

**Hopefully Commodity Market Prices Have Bottomed and May Start to Improve**

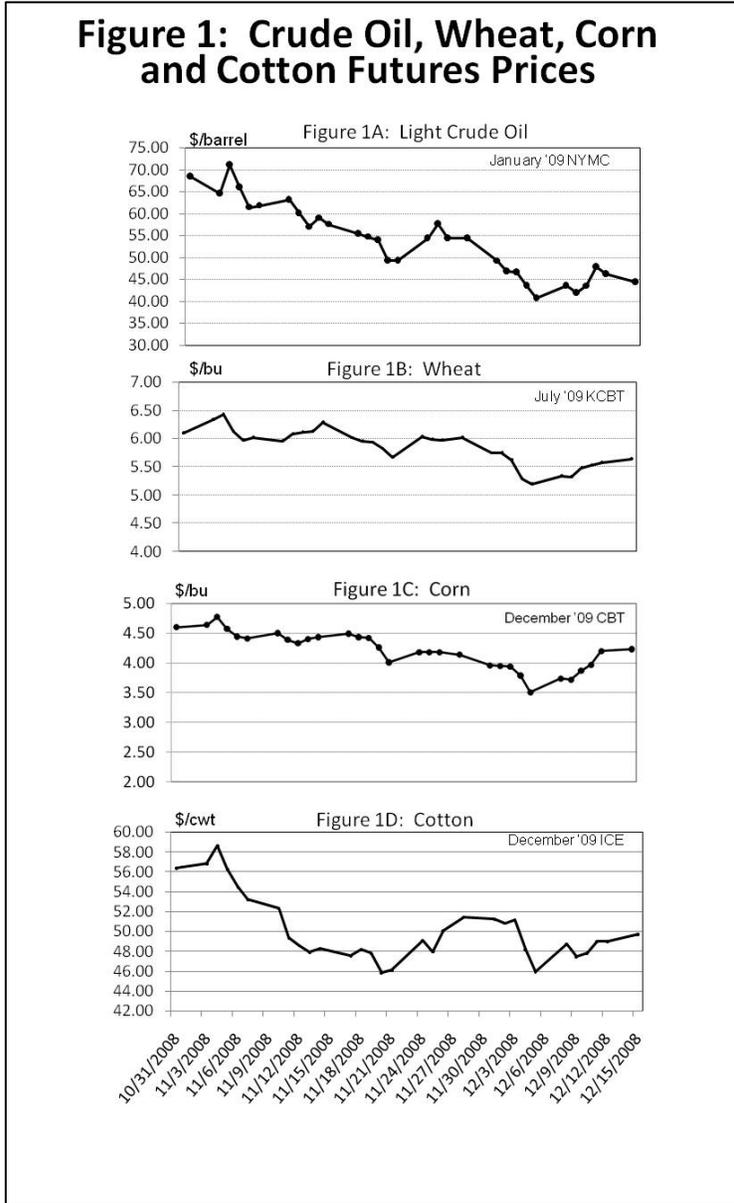
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We wish everyone a very **Merry Christmas and a Happy New Year.** As the year-end

approaches, we hope that commodity market prices are looking for a bottom after the precipitous weakness since mid-summer's highs and that prices may start to improve. Futures prices for January '09 light crude oil appear to be improving after dropping from mid-July '08's record highs of about \$147/barrel. Light crude oil futures prices closed at about \$44.50/barrel on Monday (12.15.08), up about \$3.65 barrel from December 5's lows of about \$40.85/barrel. (See Figure 1A). In addition, crude oil futures traded more than \$2 higher on Monday in London after the Organization of Petroleum Exporting Countries (OPEC) indicated plans to cut output to bring it more in line with demand.

While the U.S. and global

economic situation remains as the single most significant activity driving the agricultural market, this



upturn in crude oil prices as well as relatively favorable indications that a partial U.S. auto-manufacturer's economic bail-out might be possible in the near future is probably influencing the recent improvement in the commodity market. Investors need to be attracted back into the commodities market to help stabilize price discovery.

