Food and Agricultural Policy Research Institute
FAPRI
Decisive Marketing
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Too Much Information?

During the past two years a wide variety of factors have influenced the grain markets from day-to-day, resulting in sometimes surprising reactions to a wide range of negative or positive information. Following neutral to bearish supply/demand estimates from the USDA on August 12, corn ended the day about five cents higher. Soybean estimates were somewhat bullish, but traded with double digit losses for a portion of the trading day. These volatile markets with mixed signals and information make marketing plans or sales decisions difficult, especially as producers begin to need to decide whether to sell or store corn and soybeans at harvest.

It appears that large crops are on the way. The USDA projects the second highest corn yield (159.5 bpa) producing the second largest corn production ever of more than 12.7 billion bushels. This, coupled with old crop carryover, results in a record total corn supply of nearly 14.5 billion bushels. Soybean production of almost 3.2 billion bushels results in record soybean production and, in spite of very tight old crop ending stocks, the third largest soybean supply. The “Pro Farmer” annual crop tour conducted this past week suggests larger corn production of 12.8 billion bushels from a national average yield of 160.1 bpa. However, their soybean production estimate is slightly less than USDA’s at 3.15 billion bushels from 41.0 bpa yields.

Use remains strong. The USDA August estimates and a mid-year FAPRI baseline update both continue to expect strong demand with both sets of estimates similar. USDA projects 2009-10 corn demand to be a record at almost 12.9 billion bushels and a carryover of just over 1.6 billion bushels. The FAPRI corn use estimate varies only slightly, but is also well over 12.8 billion bushels with ending stocks of more than 1.6 billion bushels. While both estimates of corn ending stocks are above average, with the strong demand, the ending stocks to use ratios are below average. Corn ending stocks appear more than adequate, but not necessarily excessive with strong use and below average stocks/use ratio. The USDA projects strong soybean demand to continue and set a new record use of more than 3.1 billion bushels, keeping 2009-10 soybean ending stocks of 210 million bushels at below average levels. Soybean carryover is increased from the current year’s 110 million bushels, but remains relatively tight with little room for error. The FAPRI 2009-10 soybean carryover estimates is 217 million bushels. However, changes in production (higher or lower) and /or changes in demand projections could shift the supply/demand balances either way and result in dramatic price reactions.

There are some very big “ifs” that could provide additional positive or negative information. The lateness of the crop is a major concern. The crop still needs near ideal conditions to finish and frost, especially an early frost, is a big worry. Some of the cooler temperatures recently have only added to this worry. These production concerns are adding support to market prices in spite of the expected large crops.

There are other “ifs” on the demand side. Both the USDA and FAPRI projections expect corn feed and residual use to increase somewhat in the year ahead. While part of the increase is attributed to the residual category, increased distillers grains from ethanol production and the economic squeeze on livestock producers may limit any gains in feed use. Corn export forecasts seem reasonable since world coarse grain supplies have slipped somewhat, but these supplies are not short and it is possible that corn exports might or might not meet expectations. As long as China’s appetite for soybeans remains strong, soybean exports should continue at high levels. However, South American production is likely to increase, especially in Argentina where some expect a significant shift from wheat to soybeans in the coming year. This would provide strong export competition in the spring of 2010 and could limit final US soybean export totals.

Price signals are also confusing. The USDA forecasts mid-point prices of $3.50 for corn and soybeans at $9.40 in their projected price ranges for 2009-10 crops. The FAPRI projections are similar at $3.47 for corn and $9.44 for soybeans. It is important to understand that these estimates already include higher prices for grain forward contracted before the price declines beginning in June and do not necessarily suggest the possibility that prices will return to the earlier highs at some point. These price projections produce a soybean/corn price ratio of almost 2.7/1. Current new crop futures prices are resulting in a soybean/corn price ratio of almost 3/1. These ratios heavily favor soybeans, sending the signal that the market wants soybeans. A more normal ratio is usually about 2.3/1 to 2.5/1. As South American producers react with their plantings this fall and US producers consider 2010 production, these ratios are likely to change as the markets bid to balance production. This suggests that in order to bring the ratio back in-line, either soybean prices will decline or corn prices will increase.

Price direction signals for corn and soybeans are mixed. Corn prices are in a downtrend, which is not unusual at this time of year. Corn prices often decline from summer highs into harvest time lows. Soybean prices often follow a similar pattern, but not this year. Soybean prices have been volatile. During the past three months, November soybean futures prices have ranged from about $8.80 to $11.00. In recent weeks up or down moves from $1.20 to $1.40 have occurred in the short spans of only 3 or 4 days of trading! While the weekly soybean charts still suggests an uptrend, recent volatile action in the November contract makes any trend difficult to determine.

Besides the fundamental and technical factors affecting the corn and soybean markets, outside market factors also continue to play major roles in prices. Day-to-day price action often reflects price movements in the energy markets due to the strong role biofuels play in the grain markets. The dollar value fluctuations also impact export expectations and impact grain prices. Economic recovery and stock market action are often among the end of day comments referring to grain market price changes for the day. Fund traders also continue to play a role and have added to their positions and supported prices, but discussions about Commodity Futures Trading Commission (CFTC) or government policies to limit trader positions have raised concerns about how these actions would impact prices.

It tends to get overwhelming; there is just too much information (much of it conflicting) to digest. Yet, the time is fast approaching to make harvest time sell or store decisions. For the next few weeks, weather is probably the major factor to watch. Frost is a big worry with the delayed crop. If it holds off and the crop matures without damage, then focus on market signals for storage. Current market signals may be beginning to provide a starting point for storage decisions.

New crop corn prices are only about breakeven at best and may represent negative returns for some. The corn market is offering some carry. March 2010 corn futures prices offer about thirteen cents premium over the December 2009 contract. This carry, while not covering all storage costs, along with the potential for post-harvest basis gains would contribute to the possibility of storage returns. The seasonal price trend is down into harvest, but if a typical seasonal late winter into spring price rally occurs, this could help offer the possibility of speculative storage gains as well. Adjustments to the soybean/corn price ratio might also influence the possibility of corn price strength.

Soybean prices are choppy, but remain at profitable levels for most producers. The November 2009 to March 2010 futures price spread is ten cents or less, a weak carry that doesn't offer much toward storage returns. If the crop can escape frost damage and South American farmers increase production in 2010, then the downside price risk will likely increase. However, with strong demand, still uncertain production and potential for post-harvest basis recovery, some short term storage gains cannot be ruled out completely.

Be cautious and watch market signals closely over the next few weeks. It seems like there is way too much information and no clear signals for the best strategy. But as a starting point for decision making, watch market carry, price trend and basis signals for storage decisions. If it is a question of storing one crop and selling the other, right now it appears that storing corn and selling soybeans at profitable prices might be the initial choice, given current market signals. However, volatile and uncertain markets produce risky situations. If both crops are stored, watch market signals closely, especially for soybeans, and be prepared to act quickly in reaction to market changes. Some option strategies to provide price protection for stored grain are another choice to consider in the face of too much information and uncertainty.