USDA Reports Supports Market For Corn, Soybeans

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Corn, cotton, soybeans, and wheat prices are all up for the week. The February 9 USDA reports were neutral to friendly for corn and soybeans, neutral for wheat, and friendly to bullish for cotton. This has lead to some support in the market as commodity prices have struggled to go up in the face of a strengthening U.S. Dollar. News that China has upped their bank reserve requirement has raised worries about the impact of monetary tightening on global growth. Concern over a European bailout package for Greece's financial troubles also contributed to the dollar's strength. The March U.S. Dollar Index was weaker earlier in the week, but has since strengthened to 80.41 at midday, down .19 for the week. The Dow Jones Industrial Average at midday was at 10,087; up slightly for the week. March Crude Oil was trading before the close at 74.11 a barrel, up 3.02 for the week. USDA released their long term forecast on February 11, but was not deemed relevant for 2010. The market will be watching for the forecast that comes out of the February 18-19 USDA Ag Outlook Forum. The production and supply and demand numbers from this forum generally will become at least the starting point for the 2010/11marketing year. Comments from the February 9 USDA report are posted at http://economics.ag.utk.edu/outlook.html and a table summary of the projections are at the end of these comments.

Corn:

Nearby: March futures closed at $3.62 a bushel on Friday, up $0.10 bushel for the week. Support is at $3.57 a bushel with resistance at $3.68 a bushel. Weekly exports sales were 29.5 million bushels (29.2 mb for 09/10 and 271,646 bushels for 10/11); in line with expectations, but still on a pace that makes it difficult to meet even revised projections. USDA lowered ending stocks for this current marketing year to 1.719 billion bushels, this was lower than expected. Demand was projected to increase 45 million bushels on a 100 million bushel increase in corn for ethanol, a 5 million bushel reduction in corn use for sweeteners, and a 50 million bushel decrease in exports.

New Crop: The September contract closed at $3.91, up $0.11 a bushel for the week. Support is $3.86 with resistance at $3.96 a bushel. This market may tend to trade sideways until more final production numbers come in on 2009. This information to some degree will be released in the March USDA reports. I would be priced 40 percent for 2010 production at this time and target the $4.00 - $4.10 area for catch up pricing. Corn acreage for 2010 is expected to increase and with good growing conditions, prices at harvest could be considerably lower. Put options or other option strategies should be evaluated as part of a risk management plan.

Cotton:

Nearby: The March futures closed at 74.39 cents/lb. up 7.77 cents/lb. for the week. Support is at 71.81, resistance at 73.81 cents per pound. Weekly exports sales were again above expectations or at least at the high end of expectations at 467,300 bales (454,800 bales of upland cotton for 09/10; 3,400 bales of upland cotton for 10/11; and 9,100 bales of Pima for 09/10). USDA raised exports projections 1 million bales for 2010/11, thereby lowering ending stocks to 3.3 million bales or a 21.4 percent stocks to use ratio. The season average price was projected at 62 cents/pound. These projections were somewhat of a surprise and a bullish report. Equities for the 2009 crop have been quoted up to 13 cents. Keep in contact with your cotton buyer for current quotes on loan equities. Producers still holding loan cotton may want to consider selling equities on this strength and buying a May or July call option. The Adjusted World Price for February 12 – February 18 is 60.51 cents/lb.

New Crop: The December futures contract closed at 73.02 cents/lb., up 4.29 cents/lb. for the week. Support is at 71.47 cents per pound, resistance at 73.37 cents per pound. Equities for the 2010 cotton were quoted in the 12 - 13 cent range. The National Cotton Council released the results of their annual planting intentions survey last week with intended cotton acreage at 10.1 million acres, an increase of 944,000 acres or 10.3 percent from 2009. Tennessee intentions were pegged at 354,000 acres, 54,000 acres more than 2009. This acreage would expect to produce a 15.5 million bale about even with demand and hold ending stocks in the 3.3 million bale area. The market could become concerned that larger ending stocks are needed and that prices need to go higher to pull in more cotton acreage. Certainly, the economy in the U.S. and abroad will affect this outlook as well as the U.S. Dollar. Nevertheless, cotton prices have a better upside potential than they have had lately. I would look at any rallies to the 76 - 78 cent range as a place to begin forward sales or start a put option strategy. Cotton Inc. is sponsoring a free Cotton Price Risk Management seminar on February 17 at The Peabody in Memphis. Call 1-919-678-2271 to reserve your spot.

Soybeans:

Nearby: March futures closed at $9.45 bushel, up $0.32 bushel for the week. Support is at $9.28 bushel, with resistance at $9.58 a bushel. Weekly exports were a marketing year low and below expectations at 9.8 million bushels with 11.5 million bushels in this marketing year and a reduction of 1.7 million bushels in the 2010/11 marketing year. USDA lowered ending stocks 35 million bushels to 210 million bushels on increased crush and exports. The trade was estimating around 220 million bushels. It is possible that exports could be increased in the future although with a record South American crop, our exports will start slowing and we may begin to see more cancellations.

New Crop: The November contract closed at $9.22 bushel, up $0.19 a bushel this week. Support is at $9.06 with resistance at $9.34 bushel. Unless ending stocks in future USDA reports start dropping below 180 - 200 million bushels, it will difficult for soybeans to mount a serious rally back to $10.00. Acreage in 2010 is expected to increase and without weather problems, ending stocks in the 2010/11 marketing year will be adequate. I am currently priced 15% for the 2010 soybean crop and would use a rally to $9.50 as a target to make catch up sales and add to forward pricing.

Wheat:

Nearby: March futures contract closed at $4.87 bushel, up $0.13 for the week. Weekly exports were 21.2 million bushels with 20.1 million bushels in this marketing year and 1.1 million bushels in 2010/11 marketing year. This was above expectations. Wheat ending stocks were raised 5 million bushels to 981 million bushels on a 5 million bushel increase in imports.

New Crop: July futures closed at $5.14 bushel, up $0.13 for the week. Support is at $5.06 with resistance at $5.37 a bushel. The fundamentals for wheat continue to remain negative with more downside risk than upside. Wheat has tended to follow corn and soybeans on any rallies and that will be needed for wheat to move up. I would currently have up to 20 percent of the 2010 wheat crop priced. Put options could be used to set a floor price and leave an upside. There are other option strategies that could lessen the cost of the put, but would require a margin account. Δ

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