USDA Reports Provide Support And Strength To Corn And Soybean Markets

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Corn and soybean prices are up with cotton and wheat prices mixed for the week. Neutral to bullish fundamentals from the January 12 USDA reports have provided support and strength to particularly the corn and soybean markets. Outside influences have also offered support this week as the March U.S. Dollar Index was trading before the close at 79.37, down 1.93 for the week. The Dow Jones Industrial Average traded mid-day at 11,784; up 141 points for the week. Crude Oil was trading before the close at 91.55 a barrel, up 3.15 a barrel for the week. USDA released their monthly Supply and Demand report, Annual Production report, Winter Wheat Seedings report and the Quarterly Grain Stocks report during the week. The last three January reports have moved the market and this set of reports were no different as corn and soybeans saw strong upward price movement. Look for comments on these reports at http://economics.ag.utk.edu/outlook.html Also note that we have added a Profitability Outlook tab which estimates crop returns based on current prices and estimated expenses. Corn and soybean prices have not yet reached the highs of 2008, but how high will they go? One market analyst – Arlan Suderman of Farm Futures makes these comments: Price models based on past market behavior give us an idea of the price ranges we can anticipate, providing a useful tool for developing marketing plans. However, no model has yet been written to fully incorporate the emotion, uncertainty and volatility of the current market environment. Maybe instead of focusing on achieving the market high, we should focus on locking in reasonable and in some cases historical profits on at least a good portion of the crop. It is important to put in place a marketing plan that will allow you to lock in these profits as well leave some upside. Options, although expensive, can achieve some of those goals, but there is I think some validity in using strategies that will allow the market to trend up, locking in prices only when it falls back to a target level.

Corn:

Nearby: March futures closed today at $6.48 ¾ a bushel, up $0.54 since Friday. Support is at $6.31 with resistance at $6.58 a bushel. Technical indicators have moved to a strong buy bias. Weekly exports were within expectations at 20 million bushels (17.3 million bushels for 2010/11 and 2.7 million bushels for 2011/12). USDA's reports were considered bullish as 2010 production was reduced on a 1.5 bushel cut in yield nationwide to 152.8, grain stocks were a little less than expected and ending stocks were reduced 87 million bushels to 745 million bushels. The projected stocks to use ratio of 5.5 percent would be the second lowest on record and is the lowest for a January report. Although I see nothing wrong with selling the remaining corn in storage, I would continue to hold a little longer the remaining 15 percent of 2010 production in storage or through call options. The trend is still up, but be mindful it can change in a hurry under the right conditions.

New Crop: September 2011 closed at $6.09 ½ a bushel, up $0.26 since Friday. Support is at $5.97 with resistance at $6.15 a bushel. Technical indicators have a strong buy bias. The deferred markets such as September and December will now focus in earnest on acreage in 2011and whether enough corn acreage can be bought to satisfy demand and build stocks to a more comfortable level. Concern will be at what point price rationing and demand destruction can occur under normal circumstances. Weather issues either in Argentina, China, or the U.S. could keep the market guessing. Based on price strength this week I would increase pricing 10 percent to 30 percent for 2011 production.

Cotton:

Nearby: March futures contract closed Friday at 141.44 cents/lb., up .84 cents/lb. for the week. Support is at 138.10 cents per pound, with resistance at 147.62 cents per pound. Technical indicators have a buy bias. All cotton weekly exports sales were above expectations at 357,600 bales (115,200 bales of upland cotton for 10/11; 211,300 bales of upland cotton for 11/12; 14,900 bales of Pima for 2010/11 and 16,200 bales of Pima for 2011/12). The Adjusted World Price for January 14 – January 20 is 156.07 cents/lb., up 1.20 cents/lb. Although the export report was strong this week, the cotton market has reacted negatively to news that China has again lifted lenders' reserve rates by 50 basis points in an ongoing attempt to control inflation. USDA's reports were considered neutral as an increase in 2010 production was offset by an increase in domestic mill use leaving ending stocks at a still tight 1.9 million bales. World cotton ending stocks in 2010/11 were reduced 550,000 bales to 42.84 million bales.

New Crop: December 2011 closed at 99.29 cents per pound, down .35 cents for the week. Support is at 96.15 cents per pound, with resistance at 105.03 cents per pound. Technical indicators have decreased to a buy bias. Keep in contact with your cotton buyer for current quotes on loan equities. Fundamentals are still tight and the cotton market will need additional acreage and favorable growing condition here and abroad to replenish stocks. Good demand still seems in place and we have yet to see affects of any price rationing. New crop seems to be stuck in a range of upper 90s to 104 cents. I would be 30 percent priced at this time and would look to increase that level if December trades to 109 cents or falls back to 99 cents (almost made it today). I would evaluate closely locking in prices over the next couple of months, particularly if input prices can be locked in. December 2012 prices closed at 85.78 cents/lb.

Soybeans:

Nearby: The March contract closed at $14.22 ½ a bushel, up $0.58 for the week. Support is at $13.98 with resistance at $14.36 a bushel. Technical indicators have a strong buy bias. Weekly exports were within expectations at 24.8 million bushels (18.2 million bushels for 2010/11 and 6.6 million bushels for 2011/12). Ending stocks for soybeans were a bullish surprise in USDA's report with carryover projected at 140 million bushels or 4.17 percent stocks to use ratio. World stocks also were decreased to 2.141 billion bushels.

New Crop: November 2011 soybeans closed at $13.23 ¼ a bushel, up $0.42 this week. Support is at $13.00 with resistance at $13.37 a bushel. Technical indicators have a strong buy bias. Sometimes in marketing you get concerned that when it appears that everyone is bullish that the top may be near. The market may need continued bullish information to move up more. Certainly, there is potential for that to happen with weather concerns looming in Argentina and reports that China needs to increase their soybean imports. I currently have priced 30 percent of 2011 anticipated production.

Wheat:

Nearby: March futures contract closed at $7.73 ¼ a bushel, down ¾ cent a bushel since Friday. Support is at $7.52 with resistance at $7.95 a bushel. Technical indicators have a buy bias. Weekly exports were below expectations at 6.4 million bushels (5.4 million bushels for 2010/11 and 1 million bushels for 2011/12). If there was a negative report in last Wednesday's USDA reports it would have to be wheat and not as much on the domestic side but the global picture. U.S. ending stocks were reduced 40 million bushels to 818 million bushels, but world stocks were raised 47 million bushels to 6.536 billion bushels. Stocks outside of the U.S. and China were raised 87 million bushels. Winter wheat seeding is projected at 40.99 million acres with some of that acreage questionable from dry weather.

New Crop: July, 2011 wheat closed at $8.27 ¾ a bushel Wednesday, up $0.07 since last week. Support is at $8.10 with resistance at $8.47 a bushel. Technical indicators have a strong buy bias. With tight fundamentals in corn and soybeans, wheat until it's' fundamentals change will follow corn and soybeans. 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. Δ

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