Weather Is Still Affecting The Market, Heavy Rains Causing Crop Concerns

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Corn and soybeans are down with wheat and cotton prices up for the week. The September U.S. Dollar Index is 82.87 before the close on Friday, up slightly for the week. The Dow Jones Industrial Average is trading mid day at 10,417; up 319 points for the week. September Crude Oil was trading before the close at 79.12 a barrel, up 3.8 percent for the week. Weather is still affecting the market as heavy rains in the Upper Midwest have caused some crop concerns. Forecasts for the next 10 days call for higher than average temperatures in the Midwest with above average precipitation. As usual, there are conflicting forecast. Parts of the Deep South could soon see beneficial rains from Tropical Storm/Hurricane Bonnie. There still are foreign production problems for grains, particularly wheat, but there are some indications that it might not be as severe as earlier thought. Only time will tell on the extent of crop damage. Producers should continue to evaluate making catch up sales on crops and explore option strategies.

Corn:

New Crop: September futures closed Friday at $3.71 a bushel, down $0.24 a bushel for the week. Support is at $3.67 with resistance at $3.83 a bushel. Technical indicators have a buy bias. Weekly exports were slightly above expectations at 45.5 million bushels (24.2 million bushels in 2009/10 and 21.3 million bushels in 2010/11). As of July 18, 65 percent of the corn crop is silking compared to 38 percent last week, 30 percent last year and the five year average of 47 percent. Nationwide, the corn crop is 8 percent in the dough stage compared to 4 percent last year and the five year average of 7 percent. Currently, 72 percent of the crop is rated good to excellent compared to 73 percent last week, and 71 percent last year. Market analysts surveyed this week estimate the average corn yield at 163.5 bushels per acre. That is along lines with USDA's trend line yield and would result in a barely adequate 1.4 billion bushel carryover. The first USDA field based survey results will be released in the August 12 report and reflect conditions as of August 1. Evaluate put options as a viable risk management strategy. Put options can be a means of setting a price floor, but still leave an upside. I am currently at 50 percent forward priced and 25 percent priced with put options and would use current levels to make catch up sales and put in place a put option strategy. A December $3.90 strike price Put option would cost $0.26 bushel and set a $3.64 futures floor.

Deferred: The March 2011 contract closed today at $3.98, down $0.20 a bushel for the week. Support is at $3.94 and resistance at $4.11 a bushel. Technical indicators have a buy bias. September 2011 closed today at $4.19 a bushel, down $0.10 a bushel for the week. I would currently be priced 10 percent for 2011 production.

Cotton:

Nearby: October futures closed Friday at 80.32 cents/lb. up .36 cents/lb. for the week. Support is at 77.25, and resistance at 80.75 cents per pound. Technical indicators have a buy bias. All cotton weekly exports sales were above expectations at 382,000 bales (92,700 bales of upland cotton for 09/10; 287,300 bales of upland cotton for 10/11; and 2,000 bales of Pima for 2010/11). The Adjusted World Price for July 23 – July 29 is 65.84 cents/lb.

New Crop: The December futures contract closed today at 75.34 cents/lb., up 1.38 cents/lb. for the week. Support is at 74.21 cents per pound, with resistance at 77.75 cents per pound. Technical indicators have a hold bias. Current quotes for 2010 production equities are in the 16 cent range. Keep in contact with your cotton buyer for current quotes on loan equities. As of July 18, 86 percent of the cotton crop was squaring compared to 79 percent last week, 82 percent last year and the 5 year average of 78 percent. Nationwide, as of July 11, 41 percent of the cotton crop was setting bolls compared to 26 percent last week, 30 percent last year and the 5 year average of 34 percent. The crop is rated 68 percent good to excellent compared to 67 percent last week and 45 percent last year. Cotton prices have consolidated in the 73 – 75 cent range this month. Good yield prospects have somewhat been balanced against demand. However, if yields should turn out better or at least in the short term estimated to be better than currently expected downward pressure would be put on prices. Producers should consider what price target - whether equities or cash sales – they would sell at and put that target in with their cotton buyer. I would currently be 20 percent forward priced on estimated production for 2010 with that 20 percent also covered by buying call options. I would also have an additional 20 percent of production covered by buying December Put Options. A 75 cent December Put option would cost 4 cents and set a 71 cent futures floor. Producers who would like to price at current levels may want to consider pricing their crop and buying an out of the money Call option such as an 80 cent December Call for 2.25 cents. That would set a 72-73 cent floor and leave some upside.

