in Tennessee is starting to recede, but will be slow in some areas. Please keep producers and residents in this area as well as all flooded areas in your thoughts as this is a devastating flood. Producers are closely looking at their alternatives particularly with crop insurance. Make sure your crop insurance agent goes through each alternative. Some producers are finding out that they may not have had the coverage they thought they had, mainly with the prevented planting coverage. Again, check with your crop insurance agent before making the final decision on the affected farm.

Corn:

Nearby: July futures closed today at $7.59 ½ a bushel, up $0.78 for the week. Support is at $7.33 with resistance at $7.77 a bushel. Technical indicators have changed to a strong buy bias. Weekly exports were above expectations at 45.3 million bushels (33.2 million bushels for 2010/11 and 12.1 million bushels for 2011/12). Ethanol production has rebounded to 900,000 barrels a day for the week ending May 13, up 38,000 barrels from the previous week. Currently, the prior drop in production is attributed to plant maintenance.

New Crop: September closed at $7.17 ½ a bushel, up $0.64 bushel for the week. Support is at $6.95 with resistance at $7.33 a bushel. Technical indicators have changed to a strong buy bias. As of May 15, 63 percent of the corn crop was planted compared to 40 percent last week, 87 percent last year and the 5 year average of 75 percent. Most market analysts were expecting 60 percent of the crop being planted. Nationwide, corn emergence is 21 percent compared to 7 percent last week, 53 percent last year and the five year average of 39 percent. One private estimate on corn acreage out this week put U.S. corn acres at 89.5 million acres; a drop of 2.7 million acres from USDA's planting intentions. Certainly possible with delayed planting and flooded acres, but at this point acreage remains largely unknown. A drop in acreage along with the potential for reduced yields will keep the market uneasy as we start the summer. The July and September month contracts appear to be stronger than the December contract, most likely on concerns that with tight stocks and a later planted crop that supplies will be very tight before the new crop come is. Concerns on the Southern crop, whether late or lost due to floods and weather, are compounding the issue. I am currently 50 percent priced and would hold at this level until we get further along in the growing season. Put options would set a floor and buying a December $6.70 Put option would cost $0.72 and set a $5.98 floor on the December market while keeping an upside.

Cotton:

Nearby: July futures contract closed at 155.61 cents/lb., up 10.46 cents/lb. for the week. Support is at 147.40 cents per pound, with resistance at 161.32 cents per pound. Technical indicators have changed to a sell bias. All cotton weekly export sales were below expectations at an overall reduction of 7,300 bales (a reduction of 30,500 bales of upland cotton for 10/11; sales of 21,900 bales of upland cotton for 11/12 and sales of 1,300 bales of Pima for 2010/11. The Adjusted World Price for May 20 – May 26 is 142.14 cents/lb.; down 3.61 cents/lb.

New Crop: December closed at 119.76 cents per pound, up 4.15 cents for the week. Support is at 115.95 cents per pound, with resistance at 122.21 cents per pound. Technical indicators have a strong sell bias. Current quotes on 2011 loan equities are in the 52.50 – 55.00 cent per pound range. Keep in contact with your cotton buyer for current quotes on loan equities and pricing alternatives. As of May 15, 42 percent of the cotton crop was planted compared to 26 percent last week, 46 percent last year and the 5 year average of 44 percent. The Drought Index Monitor shows the drought to be continuing in Texas. I am currently at 45 percent priced and would hold at that level. Evaluate the option market as a good tool to set a floor price and still leave an upside. A December 120 Put option would cost 15.59 cents and set a 104.41 futures floor. An out of the money December 105 Put would cost 8.26 cents and set a 96.74 futures floor. December 2012 prices closed at 100.53 cents/lb.

Soybeans:

Nearby: The July contract closed at $13.80 ¼ a bushel, up $0.70 for the week. Support is at $13.48 with resistance at $14.10 a bushel. Technical indicators have changed to a hold bias. Weekly exports were below expectations at 6.1 million bushels (6.1 million bushels for 2010/11 and 3,700 bushels for 2011/12).

New Crop: November soybeans closed at $13.50 ½ a bushel, up $0.40 a bushel this week. Support is at $13.25 with resistance at $13.73 a bushel. Technical indicators have changed to a buy bias. As of May 15, 21 percent of the soybean crop was planted compared to 7 percent last week, 53 percent last year and the 5 year average of 39 percent. A private estimate on soybean acreage pegged that crop at 75.1 million acres, 1.5 million acres less than USDA's planting intentions. It has been widely assumed that if corn acreage and maybe cotton acres in flooded areas was reduced, that ground would go to soybeans. However, producers with buy-up crop insurance must compare income from a soybean crop against a prevented or failed corn and cotton crop. Some of that decision will probably depend on timing and timeliness of planting the soybean crop. I am currently priced 50 percent for 2011 and would wait until early summer before forward pricing more, again depending on your acreage situation. Currently, buying a November $13.60 Put option would cost $0.94 a bushel and set a $12.66 futures floor.

Wheat:

Current Crop: July futures contract closed at $8.06 ½ a bushel, up $0.79 a bushel this week. Support is at $7.76 with resistance at $8.33 a bushel. Technical indicators have changed to a buy bias. Weekly exports were above expectations at 29.4 million bushels (4.7 million bushels for 2010/11 and 24.7 million bushels for 2011/12). Shipments, however, were bearish and below the pace to meet USDA projections with only two reporting weeks left in the current wheat marketing year. Nationwide, 54 percent of the winter wheat crop has headed compared to 42 percent last week, 50 percent last year and the five year average of 53 percent. Winter wheat crop condition ratings as of May 15 were 32 percent good to excellent compared to 33 percent last week and 66 percent last year. Poor to very poor ratings are 44 percent compared to 42 percent last week and 8 percent a year ago. The rally in the wheat market started last summer as drought in the Former Soviet Union led to a reduced wheat crop and concerns over food rationing. Now, there is drought and dryness in the U.S. Plains reducing production as well as concerns over being too wet to plant spring wheat in the Upper Midwest. Other weather problem areas exist in Canada (wet), China (dry), Australia (dry), and parts of Europe (dry). Globally, wheat production was projected to be up in the 2011/12 marketing year, but these weather problems could limit the increase. I am currently at 50 percent priced and will hold at this level for now. In options, buying a July $8.05 Put would cost $0.41 and set a $7.64 futures floor. This option expires June 24, 2011.

Deferred: September wheat closed at $8.49 ¼ a bushel Friday, up $0.72 since last week. Support is at $8.20 with resistance at $8.75 a bushel. Technical indicators have changed to a buy bias. Spring wheat as of May 15 is 36 percent planted compared to 22 percent last week, 78 percent a year ago and the five year average of 76 percent. Spring wheat emergence is 11 percent compared to 65 last week, 52 percent last year and the five year average of 44 percent. July 2012 wheat closed at $9.20 ¾ a bushel. Δ

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