

# Decisive Marketing

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Volatile Markets

The USDA's August supply/demand estimates appeared to have confirmed what the markets had been signaling. Following the June price high, the December 2008 corn futures price decline was approaching three dollars per bushel. The trade expectations were nearly ideal growing conditions was allowing the corn crop to recover from springtime wet conditions, flooding and planting delays. In response to June flooding that had raised questions about corn acreage, the USDA re-surveyed producers to make acreage adjustments. Corn planted acreage was reduced 300,000 acres to 87.0 million acres, but expected harvested acres was surprisingly increased by 400,000 acres to 79.3 million acres. Ideal growing conditions also appear to have produced significantly higher yield potential. The corn yield estimate was increased 6.6 bpa from the previous estimate to 155.0 bpa. The improved yields combined with the increase in projected harvested acres results in expected total 2008 corn production of almost 12.3 billion bushels. This would be the second highest US corn production ever!

Corn use is anticipated to remain strong. Expected feed use and corn used for ethanol were both increased, leading to total projected 2008-09 corn use of more than 12.7 billion bushels. The net result of the production and use estimates, along with old crop use adjustments to beginning stocks, is 2008-09 corn ending stocks that are projected to be more than 1.1 billion bushels. This is up from the previous estimate of just over 800 million bushels. The corn market is usually more comfortable with ending stocks above one billion bushels and increasing ending stocks estimates usually represent negative price news.

With the USDA's production and increasing ending stocks near the upper end of trade expectations, most analysts agreed that the supply/demand estimates appeared to provide bearish news for corn prices. Following the report release, corn futures opened lower, as expected. But prices then turned higher and closed higher for the day. The following day, December corn futures closed limit up and then followed that with double-digit gains on Thursday. In the three trading days following a seemingly bearish report, new crop corn prices gained about sixty cents per bushel! But, why?

Although the market was expecting corn production estimates to increase and that was reflected in lower price, many analysts began viewing the USDA's August projections as the "best-case scenario." Improving crop conditions may have hidden some of the problems from earlier wet weather and flooding. There are drowned out spots that may end up reducing harvested acres or average yields. The lack of nitrogen is showing up in many fields. Cooler weather and the lateness of the crop may reduce ear size and fill. There is yield risk from an early frost, maybe even with a "normal" frost. These production worries, along with other market factors (technical trading, energy price, dollar value, etc.) contribute to volatile prices and sometimes surprising market action in the corn market. Corn futures prices on Friday opened sharply lower, apparently based on outside market factors.

*Is there a corn marketing strategy for the current situation?* The USDA lowered

2008-09 corn price forecasts sixty-cents, which are now expected to range from \$4.90 to \$5.90. New crop corn prices at most Missouri locations have been below or in the lower one-half of this expected price range. This is not usually a good time of the year to sell corn. The seasonal pattern for corn prices is that quite often prices peak in late June or early July and then decline as they have this year. However, it is also not unusual for prices to bounce back following their summer low, especially with late season production worries much like what are occurring this year.

Hopefully, most have already priced or at least protected prices for corn that must be delivered at harvest time. While the current supply/demand projections and a carryover of more than 1.1 billion bushels appears to provide some supply cushion, any production disappointments could quickly reduce corn supplies to critical levels and send prices sharply higher. That could result in opportunities for making additional sales.

***Soybean supplies remain tight.*** Although the USDA's soybean planted (74.8 million acres) and harvested (73.3 million acres) acreages were increased, expected yields were cut 1.1 bpa in the August estimates. The current average 2008 soybean yield projection is 40.5 bpa, which would result in anticipated production of more than 2.9 billion bushels. However, use is expected to remain strong and 2008-09 soybean ending stocks are projected to remain well below average at only 135 million bushels.

Soybean market prices also continue to be volatile. Prices have recently been pressured by fund liquidation, strength in the dollar, improving crop condition reports, export sales cancellations and other market factors. November 2008 soybean futures prices declined more than \$4.50 per bushel following a June high of more than \$16.30 per bushel. In spite of their tighter supply estimates, the USDA lowered 2008-09 soybean price forecasts by fifty cents with an expected range from \$11.50 to \$13.00 per bushel. While old crop basis has improved, many Missouri new crop cash bids have been well below the bottom of this range. However, the August USDA estimates with lower production and unchanged use projections provided bullish market news. The soybean market responded with about one dollar price gains in the two days of trading following the report before correcting with lower prices on Thursday and early Friday morning trading.

***Volatile corn and soybean market prices can be expected to continue.*** Production risk remains high due to the lateness of the crops. The tight supply/demand balances for both corn and soybeans suggests the markets will have to "bid for acres" again in 2009. Energy prices, fund trading, dollar value, strong world demand, tight world grain supplies, politics and a number of other factors create additional uncertainty in the grain markets. Market volatility produces marketing opportunities, but making additional sales or deciding to store grain when markets are volatile involves considerable price risk. Price action since the June highs also demonstrates how quickly prices can decline in volatile markets. When prices are volatile, marketing strategies need to include protection against downside risk as well as upside pricing goals.