Soybeans:

Nearby: August futures closed Friday at $10.18 bushel, down $0.02 bushel for the week. Support is at $10.06 a bushel, and resistance at $10.27 a bushel. Technical indicators have a buy bias. Weekly exports were above expectations at 45.1 million bushels (4.1 million bushels for 2009/10 and sales of 41 million bushels for 2010/11). The Census Bureau released that there were 129.2 million bushels crushed in June as compared to 132.1 million bushels expected by the trade. This is still above pace to meet USDA's projection.

New Crop: The November contract closed at $9.83 bushel, down $0.02 for the week. Support is at $9.70 with resistance at $9.92 a bushel. Technical indicators have a buy bias. The soybean crop as of July 18 was 60 percent blooming, compared to 40 percent last week, 41 percent last year and the five year average of 56 percent. As of July 18, 18 percent of the crop has set pods, compared to 8 percent last week, 8 percent last year and the five year average of 15 percent. The soybean crop is currently rated 67 percent good to excellent compared to 65 percent last week and 67 percent last year. There is still some weather premium in the market and eventually we will have to see more results than just looking at forecasts. That will probably start soon as private groups start surveying and estimating yields as we lead up to the August 12 USDA report. Exports for the next marketing year have been strong and supportive of the market, especially with concerns over the effects weather may have during August. I would be forward priced 50 percent for 2010 production. Producers with little priced should make catch up sales at these levels. I would increase my pricing with put options this week 10 percent bringing the total to 25 percent of anticipated production priced using put options. Put options may also offer some downside protection, but still leave some upside. Buying a November $10.00 strike price Put Option would cost $0.59 a bushel and set a $9.41 futures floor.

Wheat:

Nearby: September futures contract closed at $5.95 bushel, up $0.07 a bushel for the week. Support is at $5.88 with resistance at $6.08 a bushel. Technical indicators have a buy bias. Weekly exports were about expected at 14 million bushels. Nationwide, 71 percent of the winter wheat crop has been harvested compared to 63 percent last week, 69 percent last year and the 5 year average of 74 percent. Spring wheat is currently 87 percent headed as compared to 72 percent last week, 80 percent last year, and the five year average of 91 percent. Spring wheat conditions are 82 percent good to excellent, as compared to 83 percent last week, 73 percent last year. Foreign crop concerns continue but do not seem as severe as earlier reported. Production has been compared in some countries to last year's record numbers when in reality production will be down just slightly from average. U.S. and China hold 51 percent of the world stocks and have high stocks to use ratios, but the rest of the world may have a 14 percent stocks to use ratio based on current production estimates. Overall, fundamentals are still bearish and we will need to see U.S. exports increase to reduce supplies in the U.S.

Deferred: March 2011 futures closed at $6.53 bushel, up $0.17 for the week. Support is at $6.42 with resistance at $6.61 a bushel. Technical indicators have a buy bias. July, 2011 wheat closed at $6.65 a bushel today, up $0.11 for the week. I would be 25 percent priced for 2011 wheat. Put options are expensive for July 2011, interestingly enough a $6.60 July Put option would cost $0.74 and set a $5.86 futures floor. Although expensive, it is something to consider. Other option strategies are also available, but do understand what you are doing. Also check with your grain elevator for delivery contracts they may have that can set a price, but allow some upside. Δ

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