

# USDA Is Bullish On Grain, Soybeans, Bearish On Cotton

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**C**otton, soybean, and wheat prices are up while corn prices are down for the week. The June U.S. Dollar Index before the close is at 79.17, down .41 for the week. The Dow Jones Industrial Average before the close is up 131 points for the week at 13,212. Crude Oil was trading before the close at 103.08 a barrel, down 2.89 a barrel for the week. USDA released its Prospective Planting and Grain Stocks report today and comments on these reports can be found at <http://economics.ag.utk.edu/report.html>. Overall, it was a bullish report for grains and soybeans and mostly neutral to bearish for cotton. The surprise was in the decline of soybean intended acres to 73.9 million acres, lower than the lowest trade guess. Corn intended acres were higher than the highest trade guess but were buffered by lower than expected grain stocks. Wheat intended acres were lower than expected while cotton acres were higher than expected. Soybean prices led the way with a positive response from corn and wheat prices. The soybean to corn ratio which reflects November soybeans compared to December corn is now at 2.51 leaning more to soybeans each week. Soybean prices at these levels relative to corn might pull some additional acres from corn and cotton but will be battling good corn planting weather.

## **Corn:**

*Nearby:* May closed at \$6.44 a bushel, down 2½ cents a bushel for the week. Technical indicators have changed to a sell bias. Weekly exports were below expectations at 6.2 million bushels (5.1 million bushels for the 2011/12 marketing year and 1.1 million bushels for the 2012/13 marketing year). Corn stocks reported on March 1 were 6.01 billion bushels, 147.1 million bushels less than the average trade guess indicating a greater than expected disappearance. This most likely is the result of greater usage in corn for feed than in previous USDA reports. Corn prices responded strong on what had been a very weak week for prices.

*New Crop:* September closed at \$5.63 ¼ a bushel, down 19 cents a bushel since last Friday. Technical indicators have a strong sell bias. Support is at \$5.37 with resistance at \$5.79 a bushel. Planting intentions of 95.864 million corn acres which if realized will be the highest since 1937 came in higher than the highest trade estimate. This is 1.16 million acres higher than the average trade guess. The market was up today, but I look for considerable downward pressure if favorable planting conditions exist. Strong soybean prices may pull some corn acres but will be battling good corn planting conditions which may over rule prices in the overall scheme of things. I would have up to 25 percent of the crop priced at this point and look to price more this spring. From a price risk management standpoint, a December \$5.40 Put would cost 50 cents and set a \$4.90 futures floor.

## **Cotton:**

*Nearby:* May closed at 93.52 cents per pound, up 3.89 cents since last week. Support is at 91.55 cents per pound with resistance at 94.99 cents per pound. Technical indicators have changed to a buy bias. Equities for 2011 cotton in the loan have been quoted in the 25-29 cent range. The Adjusted World Price for March 30–April 5 is 79.40 cents per pound up 2.94 cents. All cotton weekly export sales were 161,200 bales (sales of 152,800 bales of upland cotton for 2011/12; sales of 3,700 bales of upland cotton for 2012/13; and sales of 4,700 bales of Pima cotton for 2011/12. Indications from market analysts as well as current export trends are that USDA could have room to increase exports in future USDA Supply & Demand reports. I am currently at 80 percent priced for 2011 production and would be willing to hold the remainder for an additional rally. I would target the \$1 to \$1.05 range as a pricing point.

*New Crop:* December cotton closed at 91.00 cents per pound, up 2.29 cents for the week. Support is at 89.23 cents per pound with re-

sistance at 92.03 cents per pound. Technical indicators have changed to a hold bias. Equities for 2012 cotton have been quoted in the 31.50 cent range. Keep in contact with your cotton buyer for current quotes on loan equities and pricing alternatives. Planting intentions released today put cotton acreage at 13.155 million acres, down 1.58 million acres from last year, but 410,000 acres greater than the average trade guess. In itself, this acreage would be considered bearish but strong soybean prices could pull a few acres from cotton. Soybean prices for now could offer some support as well as concerns that old crop cotton stocks may be drawn down more. If nearby cotton prices increase, new crop prices could be pulled up. Look at prices in the mid 90s as a pricing point to price a portion of the 2012 crop.

## **Soybeans:**

*Nearby:* The May contract closed at \$14.03 a bushel, up 37 ¼ cents a bushel since last Friday. Support is at \$13.28 with resistance at \$14.53 a bushel. Technical indicators have a strong buy bias. Weekly exports were within expectations at 21.8 million bushels (17.4 million bushels for the 2011/12 marketing year and sales of 4.4 million bushels for 2012/13). Soybean stocks as of March 1 were reported at 1.37 billion bushels, only 8.7 million bushels less than expected. Reports from China that additional soybeans will need to be imported and lowered soybean production reports from South America have been supportive. Producers who continue to hold stored soybeans should increase their stop to \$13.55 as a pricing point should prices drop back to that level.

*New Crop:* November soybeans closed today at \$13.58 a bushel, up 35 ½ cents since last week. Support is at \$12.76 with resistance at \$14.10 a bushel. Technical indicators have a strong buy bias. If the Prospective Planting report is any indication, soybean prices have done a poor job of buying acres this winter. That might be beginning to change as on the average, profitability shifts are starting to lean toward soybeans. USDA reported that 73.9 million acres are intended by U.S. soybean producers this year, a decrease of 1.1 million acres from 2011 and 1.6 million acres less than the average trade guess. If usage numbers from USDA's Outlook Forum are correct, then ending stocks for 2012/13 at even trend-line yields will tighten considerably. Some of the demand numbers could be questionable so the market will be watching any signs of demand destruction from higher prices. I would add 10 percent priced on today's rally with overall pricing at 40 percent. Alternately, if you are not ready to price I would use a \$13.14 futures stop as a pricing point should prices drop back to that level. From a price risk management standpoint, a \$13.60 Put would cost 86 cents and set a \$12.74 futures floor.

## **Wheat:**

*Nearby:* May futures contract closed at \$6.60 ¾ a bushel, up 6 ½ cents a bushel since Friday. Support is at \$5.91 with resistance at \$7.03 a bushel. Technical indicators have a buy bias. Weekly exports were below expectations at 14.8 million bushels (8.3 million bushels for 2011/12 and 6.5 million bushels for 2012/13). Wheat stocks as of March 1 were reported at 1.2 billion bushels, 35 million bushels less than expected.

*New Crop:* July wheat closed at \$6.74 a bushel, up 9 ½ cents since last week. Support is at \$6.08 with resistance at \$7.12 a bushel. Technical indicators have a buy bias. A bullish all wheat acreage number was released by USDA at 55.9 million acre. This is an increase of 1.5 million acres from last year, but 1.69 million acres less than expected. I still think wheat prices will struggle along with corn as even with fewer acres there will still be more than adequate stocks. I am priced 20 percent on new crop and would watch closely on pricing more. A \$6.80 Put option would cost 48 cents and set a \$6.32 futures floor. Δ

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