

Decisive Marketing

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Store and Hope?

The corn and soybean price collapse since the summer highs has discouraged making sales. As a result, a large portion of this year's corn and soybean production is now in storage or under deferred pricing contracts. But are these decisions to store grain based on market signals or are they just made in hope that prices will improve?

Corn: Futures market prices for corn remain in a downtrend. This is a technical market signal that prices are moving lower and will likely continue to do so until a clear technical signal is given that the trend is broken. Recently, March 2009 corn futures prices appear to have consolidated in a range of about \$3.80 to \$4.40. However, prices are currently testing the low end of this range and threatening to break out to the downside. If this occurs, the market is signaling lower price possibilities.

Much of the lower price blame is given to the domestic and world economic problems, which are pressuring the prices of all commodities. Some analysts are using the term "demand destruction" to describe the conditions that are causing corn prices to move lower. Although the USDA forecast is for corn use to be the second largest ever, a number of factors combine to suggest a reduction in corn demand. Declining energy prices squeezes ethanol producers with lower prices and pressures demand for corn used in ethanol production. Strength in the value of the dollar, along with increased world wheat production offered as a feed substitute, has resulted in disappointing corn export demand. Feed costs continue to squeeze livestock producers as they look for alternative feeding programs. Other corn market signals are also mixed. Market carry (futures market price premiums for deferred month contracts) and basis (price spread between cash and futures prices or as an indicator of cash demand) usually provide market signals for making storage decisions. Currently, March 2009 corn futures prices offer about seventeen cents premium over the December 2008 contract. This price premium combined with any potential for basis gains could be interpreted as a signal to store corn. However, market volatility can easily eliminate the storage gains in a single day of trading. Basis gain opportunities may depend upon location. Slow corn exports have apparently contributed to weaker than normal corn basis along the Mississippi River delivery points which is where Missouri's grain moves to the export market. In contrast, cash grain bids at Missouri locations, where corn goes to ethanol or feed uses, indicate a stronger than average basis. These combinations of some market carry, and whether there is a potential for additional basis gains, suggests mixed signals for corn storage returns.

Soybean: Although January 2009 soybean futures prices have consolidated in a range from about \$8.50 to \$9.60 in recent weeks, prices have not broken the price downtrend.

Soybean prices are also dominated by the same economic factors as other commodities. However, demand is strong and soybean exports are on track to meet or exceed the USDA's 2008-09 soybean export forecast.

Soybean market carry does not offer much opportunity to capture storage returns with only about nine cents spread between January and March 2009 futures prices. While further basis strength is possible, soybean cash bids at most Missouri locations result in a stronger basis than in recent years. These market signals and downtrending futures prices do not suggest market incentives to store soybeans.

Is there any hope for higher prices? Storage profits will largely depend upon speculative returns resulting from higher futures prices. Will futures prices recover? Yes, they always have! But the real questions are: How low will they go or from what level will they recover? And, when will they recover? Of course, much depends upon what happens in the general economy and how deep the recession becomes. However, there are still some positive fundamentals to build higher price hopes on.

Domestic and world grain supplies remain relatively tight. US corn and soybean ending stocks are expected to be below average. Expected 2008-09 corn carryover represents a decline from last year's ending stocks and the resulting corn stocks/use ratio will be the lowest since 1995-96. A significant amount of this year's crops still remains in the field unharvested and under deteriorating weather conditions, increasing the risk of harvest losses. The decline in corn ending stocks suggests the need to increase next year's corn production and low soybean carryover means soybean production levels must be maintained. However, the wet conditions and late harvest have already put producers behind in preparations for next year's crops. While production costs may be beginning to show some signs of moderating, high production costs remain a major concern for production decisions. At some point, it appears that the markets may need to offer some additional price incentives for 2009 crop production.

Are there any pricing strategies for stored grain? Negative economic factors are overshadowing grain supply/demand fundamentals. Market storage signals are not encouraging for grain storage and prices are in a downtrend. These and other factors tend to suggest that storing grain is based on the hope that prices will eventually rebound.

Price targets and selling decisions may need to be planned according to when cash is needed and on the financial ability to bear risk. If cash is expected to be needed sooner rather than later, then using technical price signals to set sales targets might be helpful. For both corn and soybean prices, the upper ends of the current trading ranges produce cash prices that are near the lower ends of the USDA's projected price ranges. Selling on price rallies to these price levels would help avoid the very lowest prices and capture prices somewhat near expected average prices. If futures prices break out of the lower side of the current trading ranges, it would be a negative price signal that would indicate the possibility of even lower prices. In this case, adding to sales could be considered a strategy to capture prices before they further decline. An upside breakout of the trading range or the downtrends, would be a positive technical market signal that prices could move higher and it would suggest delaying sales. This price action could signal that the lows might be in and that prices could be set to test technical price resistance at higher prices or begin a new uptrend.

Those who are willing to store longer in anticipation of higher prices should maybe consider alternative strategies as well, especially for grain in commercial storage. Selling

cash grain and re-owning on paper might reduce risk in some cases. With limited carry, the soybean futures market is not offering storage profits. This means that making cash sales only gives up potential for some additional basis gain and very little storage return in futures. Re-owning with futures contracts or call options might provide the opportunity to speculate on higher soybean prices, while avoiding some of the risks and costs associated with storing grain. This strategy may also provide some opportunity for corn sales in areas where cash bids are stronger than usual. Selling cash corn would capture the improved basis and re-owning on paper could still allow speculation on higher prices. The disadvantage to these strategies is, of course, the risk of margin calls on speculative futures positions or expensive premiums for the call options.

Due to the impact on the markets of the current economic meltdown, there are not any easy answers. With the markets still in downtrends there is the risk of even lower prices. Lower energy price impacts on ethanol production and slower exports raises concerns about weaker corn demand and its impact on prices. Storing grain in anticipation of higher prices may be the only hope and there are fundamental arguments for prices to turn around. But, it is important to recognize the risks and, if not capture higher prices, at least avoid having to sell at lower prices when cash is needed.

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