

**Consider Pricing Some Corn As Corn Commodity Market Shows Some Strength
Cotton Market Remains Weak**

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While high energy costs and the continuing drought are probably the most significant concerns affecting agricultural production this season, the recent improvement in the corn futures market indicates that it may be time to consider pricing some new crop corn. Futures price bids for corn in the Chicago Board of Trade (CBT) weakened slightly this past week after some contracts, such as December '06 delivery contracts, reached life-of-contract highs last week. But, the market appears to remain trading at close to 4-5 cents below life-of-contract highs.

Markets apparently weakened this past week as U.S. corn plantings advanced ten points ahead of the 2001-2005 average, after lagging behind significantly throughout the planting season. A 4.6 percent lower March 1, 2006 corn acreage planting intention, a lower forecast of expected yields, the dry spell and delayed plantings had fueled the bullish market. Initially, dry weather and later too much rain delayed plantings, but planting advanced last week as favorable weather allowed planting to gain full momentum. USDA-NASS Crop Progress report of May 1, 2006 indicates that 52 percent of the U.S. corn crop has been planted compared to a 2001-2005 average of 42 percent and only 25 percent as of April 23, 2006.

The market will remain heavily weather influenced. But, while it is still too early in the planting season to make credible production forecasts, with plantings now ahead of schedule and if the improved extended weather forecasts materialize, price bids are likely to weaken in May and into June.

Corn Supply/Demand

While the estimate of domestic use for the 2005/06 season remained unchanged from last month's estimate, USDA April 10, 2006 supply/demand report increased the export estimate by 50 million bushels and decreased the estimate of U.S. corn ending stocks by an additional 50 million bushels. Exports were increased due to reduced competition from Argentina.

USDA's 2005/06 season's 11.112 billion bushel corn production estimate, the second highest on record, has remained unchanged since USDA's January 12, 2006 Supply/Demand report. The market for the 2005/06 crop appears to have adjusted to this large crop, but increased ethanol use and increased exports has caused prices to improve slightly. USDA's April 10, 2006 projected price range for the 2005/06 corn crop was up 10 cents on the low end from last month to about \$1.95 to \$2.05 per bushel.

In terms of the new crop, while it appears doubtful that national average corn yields will approximate the 2004/05 season's record high of 160.4 bu/acre, using last season's national average yields of 147.9 bu/acre and the historical harvest-to-planted ratio, about 10.4 billion bushels of corn could be produced. Using the 2006 Agricultural Outlook Forum's February 2006 projected estimate of new crop corn use at 11.495 billion bushels, use will exceed the production estimate and ending stocks should drop to a manageable 1.249 billion bushels, down 45.7 percent from this season's ending stocks of 2.3 billion bushels. (See Table 1).

Cotton Supply/Demand

In terms of the 2005/06 season and based on USDA's April 10, 2006 supply/demand report, while USDA increased the estimate of domestic use by 100,000 bales and exports by 200,000 bales, USDA also increased the estimate of production by 180,000 bales, resulting in marginally lower ending stocks. Huge supplies of cotton appear to be casting a bearish gloom on the market. Futures price bids for most contracts declined about three cents per pound in the last half of April. Dr. Carl Anderson, Professor Emeritus, contends that a

bearish sentiment hangs over the market despite a fundamental supply/demand relationship that is expected by many analysts to tighten somewhat for the 2006 crop. Demand for cotton is still strong; but, the market is sluggish.

With over 71 percent of the 2005/06 crop and about 75 percent of the 2006/07 production crop estimate dependent on export markets, U.S. markets will remain volatile, subject to importing countries policies.

Dr. Anderson further states that the termination of Step 2 at the end of July sends a signal that U.S. prices must be competitive with world cotton prices. Supply, demand, and foreign policy relationships impact price as "new" market forces influence the export-driven U.S. cotton market. Given U.S. plantings of 14.6 million acres and total off-take around 22.7 million bales, production of 22.4 million bales will about cover use and may lower carryover stocks slightly. (See table 1). If so, there would be enough cotton to meet record exports.

Dr. Anderson advises, considering the unpredictable forces in the market, pricing strategies using options and futures contracts should be carefully planned to minimize risk and maximize cash flow. The market will be weather sensitive for several months. Adverse weather could trigger a sharp rally.

	Corn					Cotton				
	2003	2004	2005 ¹	2006/07 ²	% CHNG	2003	2004	2005 ¹	2006/07 ²	% CHNG
	Million Bushels					Million Bales				
BEGINNING STOCKS	1,087	958	2,114	2,301	8.8%	5.39	3.51	5.54	6.50	17.3%
PRODUCTION	10,089	11,807	11,112	10,433	-6.1%	18.26	23.25	23.90	22.40	-6.3%
IMPORTS	14	11	10	10	0.0%	0.05	0.03	0.03	0.03	0.0%
TOTAL SUPPLY	11,190	12,776	13,236	12,744	-3.7%	23.70	26.79	29.47	28.93	-1.8%
DOMESTIC USE	8,332	8,848	8,985	9,495	5.7%	6.22	6.69	6.00	5.90	-1.7%
EXPORTS	1,900	1,814	1,950	2,000	2.6%	13.76	14.41	17.00	16.80	-1.2%
TOTAL USE	10,232	10,662	10,935	11,495	5.1%	19.98	21.10	23.00	22.70	-1.3%
ENDING STOCKS	958	2,114	2,301	1,249	-45.7%	3.51	5.54	6.50	6.23	-4.2%
AVG FARM PRICE ³	\$2.42	\$2.06	\$2.00	N/A	N/A	\$0.618	\$0.416	\$0.475	N/A	N/A
USE-TO-SUPPLY	91.4%	83.5%	82.6%	90.2%	9.2%	84.3%	78.8%	78.0%	78.5%	0.5%
ENDING STOCK-TO-USE	9.4%	19.8%	21.0%	10.9%	-48.4%	17.6%	26.3%	28.3%	27.4%	-2.9%

¹ SOURCE: USDA/NASS/ERS/WASDE April 10, 2006 Supply/Demand Report
² 06/07 production estimated; use projected by 2006 Agricultural Outlook Forum, Interagency Commodity Estimates Committee, USDA.
³ Corn in bushels; Cotton in pounds.