

**The Financial Crisis Weakened Commodity Markets Significantly
Markets Offering Some Pricing Opportunities And May Improve After Crisis Is Settled**

Jose G. Peña, Professor and Extension Economist-Management

While most commodity markets have weakened after recent highs and dropped significantly during the past few days, influenced by the financial crisis, markets are offering reasonably acceptable pricing opportunities. Markets will probably improve after a plan is approved to help settle the financial crisis. Commodity markets weakened significantly during the last few days, probably as a result of uncertainty about the U.S. and world economic outlook. Markets had been showing some weakness since mid-summer highs as reports of good crop weather and forecasts for cool mild fall weather increased the production potential. USDA's September 12, 2008 supply/demand report, however, dropped the 2008/09 corn production forecast by 216 million bushels (1.8%) to 12.072 billion. So, except for the uncertainty which has been created by the financial crisis, the corn market has a potential to improve.

As we enter the 4th quarter and the agricultural year comes close to an end, it is time to initiate production plans for 2009. It becomes very important to closely monitor commodity markets to identify pricing opportunities. Closely monitoring the market is always important, but particularly important this fall because if the financial crisis is not favorably settled, it may affect the renewing of operating loans. The minimum impact that we can expect from this financial crisis is that lending will get a lot tighter, especially with Ag loans. This means lenders will increase the loan application documentation requirements, especially as production costs increase and Ag markets remain volatile. While market prices remain high, the substantial recent increase in input costs will make it more difficult to manage financial risk and put together a profitable loan application.

With very few exceptions, futures prices for most commodities dropped significantly on Monday (9.29.08) as concerns over uncertainty that the U.S. House would reject the government financial bailout proposal. By the end of the day, commodity prices for some commodities dropped the limit as the House rejected the bailout proposal. The Dow Jones industrial index dropped 777 points, on Monday (9.29.08), the largest one day drop on record, but recovered close to 500 points by early afternoon on Tuesday (9.30.08), when this report was prepared.

The financial crisis is creating substantial financial spin and it's hard to predict how it will all end, but we need to closely monitor markets as we start to finalize planting plans for 2009.

Markets Down

July '09 wheat contracts on the Kansas City Board of Trade (KCBT), which will heavily influence wheat prices in Texas next spring, dropped to about \$7.65/bu on Monday (9.29.08) after highs of about \$10.25/bu during the end of June '08 (See Figure 1a).

Corn futures on the Chicago Board of Trade (CBOT) finished limit down on Monday. The December '08 contract closed at \$5.13/bu, down \$0.30/bu from Friday and down \$0.45/bu from a week ago.

December '09 Corn and cotton futures prices, which will influence prices in Texas next summer, settled at about \$5.58 and 67 cents a pound, respectively (See Figures 1b and 1c). While prices are lower than recent highs, they may improve after the crisis is settled.

Corn

USDA's September 12, 2008 supply/demand report reduced the estimate of corn production by 216 million bushels to 12.072 billion bushels from last month's estimate, but down 1.002 billion bushels (7.7%) from last year's record crop of 13.074 billion bushels. Based on growing conditions as of September 1, 2008, USDA dropped the average yield estimate by 2.7 bu/ac from last month's estimate to 152.3 bu/ac. If realized, this will be the third highest yield on record, behind the 160.4 bushel yield in 2004 and last year's 155.0 bu/ac.

The corn crop has been making excellent progress. USDA's September 29, 2008 corn crop condition report rated 61 percent of the crop as good-to-excellent, just slightly behind a five year average of 63 percent, with 99 percent of the crop past the dent stage, compared to a five year average of 98 percent and 29 percent already harvested, compared to a five year average of 21 percent. This would indicate that even without the financial crisis, corn markets would be experiencing some downward pressure.



While the estimate of exports remained unchanged from last month, the estimate of feed and residual use was lowered by 100 million bushels on increased sorghum feeding (lower corn use) and lower expected residual loss with the smaller crop, and lower corn use from higher expected prices. Ending stocks were lowered 115 million bushels. The season-average farm price was projected at \$5.00 to \$6.00 per bushel, up 10 cents on each end of the range.

Cotton

The financial crisis also weakened the cotton market, but it appears the cotton market was also influenced by decreased world demand and high U.S. cotton stocks, despite substantially reduced plantings this year. USDA's September 12, 2008 supply/demand report lowered stocks, but also lowered off-take when compared with last month, resulting in slightly higher ending stocks. Beginning stocks were reduced, but production for the 2008/09 season was raised marginally based on conditions as of September 1, 2008. Domestic mill use remained unchanged, but exports were reduced 500,000 bales to 14.5 million due to lower world import demand. Ending stocks are now forecast at 4.9 million bales, up 300,000 bales from last month with a stock-to-use ratio of 26 percent. The forecast price range was lowered by three cents on each end of the range to an average farm price of 57 to 69 cents per pound.