Grain markets were stronger across the board, despite USDA's December 11, 2008 supply/demand report which showed increases in U.S. and World corn and wheat ending stocks. Wheat futures prices for July '09 contracts at the Kansas City Board of Trade (KCBT) closed on Monday (12.15.08) at about \$5.64/bu, up about \$0.44/bu from December 5, 2008's lows of about \$5.20/bu (See Figure 1B). Futures prices for December '09 corn and cotton contracts (which will influence planting intentions and new crop prices) closed at about \$4.22/bu and \$49.74/cwt, respectively, after December 5's lows of \$3.51/bu and \$45.98/cwt. (See Figures 1C and 1D).

Meanwhile, the cotton market remains in the doldrums with too much U.S. and world supplies/ending stocks. It appears that U.S. and global demand for grains is stronger than for fibers. With the value of U.S. dollar down and crude oil futures higher it appears that global markets are bullish for grain futures.

### **Wheat**

Wheat futures at the Kansas City Board of Trade (KCBT) are trading higher despite USDA'S bearish December 11, 2008 supply/demand report. While the production estimate at 2.5 billion bushels remained the same as last month's estimate, but up 433 million bushels from last year, imports were increased by 10 million bushels and domestic food use was decreased by 10 million bushels. The estimate of ending stocks was conversely increased by 20 million bushels to 623 million bushels, more than double the size of beginning stocks of 306 million bushels. USDA's all-wheat season average price was projected 15 cents lower on both ends to a range of \$6.40-\$7.00/bu.

### **Corn**

Corn futures prices at the Chicago Board of Trade (CBOT) are also trading higher despite USDA's December 11, 2008 relatively bearish supply/demand report. Trade was expecting USDA to reduce the corn usage projections, but the reductions were larger than expected. While feed and residual use was increased by 50 million bushels, the estimate of corn use for ethanol production was reduced by 300 million bushels and exports were reduced by 100 million bushels. The reduction in

corn used for ethanol reflects that ethanol's margins have deteriorated sharply as ethanol prices are now significantly higher than unleaded gasoline prices. This reversal in prices is discouraging blending of ethanol into unleaded gasoline and, in turn, discouraging usage of corn to make ethanol.

While ending stocks at 1.474 billion bushels were increased 350 million bushels from last month's estimate, ending stocks are 150 million bushels (9.2%) below beginning stocks of 1.624 billion bushels. USDA's projected season-average price was reduced to \$3.65-\$4.35/bu, down on both ends of last month's estimate of \$4.00-\$4.80/bu. But, keep in mind that this price estimate is for the old crop. Prices for December '09 futures contracts are more of an indicator of what the market is offering at this time for the new crop.

### **Cotton**

The cotton market has weakened steadily since last spring's highs and USDA's December 11, 2008 supply/demand report was bearish to cotton. With about 90 percent of USDA's December 11, 2008 production estimate as export bound, the market remains export dependent and there is too much cotton in the U.S. and the world in relation to current demand. Despite the recent market weakness since last spring's highs, it appears that futures prices are looking for a bottom and may start to show some improvement.

USDA's December 11, 2008 supply/demand report raised the production estimate by 80,000 bales and lowered domestic mill use and exports by 850,000 bales from last month's estimate, resulting in significantly higher ending stocks. Domestic mill use was reduced 100,000 bales, reflecting a marginal decline from the level of recent months. Exports were reduced 750,000 bales, as sharply lower world consumption is anticipated to limit demand for U.S. cotton. The global economic situation continues to have a major impact on major importing countries' usage rates. Accordingly, ending stocks were raised by 900,000 bales (14.5%) from last month to 7.1 million bales.

It appears that the market had anticipated this change and had already adjusted to this higher ending stock level. USDA's forecast average farm price for the current marketing year was lowered four cents on both ends of the range to a range of 41 to 51 cents per pound. But, also keep in mind that this price forecast is for the old crop. Futures prices for December '09 cotton contracts are a better indicator of what the market is offering at this time for the new crop.