Weather Problem Potential Spurs Market Support

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Corn, soybean and wheat prices are down; cotton prices are mixed for the week. Good current growing conditions nationwide have tended to overshadow the potential for dry weather to develop from La Nina later this summer. The potential for weather related production problems to develop will keep some support under the market. From the U.S. Drought Monitor, I would note that the dry weather/drought conditions in Louisiana look to be expanding in the Delta and into Texas -

http://drought.unl.edu/dm/monitor.html .

This could have implications on cotton production. Outside markets have not provided much support this week to commodities as the Dow is down, the U.S. Dollar is down slightly and crude oil slightly highly for the week. The September U.S. Dollar Index is 85.57 before the close on Friday, down slightly for the week, weakening toward the end of today's trade. The Dow Jones Industrial Average before the close was 10,164; down 3 percent for the week. August Crude Oil was trading before the close at 78.94 a barrel, up slightly for the week. The week started out promising as markets reacted positively to the news that China would allow more flexibility in the exchange rate for its currency, the yuan. Pressure had been coming worldwide for China to allow the yuan to appreciate. A stronger yuan gives Chinese importer more buying power. After the initial news, the reality set in that this is not going to happen overnight and will be most likely phased in over time. The USDA Acreage Report and Quarterly Stocks Report will be released on June 30. Comments on these reports will be posted at http://economics.ag.utk.edu/default.html under News and Events.

Corn:

Nearby: July futures closed Friday at $3.41 a bushel, down $0.20 a bushel for the week. Support is at $3.35 with resistance at $3.49 a bushel. Technical indicators have a sell bias. Weekly exports were greater than expected at 57.3 million bushels (44.2 million bushels in 2009/10 and 13.1 million bushels in 2010/11). Since last week's announcement that EPA was delaying until fall a decision on the ethanol blend, ethanol has dropped 5.5 percent in price.

New Crop: The September contract closed today at $3.50, down $0.20 a bushel for the week. Support is at $3.44 and resistance at $3.57 a bushel. Technical indicators have a sell bias. As of June 20, 75 percent of the crop is rated good to excellent compared to 77 percent last week, and 70 percent last year. The market has steadily moved sideways to lower since winter. The market looked to be attempting to stay in the $3.60 to $3.90 range, but it now appears the trading range has dropped to $3.44 to $3.82. Surprises in next week's acreage report could move the market. Other factors to watch include weather in China, it is dry there but possibly improving. Currently, I would be forward priced 50 percent for 2010 production. In options, a December $3.60 strike price put option would cost $0.24 bushel and set a $3.36 futures floor.

Cotton:

Nearby: July futures closed Friday at 84.72 cents/lb. up 2.94 cents/lb. for the week. Support is at 83, and resistance at 85.70 cents per pound. Technical indicators have a buy bias. All cotton weekly exports sales were below expectations at 256,800 bales (84,000 bales of upland cotton for 09/10; 172,200 bales of upland cotton for 10/11; 400 bales of Pima for 09/10 and 200 bales of Pima for 2010/11). The Adjusted World Price for June 25 – July 1is 77.84 cents/lb.

New Crop: The December futures contract closed today at 78.91 cents/lb., down 0.04 cents/lb. for the week. Support is at 77.87 cents per pound, with resistance at 79.59 cents per pound. Technical indicators have a buy bias. Contracted equities have been in the 18.5 – 19 cent range. Keep in contact with your cotton buyer for current quotes on loan equities. As of June 20, 27 percent of the cotton crop was squaring compared to 17 percent last week, 18 percent last year and the 5 year average of 27 percent. Nationwide, as of June 20, 4 percent of the cotton crop was setting bolls compared to 5 percent last year and the 5 year average of 6 percent. The crop is rated 62 percent good to excellent compared to 62 percent last week and 44 percent last year. Cotton acreage is expected to be up in the June 30 Acreage Report compared to the planting intentions report. Abandonment of acreage has been expected to be down this year with good planting moisture in Texas. However, this developing dryness from Louisiana, the Delta, and particularly Texas could hold yields down. An active hurricane season is forecast and has the potential to provide needed moisture later in the growing season. Demand has been good, but positive outside market news is needed to push through the 80 cent level. I would currently be forward priced 20 percent for 2010 production with that 20 percent covered by buying call options. I would target the 80 cent range to increase pricing and continue to evaluate option strategies. A 79 cent December Put would cost 4.80 cents and set a 74.20 futures floor, but still leave the upside. On any pullback in prices, I would look closely at buying out of the money call options on the amount forward priced. This will allow some upside on contracted cotton.

Soybeans:

Nearby: July futures closed Friday at $9.57 bushel, down $0.04 bushel for the week. Support is at $9.52 a bushel, and resistance at $9.64 a bushel. Technical indicators have a sell bias. Weekly exports were about expected to the high side of expectations at 19.9 million bushels (11.3 million bushels for 2009/10 and sales of 8.6 million bushels for 2010/11). A positive Quarterly Stocks Report could generate a rally in the nearby markets.

New Crop: The November contract closed at $9.12 bushel, down $0.19 for the week. Support is at $9.07 with resistance at $9.23 a bushel. Technical indicators have a sell bias. As of June 20, 93 percent of the soybean crop was planted compared 91 percent last week and 91 percent last year and the 5 year average of 94 percent. As of June 20, 87 percent of the crop has emerged, compared to 80 percent last week, 82 percent last year and the five year average of 88 percent. The soybean crop is currently rated 69 percent good to excellent compared to 73 percent last week and 67 percent last year. Trade estimates vary with some analyst expecting higher and others lower soybean acres than the March 31 report. Weather will be the key to prices as the timing and effects of La Nina will be closely watched. I would be forward priced 50 percent for 2010 production. Put options may also offer some downside protection, but still leave some upside. Buying a November $9.20 strike price Put Option would cost $0.54 a bushel and set an $8.66 futures floor.

Wheat:

New Crop: July futures contract closed at $4.56 bushel, down $0.06 a bushel for the week. Support is at $4.49 with resistance at $4.68 a bushel. Technical indicators have a sell bias. Weekly exports were above expectations at 26.5 million bushels. Winter wheat crop condition ratings as of June 20 were 65 percent good to excellent compared to 66 percent last week and 45 percent last year. Nationwide, 17 percent of the winter wheat crop has been harvested compared to 9 percent last week, 15 percent last year and the 5 year average of 23 percent. I would currently have 50 percent priced for new crop wheat and look to sell the remainder at harvest.

Deferred: September futures closed at $4.71 bushel, down $0.07 for the week. Support is at $4.64 with resistance at $4.83 a bushel. Technical indicators have a sell bias. As of June 20, 84 percent of spring wheat is rated good to excellent compared to 86 percent last week, and 77 percent last year. Δ

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