USDA Report To Release First Estimates For The 2009 Crop

CHUCK DANEHOWER

RIPLEY, TENN.

Wet weather, weakening dollar, stronger crude oil, and a higher stock market have all given support to the commodity market. Weather forecasts are showing problems for planting progress in the southern and eastern Midwest along with Tennessee, Missouri, Arkansas, and Kentucky. The U.S. Dollar is weaker at mid-day on Friday at 82.695, down 2.02 for the week. Crude oil is up 10 percent for the week at 58.48. The Dow Jones Industrial Average is trading up 4 percent for the week on better-than-expected jobs data and confirmation that big banks don't need as much capital as feared. Funds now seem to putting money back into the long side of the commodity markets helping to support prices. The monthly USDA Supply & Demand report will be released on Tuesday, May 12. In this report, USDA will release its first estimates for the 2009 crop. Comments on this report will be posted on-line at http://economics.ag.utk.edu/outlook.html on the afternoon of May 12.

Corn:

Nearby: July 2009 futures closed at $4.21 bushel on Friday, up $.07 from last week. Weekly exports sales were 24.1 million bushels, below expectations and above pace to meet projections. The average trade guess has U.S. ending stocks for the May 12 report to be 1.711 billion bushels, up slightly from the April report. This is a large carryover as we go into the next marketing year. Corn through ethanol is also seeing support from the crude oil market.

New Crop: The September 2009 futures contract closed at $4.30 bushel on Friday, up $.07 from last week. As of May 3, 33 percent of the corn crop was planted, with the 5 year average at 50 percent. It is doubtful much progress was made this week, and forecast for next week indicates problems. The market will be watching next week's weather closely as we are almost at the point where corn planted (particularly in the Midwest) will start to have a question mark on yield potential or have acres switched to soybeans. Delayed planting or a switch to soybeans would be positive for corn. Trade guesses for the 2009 crop put 09/10 ending stocks at 1.383 billion bushels, which would be a reduction from 08/09. Private estimates put corn planted acreage at 83.9 million acres, which would be a reduction from planting intentions. I would currently be 25 percent forward priced and would stick with a goal of 40 percent - 50 percent priced by early summer. Using a trailing stop strategy the next trigger point is $3.85 bushel. A December $4.30 strike price put would cost $.49 bu. and set a futures floor of $3.81 bushel.

Cotton:

Nearby: The July futures closed at 59.85 cents/lb Friday, up 2.65 cent/lb from last week. Weekly exports sales were 142,900 bales, below expectations. Cotton seems to be following along with the soybean market, and a rise in the stock market. Despite negative fundamentals, funds are buying cotton which is also lending support.

New Crop: The December 09 futures closed at 62.37 cent/lb. up 2.47 cents/lb. from last week. Cotton is continuing its uptrend as reports indicate global cotton acreage will be down. U.S. cotton is still uncertain as wet weather will delay planting in parts of the Mid-South. Some acreage may move to soybeans. However, there is freeze damaged wheat in the Texas Plains that may be planted to cotton. Prices have moved higher than current fundamentals support. The market seems to have already factored in either production problems or a high level of acreage abandonment. This could happen, but hasn't yet. Call options as a means to capture price increases have gotten expensive and would warrant a look if we have a pullback in the short term. If prices continue to increase a put option strategy should be examined.

Soybean:

Nearby: July 2009 futures closed at $11.11 bushel on Friday, up $.09 from last week. Weekly exports were 28.5 million bushels, about expected, and above pace to meet USDA export projections. Trade estimates put ending stocks in the May 12 USDA report at 130 million bushels, a very tight carryover.

New Crop: The November 2009 futures contract closed at $9.80 bushel on Friday, up $.085 from last week. One private estimate puts soybean acreage at 78.3 million acres, up over 2 million acres from planting intentions. Trade guesses put the carryover for the 2009/10 marketing year at 239 million bushels. This year is shaping up like the 2004 market year where tight ending stocks saw soybean price top out in mid May and then decline into the fall. Don't let these prices increases get away without pricing a portion of the crop. I would currently have 35 percent of anticipated production priced. The trailing stop trigger point is at $8.74 bushel. The trailing stop trigger can serve as a floor to make sure something gets priced. Continue to look at and seriously consider a put option strategy. Using put options a futures floor of $8.72 bu. could be locked in – $9.80 strike price minus $1.08 premium. Put options set a floor, but allow an upside if the market goes up.

Wheat:

New Crop: The July 2009 futures contract closed at $5.91 bushel on Friday, up $.34 bu. from last week. The majority of this price increase came today as wheat rose $.21 bushel. Weekly exports were 14.1 million bushels, about expected, and on pace to slightly above to meet USDA export projections. Spring seeded wheat continues to lag the 5 year average as only 23 percent was seeded as of May 3 compared to the average of 59 percent. Trade estimates put wheat carryover in next week's report at 687 million bushels, down 9 million bushels from April. Estimates for 2009/10 put wheat ending stocks at 653 million bushels. Although wheat was a leader in price moves this week, it will need corn and soybeans to keep moving up for it also to increase. I would use this week's price increase to add another 5 percent to forward pricing catching up to 30 percent overall. The next trailing stop trigger is $5.01. Using put options, a futures floor of $5.52 bushel could be established – $5.90 bu. July strike price – $.38 premium. Producers using put options for wheat may be better served by using the September market. A $6.20 put would cost $.57 bushel and may be more viable if storage is used. Δ

Chuck Danehower is Extension Area Specialist/Farm Management with the University of Tennessee at Ripley.