

Decisive Marketing

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Dealing with Uncertainty

Market analysts have made use of terms such as uncertainty, unclear, mixed, etc. to describe the current corn and soybean markets. Outside factors (US dollar value, oil prices, stock market, fund trading, etc.) continue to contribute to uncertain price action. The USDA's June supply and demand estimates did not provide much new information and left many questions unanswered. There were no changes to old crop corn and new crop soybean supply/use estimates and only minor adjustments to old crop soybean demand and new crop corn yields. Although tightening of soybean carryover estimates and the potential for somewhat lower corn production appeared to be at least somewhat bullish, market prices have declined since the report release. This led one market analyst to comment that the markets were "as clear as mud."

The upcoming June 30, 2009 USDA Acreage and Grain Stocks reports will be watched for production and use clues. Will corn planted acreage be less than the March surveyed intentions of 85 million acres? Many believe corn acreage could be lower, due to the very wet eastern Corn Belt and the planting delays that may result in some shift of intended corn acres to soybean production. Strength in the energy markets and tighter world coarse grain supplies appear to provide corn demand support. But slower feed use due to losses in the livestock industry and herd liquidations could signal corn demand destruction that takes time to rebuild. The Grain Stocks reports should provide an update on use. If corn use appears to remain solid, reduced acreage or production concerns would support stronger prices as corn carryover expectations decline. However, lower feed demand along with little or no reduction in planted acreage and good summer weather could lead to lower prices.

Soybean supplies will be at "pipeline" levels when the new crop harvest begins. Demand is expected to remain solid, but there are concerns that Chinese demand for soybeans may be slowing. South American production can be expected to increase from this year's drought reduced crop in Argentina and offer competition for soybean exports in 2010. A major question is: how much will be produced in 2009? While planted acreage may increase, due to late season shifts from intended corn acres, yields may suffer from late plantings and keep a lid on US production. Disappointing production along with continued strong demand and tight supplies would be expected to support soybean prices. However, more acres with good weather and increased production,

combined with export competition and possibly slower Chinese demand, would lead to more comfortable ending stocks and weaker prices.

How can producers make good sales decisions in these unclear or uncertain markets? No method of identifying sales opportunities is foolproof. However, in the past this newsletter has offered the following points to consider when trying to decide if sales opportunities exist.

It is usually a good time to sell when:

- Prices are near historic highs or current year futures contract highs
- Prices are at or above projected price ranges for the marketing year
- Upside price potential appears limited
- There is significant downside price risk
- The seasonal trend is for lower prices
- Basis is strong or at least expected to weaken
- Prices generate a favorable return
- Other factors or market signals (changing supply/demand factors, technical signals, other market signals)

Most of the time, it is unlikely that all of the above points can be answered with yes. But if the answers to a majority of them are positive, it suggests that making or adding to sales should at least be considered.

Although corn prices have slipped, new crop futures prices have been near the highs for the calendar year. While these prices are not as high as last year's record prices or even the life of contract highs posted for December 2009 corn or November 2009 soybean futures, they remain at historically high prices and represent a significant recovery from winter or spring price lows. Before last year's record prices were set, current prices would have been considered high prices.

New crop futures prices are in the mid to upper end of the USDA's projected new crop price ranges. The current (June) USDA price forecast for 2009-10 corn is from \$3.90 to \$4.70 and soybean prices from \$9.00 to \$11.00. For many Missouri locations, new crop bids adjusted for basis have offered harvest time cash prices within the USDA's forecast price ranges.

What about upside price potential? Obviously with all of the market uncertainty this is difficult to answer. But the markets did not follow through with higher prices on somewhat bullish USDA supply/demand information, suggesting market topping action. Current weather forecasts and crop conditions reports have been favorable for 2009 production. While prices can go higher, recent action suggests (at least for the near term) upside potential may be limited unless there are surprises in USDA's Acreage and Grain Stocks reports.

At these price levels, significant downside price risk exists. Downside price risk is always present! Prices were much lower earlier in the year and negative news could send prices back in that direction.

Seasonal price trends suggest prices for corn and soybean often turn lower after peaking in June or early July. Prices may go higher for a variety of reasons. But the

seasonal trend is for lower prices sometime in the next few weeks, if it has not already begun with recent price weakness in the futures market.

New crop cash bids suggest basis is about average or in some cases stronger than in recent years. This suggests that harvest pressure could result in weaker basis and cash bid at harvest time.

Prices do offer a favorable return. With the possible exception of crops damaged by flooding, poor stands or delayed planting, current prices should offer profits for most corn and soybean production even with this year's higher production costs.

Other market factors are mixed. Technical signals indicate some market weakness with failure to reach new highs. Breaking of current price uptrends could signal the markets are turning lower. Corn market carry (Dec futures price premium over nearby futures) is considered a weaker demand signal since buyers are willing to pay someone else to own the corn. The inverted soybean market signals strong nearby demand for tight supplies. The general economy, along with energy markets, dollar value and other factors, can also be expected to have positive or negative impacts on the grain markets.

There is considerable uncertainty. The USDA's June 30 Acreage and Grain Stocks reports may provide additional clues. Higher prices are not out of the question. But there is also considerable downside risk. New crop prices often set a high (or at least an intermediate high) at about this time of year. It may be unclear, but a number of market signals suggest making or adding to sales should at least be considered.