Outside Influences Pull Commodity Markets Down

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Commodity markets end down for the week as outside influences once again take charge. The Dollar, higher earlier in the week, was trading about even with last week at 80.625 on mid day Friday. Crude Oil was down 2.35 a barrel for the week at mid day on Friday trading at 69.62. The Dow Jones Industrial Average is down about 3 percent for the week. Two private estimates on acreage were released this week with agreement on soybean acreage, but conflicting on corn. USDA will release their Acreage Report on June 30.

Corn:

Nearby: July 2009 futures closed at $3.99 bushel on Friday, down $.26 bushel from last week. Weekly exports sales were 45 million bushels (30.2 mb old crop and 14.8 mb new crop), above expectations and above pace to meet projections. It is doubtful that USDA will raise old crop exports with actual shipments running well behind sales. Ethanol margins are becoming profitable which will help ethanol usage

New Crop: The September 2009 futures contract closed at $4.07 bushel on Friday, down $.27 from last week. As of June 14, the crop condition ratings for corn was 70 percent in the good to excellent rating compared to 69 percent the previous week and 57 percent a year ago. Private acreage estimates for corn were conflicting with one estimate showing a 1.875 million acreage reduction from the March 31 intentions. The other estimate was only a 211,000 acreage reduction based on good planting conditions in the Western Corn Belt. Prices will continue to remain uncertain, until corn planted acreage and growing conditions are determined. September corn dropped through the level of support at the $4.35 area with the next level in the $3.90 - $4.00 range. The trailing stop trigger was hit at $4.15, pricing another 5 percent with 35 percent being forward priced. The next trailing stop trigger point is $3.95 bushel. Using a December $4.30 strike price put costing $.47 bushel would set a futures floor of $3.83 bushel for December. Adjusting for September delivery would make a futures floor of around $3.71 bushel. Evaluate put options for setting a floor and leaving some upside.

Cotton:

Nearby: The July Cotton futures closed at 51.56 cents/lb Friday, down 4.54 cents/lb from last week. Weekly exports sales were 179,000 bales with 154,000 of old crop and 25,800 new crop.

New Crop: The December 09 futures closed at 56.38 cents/lb. down 4.84 cents/lb. from last week. As of June 14, 95 percent of the crop had been planted nationwide compared to the 5 year average of 95 percent and 2008 at 96 percent. Crop conditions as of June 14 were 69 percent good to excellent compared to 53 percent in 2008. Strength in the dollar is causing concerns for cotton exports. Until acreage and levels of abandonment are more determined, cotton for the most part will continue to trade as the dollar and stock markets dictate. Prices in the 54-55 cent range would warrant a close look at purchasing call option to hedge cotton counter cyclical payments and be in position to participate in any rallies.

Soybean:

Nearby: July 2009 futures closed at $11.79 bushel on Friday, down $.67 from last week. Weekly exports were 9.2 million bushels (5.3 mb old crop & 3.9 mb new crop), at expectations. Net export sales were an improvement over the previous two weeks.

New Crop: The November 2009 futures contract closed at $10.06 bushel on Friday, down $.71 from last week. As of June 14, 87 percent of the soybean crop was planted nationwide compared to the average of 92 percent and 2008 of 83 percent. Emergence of 72 percent is slightly above about the same as last year, but lags the 5 year average of 83 percent. Crop conditions have the crop rated at 66 percent good to excellent compared to 56 percent in 2008. Private estimates are in agreement in their projection of a 78.5 – 78.9 million acres of soybeans planted. This would be a 2.5 – 2.9 million acre increase over the March 31 intentions. These numbers are bearish, but could be offset by lower yields from a later planted crop. Weather will continue to influence the soybean market. The next level of support is in the $9.90 - $10.00 range. I would currently have 40 percent of anticipated production priced. The trailing stop trigger point is at $9.85 bushel and if the market drops back to that point, I would price another 5 percent. Using put options a futures floor of $9.13 bu. could be locked in – $10.00 strike price minus $.87 premium. Put options set a floor, but allow an upside if the market goes up.

Wheat:

New Crop: The July 2009 futures contract closed at $5.55 bushel on Friday, down $.30 bu. from last week. Weekly exports were 9.9 million bushels, about expected. The winter wheat crop is rated at 44 percent good to excellent compared to 45 percent last week and 47 percent last year. The spring wheat is rated at 75 percent good to excellent compare to 73 percent last week and 67 percent last year. Wheat is currently being or has just been harvested. Long term support is at the $5.10 - $5.20 level. Additional price pressure is expected next week at the wheat harvest overall gets going. After existing contracts are filled or if yields appear sufficient to fill existing contracts, producers may want to consider pricing additional unpriced bushels at the current market.

Deferred: The December 2009 futures contract closed at $6.11 bushel, down $.30 for the week. Storage is an alternative, but prices will remain weak in the short term and any increases will be dependent on foreign production shortfalls, a rising soybean and corn market. Should weather problems develop that limit corn production, wheat through increased feed usage could benefit. If immediate cash flow concerns are met, producers may consider storing a small portion of the crop or selling the crop and purchasing call options. I would look at the December call options with an at-the-money $6.10 call costing $.66 Producers planning on storing wheat should look closely at using put options as a price risk management tool. A $6.10 put would cost $.60 bushel and offer a futures floor of $5.50 bushel. Δ

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