World Bank Expects Economy To Shrink In '09

CHUCK DANEHOWER

RIPLEY, TENN.

Corn, wheat are down, cotton slightly up and soybeans mixed for the week and as traders start to position for the June 30 Acreage Report. The Dollar was trading down slightly from last week at 80.09 on mid -day Friday. Crude Oil was down almost a dollar a barrel for the week at Friday mid- day trading at 69.27. The Dow Jones Industrial Average is down about 1 percent for the week. The World Bank released comments early in the week that indicated that the world economy will shrink 2.7 percent in 2009, giving support to the dollar. The Federal Reserve left interest rates unchanged and released comments that inflation is not a current concern, continuing to put pressure on prices. USDA will release their Acreage Report and Quarterly Grains Stocks Report on June 30. Comments on the report will be posted on-line on the afternoon of June 30 at http://economics.ag.utk.edu/outlook.html.

Corn:

Nearby: July 2009 futures closed at $3.84 bushel on Friday, down $.15 bushel from last week. Weekly exports sales were 36.9 million bushels, about expected and on pace to meet projections. The average trade estimate of June 1 corn stocks is 4.19 billion bushels in a range which means the 1.6 billion bushel projected carryover is reachable. The nearby market will be watching for this number on June 30.

New Crop: The September 2009 futures contract closed at $3.92 bushel on Friday, down $.15 from last week. As of June 21, the crop condition ratings for corn were 70 percent in the good to excellent rating compared to 70 percent the previous week and 59 percent a year ago. The crop in the Western Corn Belt is outstanding with Iowa rated at 81 percent, Minnesota 80 percent, and Wisconsin at 76 percent. The Eastern Corn Belt is rated quite a bit less with Illinois at 51 percent good to excellent and Indiana at 62 percent. Tennessee is rated 58 percent good to excellent. The trade is estimating corn acreage from 82.5 million acres to 86 million acres with an average guess of 84.16 million acres. Anything less than 84 million acres would be market positive. The downward decent over the last few weeks has left chart gaps at $4.25 - $4.30 bushel and $4.00 - $4.05 bushels. Markets have a tendency to fill gaps at some time or other. A lower than expected acreage or yield problems could assist in filling those gaps. September corn is trading at the support level of $3.90 and during the week traded through the trailing stop of $3.95, which would indicate pricing another 5 percent for a total of 40 percent. Producers at this level may want to hold off pricing any more until the crop develops further and we see what the June 30 reports bring. Put options could be a tool to price additional bushels and also leave an upside. Using a December $4.00 strike price put costing $.41 bushel would set a futures floor of $3.59 bushel for December. Adjusting for September delivery would make a futures floor of around $3.47 bushel.

Cotton:

Nearby: The July Cotton futures closed at 52.54 cents/lb Friday, up .98 cents/lb from last week. Weekly exports sales were 262,800 bales, above expectations and above pace to meet USDA projections. A lower dollar is providing support.

New Crop: The December 09 futures closed at 56.84 cents/lb. up .46 cents/lb. from last week. Crop condition ratings as of June 21 were 44 percent good to excellent compared to 45 percent last week and 47 percent last year. In the very poor to poor condition were 22 percent of the crop which compared to 18 percent last week and 21 percent last year. All eyes are on Texas where over 50 percent of the crop is planted. They are currently rated 34 percent very poor to poor, 36 percent fair, and 30 percent good to excellent. The acreage report will probably report a slight decrease in acres planted from the 8.8 million acres intended. With cotton, it is not as much the planted acres as it is the harvested acres which will reflect abandonment. Dry conditions still exist in Texas and dry land cotton will suffer. An acreage report below 8.5 million acres could spark a rally until we get further along in the production year. Prices have traded in the 54-55 cent range during the week which would have warranted a close look at purchasing call options to hedge cotton counter cyclical payments and be in position to participate in any rallies that would not be reflected in loan cotton. They are expensive as a 55 cent call early in the week would have cost 5.33 cents.

Soybean:

Nearby: July 2009 futures closed at $12.01 bushel on Friday, up $.22 from last week. Weekly exports were 8.9 million bushels as purchases were more than cancellations. This was in line with expectations. The average trade guess for June 1 soybean stocks is 586 million bushels, ranging from 559-620 million bushels. This compares to the March 1 stocks of 1.302 billion bushels and the June 1, 2008 stocks of 676 million bushels.

New Crop: The November 2009 futures contract closed at $9.91 bushel on Friday, down $.15 from last week. Soybeans have traded sideways this week after falling off the year's highs a couple of weeks ago. As of June 21, crop conditions have the crop rated at 67 percent good to excellent compared to 66 percent last week and 57 percent in 2008. Soybean acreage estimates for the June 30 report range from 75.3 million acres to 79.6 million acres with the average guess at 78.3 million acres or an increase of 2.28 million acres from the March 31 intentions. Some of the acreage is expected to come from corn, but the majority of the increase is expected to come from uncommitted acres early this spring. This is really a wildcard as there are several million acres that are in this category that soybeans could draw from. With already tight stocks, it would be bullish if acreage would happen to come in around the planting intentions number of 76 million acres. An acreage number above the 78.3 million acres would be bearish. I think it should be noted that there were estimates early this spring that had soybeans at 80 million acres and we could end up close to that number. Soybeans are trading at their current level of support. There is a chart gap at $10.50 - $10.75 bushel. It would take less than expected acreage and/or production problems to fill that gap in the next few months. Early in the week prices hit the trailing stop trigger of $9.85 where I would have priced another 5 percent bringing the total forward priced to 45 percent. With more downside risk than up, I would continue to use a trailing stop until 50 percent priced. The next trailing stop trigger point is at $9.76 bushel and if the market drops back to that point, I would price another 5 percent. Using put options a futures floor of $9.02 bu. could be locked in – $10.00 strike price minus $.98 premium. I would encourage producers to use put options to set a floor, and still allow an upside if the market goes up. The last few weeks have offered some good floor prices.

Wheat:

New Crop: The July 2009 futures contract closed at $5.34 bushel on Friday, down $.21 bu. from last week. Weekly exports were 13.5 million bushels, about expected. The average trade guess for June 1 wheat stocks is 670 million bushels with a range of guesses from 640 – 687 million bushels. This compares to the March 1 number of 1.037 billion bushels and the June 1, 2008 stocks of 306 million bushels. Winter wheat harvest nationwide is 28 percent complete, slightly below the 5 year average of 31 percent. Long term support is at the $5.10 - $5.20 level. As wheat harvest continues, price pressure is expected. It will take a rally in the corn and soybean market for wheat prices to increase in the short term.

Deferred: The December 2009 futures contract closed at $5.87 bushel, down $.24 for the week. Producers with un-priced wheat from their current harvest, who have met immediate cash flow concern, may want to consider storage or call options to enhance prices. It would be a gamble as U.S. wheat is still overpriced in the world market and ending stocks are burdensome. A surprise in next week's report or foreign production problems could spark a rally, but it is doubtful. All wheat acreage is expected to range from 57.6 – 58.8 million acres with the average guess at 58.337. This would be a reduction of 300,000 acres from the March 31 report. Δ

CHUCK DANEHOWER: Extension Area Specialist/Farm Management, University of Tennessee