

Decisive Marketing

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Not a Good Time to Sell

Since early June, December 2009 (new crop) corn futures have declined about \$1.30 to \$1.40 per bushel. The USDA's latest estimates also anticipate lower prices with a cut in their new crop price forecast of 55 cents per bushel. They now expect 2009-10 corn prices to range from \$3.35 to \$4.15. However, new crop corn cash bids across Missouri are even lower with prices at most locations below the bottom of USDA's forecast price range. Several locations in northwest Missouri have offered new crop prices starting with a two! With prices at or below breakeven levels, this does not appear to be a good time to sell new crop corn.

The new crop soybean price situation paints a similar picture. November 2009 (new crop) soybean futures prices have declined more than \$2.00 from the early June highs. The USDA also cut 2009-10 soybean price forecasts as well. The current forecast price range is from \$8.30 to \$10.30, which is 70 cents per bushel lower than the previous forecast. Missouri new crop cash soybean bids vary considerably with the highest bids occurring in eastern and southeast Missouri. However, with some exceptions in southwest and northwest Missouri, most new crop soybean bids in the state are still within the lower half of USDA's projected price range. These prices are above cost breakeven levels and offer some profit opportunity. But they are significantly below those prices offered only about six weeks ago. This discourages making soybean sales.

Wheat prices have also declined with December 2009 soft red winter wheat futures prices down about \$1.60 since the first of June. The USDA's latest forecast lowered wheat prices by 10 cents with 2009-10 wheat prices expected to range from \$4.80 to \$5.80. Soft red wheat cash bids across Missouri are well below the bottom of this price range.

The market fundamental news is mostly negative. In addition to lower forecast prices, The USDA's July estimates increased expected production and raised 2009-10 ending stocks projections for corn, soybeans and wheat. Recent weather has been favorable for crop production with current USDA crop condition ratings that are above year-ago ratings. This supports increased production expectations in spite of late planting in many areas of the country. However, there is some positive news for prices. Demand is expected to remain solid with increased total use for corn, soybeans and wheat during 2009-10. Some analysts also question the USDA acreage numbers and yield estimates, so many will be watching the first surveyed crop projections in the August reports for adjustments. Outside factors (the general economy, fund trading, energy markets, dollar value, etc.) also continue to play major roles in the markets.

Many technical (chart) signals are also negative. Price trends have turned down, suggesting a continuation of lower prices. The seasonal trends are also down. In six of the last ten years, corn prices have trended lower from early July into harvest time. Soybean prices have declined from July through August in eight of the last ten years. A late August or September rally has occurred about fifty percent of the time, offering some hope for a price recovery on late season production concerns. But corn and soybean harvest time prices above the early July highs are the exception rather than the rule. This suggests that a return to early June price highs is becoming less likely to happen prior to harvest time.

Recent market price action illustrates why it is usually a good marketing plan to have made or completed pre-harvest sales prior to early July. However, those earlier pricing opportunities at higher prices are now history. It is now important to forget those missed opportunities and concentrate on setting reasonable pricing objectives from this point forward.

A number of option strategies can be used to provide some measure of price protection against continuing downtrends in prices. The amount of protection or potential gains will depend upon the strategy chosen. It is often a compromise between how much risk to protect and how much premium cost to incur. Whatever the option strategy that may be chosen, it is important to understand the strategy price objectives, how it works and what market risks or financial costs may be involved.

Cash marketing strategies are limited. Since late summer or early fall price recoveries can occur and, if it does happen, this might offer a ‘last chance’ to market corn at prices that avoid the lows that typically occur at harvest time. Keep in mind that new crop soybean prices are in, or at least near, the bottom of USDA’s forecast price range. Selling soybeans now or on any rally might, at least, capture profitable prices within the currently expected price range.

In summary, it does not appear that this is a good time to make sales. For those caught without having made any previous sales or those needing to make additional pre-harvest sales, using an option strategy may be a better alternative than cash sales to avoid potentially lower prices at harvest time. Options do not commit to sales/delivery and leave open the possibility of participating in any late season price rally.

The short-term price trends for corn, soybeans and wheat are down and a variety of factors are negatively impacting prices. The USDA’s August production estimates, along with any changes to supply/demand estimates, may offer updated information. Late summer and fall weather conditions will be watched for the impacts on late maturing crops. These and a number of other factors are likely to help determine the likelihood of improved prices or a continuation of price downtrends. However, for grain expected to be delivered at harvest, marketing plans should consider the likely possibility that the growing season market highs are already past. The objective now should be to capture profitable prices on any rallies and trying to avoid having to sell at the typical harvest time price lows.