

# Decisive Marketing

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## Market Meltdown

The stock market meltdown is getting most of the attention from the popular press, but commodity prices have also collapsed. Since peaking in early July, the corn and soybean markets have been in a downtrend. Those downtrends have become very steep since late September, pushing prices much lower than nearly everyone expected. The USDA's 2008-09 price forecasts were lowered eighty cents per bushels for corn and soybean prices cut two dollars in the October supply/demand reports. These are huge cuts to be made in just one month, but current prices are now much lower than the lowest end of the USDA's forecast price ranges.

The collapse in the financial markets has led to investment liquidations which have spilled over into commodities as large funds liquidated positions. The credit and financial problems are occurring worldwide. And, they are expected to impact commodity demand, especially for the energy markets. As lower market actions unfolded, the dollar increased in value and is expected to add more pressure on world export demand. Grain prices have followed energy prices down based on these expectations of a weaker world economy, along with the possibility of reduced biofuel production and slower grain export demand. These factors along with other domestic and world economic factors, coupled with a great deal of uncertainty, have contributed to volatile prices and significant price losses in corn and soybeans.

Although outside markets often appear to be the driving factors, the fundamental market factors for corn and soybean are changing as well. Corn production is expected to be the second largest ever, which is a change from worries earlier in the year that planting delays and flood losses would reduce production. Corn 2008-09 ending stocks are projected at 1.154 billion bushels, an increase over previous estimates. In spite of slightly lower soybean yield estimates, the USDA's latest projections included a surprising increase in acreage that results in more soybean production. Expected 2008-09 crop carryovers are increasing. Soybean ending stocks are at a more comfortable level of 220 million bushels compared with previous estimates of only 135 million bushels. Along with concerns about how well demand may hold up, these increasing supply projections add to negative price news for corn and soybeans.

It is not all bad news. There are some positive market factors as well. Current prices discourage increased plantings in South America. In spite of economic worries, demand may remain relatively strong. Lower prices reduce feed costs and supports continued strong feed use. World population and incomes suggest that food demand is solid. Lower grain and oilseed prices, combined with lower freight costs, offsets some of the negative impacts of a stronger dollar on exports. While corn and soybean carryover projections are increasing, they

still remain below average and the 2008-09 corn stocks/use ratio is the lowest in more than 10 years. Lower fuel costs and signs of fertilizer price weakness might offer some input cost relief. But, in the face of much higher production costs, higher crop prices may be needed to encourage 2009 crop production. These and other factors suggest crop prices will eventually recover.

*As Missouri harvest activity moves ahead, should crops be stored or sold?* Obviously, this probably is not a good time to sell. It also appears that few cash sales are occurring at these price levels. Current corn and soybean prices are only about one-half of what they were about four months ago and well below the lower ends of the USDA's projected price ranges. Market carry and the potential for some post-harvest basis recovery offers market signals that storage returns are possible. But there is risk in storing. The markets remain in downtrends suggesting continued downside price risk. There are no clear signals as to when or where the price lows may occur. The answer to that likely depends upon when the general economy shows signs of stabilizing and that remains very uncertain.

*Market action this year has clearly demonstrated the importance of capturing profitable prices when they are offered!* Hopefully, a significant portion of the 2008 harvest has already been priced as the markets moved to record highs earlier in the year. If this was accomplished, those prices will have made this a profitable year. For un-priced grain, storing is likely the best choice. Market carry and basis gain potential suggest storage returns, but be aware that volatile price action can erase these returns in a single futures trading session. However, if the economy stabilizes and market lows are established, some price recovery could be expected. While prices near earlier highs appear very unlikely, it may still be possible to capture profitable storage returns on remaining quantities of unsold 2008 production. The greater challenge may lie in cash flow and market strategy planning for next year's production.

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