

September 18, 2009

## Harvest Time Market Signals

*What are the markets going to do?* That is a frequently asked question. While it is a serious question, it is always tempting to jokingly answer that the markets may go higher or they could go lower, but if they don't, they will probably stay about the same. Markets are difficult to predict. Market analysts spend a lot of time and effort trying to predict prices. But changing events or expectations often produce prices much different than those that were predicted. The better questions to ask are: *What are the markets telling us? And how do I use that along with market outlook information?*

The USDA's September 11, 2009 supply/demand estimates included record new crop corn yields leading to record large total corn supplies and record soybean production. These projections were up from previous estimates and seem to follow the market adage that "big crops get bigger." Next month's estimates might be larger as well. But the crops are late and still subject to frost/freezing damage along with losses caused by delayed harvesting.

The large crop size is tempered by record expected 2009-10 use for both corn and soybeans. New crop corn projected ending stocks of 1.635 billion bushels are slightly lower than the current year's estimated ending stocks of 1.695 billion bushels. Soybean new crop ending stocks are only expected to increase to 220 million bushels from very tight current ending stocks of 110 million bushels. However, some market analysts have raised questions about the size of the demand estimates. The USDA expects increased domestic corn feed and ethanol use, but will feed use increase with a depressed livestock industry and increased DDGs available from increased ethanol production? Lower world coarse grain supplies support projections for increased corn exports, but world wheat supplies remain large and provide world feed use competition. Large soybean exports are expected to continue with new crop export sales running at a record pace, but increased South American production will likely provide more competition by spring 2010 and could result in lower than expected exports.

The USDA's projected price ranges are from \$3.05 to \$3.65 for corn and from \$8.10 to \$10.10 for soybeans. The supply, use and price projections suggest that it would be reasonable for prices to follow a normal seasonal price pattern. This could mean lower price trends into harvest followed by a post-harvest price recovery. However, as pointed out, there are risks in these fundamental market factors. Following the USDA September reports, December 2009 corn futures prices have had a range of 38 cents per bushel and November soybeans a range of 84 cents. This price movement occurred in less than a week! A sharp price rally to limit or near limit price gains was triggered by weather forecasts of frost or freezing temperatures and fed by short futures position liquidations. The rally faded and prices slipped lower as the weather forecasts began to moderate.

The supply, demand and price uncertainty creates difficult circumstances for making harvest time sell or store marketing decisions. There are no guarantees, but looking at other market signals may provide some additional clues to guide these decisions.

The corn futures market is offering a storage premium or market carry. March 2010 corn futures prices have been more than thirteen cents higher than the nearby December 2009 contract

prices. The May 2010 corn futures prices have offered nine or more cents of additional carry. New crop cash bids in Central Missouri suggest that seasonal basis gains could add a possible ten to twenty cents to storage returns as well. The market appears to be signaling to store corn. However, understand that there is risk in storing corn without price protection. When the futures market offers carry it is also a weaker demand signal. Corn supplies appear to be more than adequate to meet demand. Buyers are content to not acquire corn for future needs by bidding up nearby contracts to acquire inventories. They are willing to let someone else own and store the corn. Slower than expected demand or higher production could result in increasing carryover and disappointing prices, which would limit or eliminate storage returns.

The soybean market is providing much different market signals than the corn market. The November 2009 to January 2010 futures market carry (9-18-09) was only about three cents. The March 2010 futures prices offered a negative carry or storage penalty with prices about one cent lower than the January contract. Negative carry also occurred with the May futures contract prices. Central Missouri new crop cash soybean bids indicate harvest time basis is stronger (narrower) than in recent years. This suggests less potential for basis gains. The combination of small carry and limited basis potential are market signals that discourage storing of soybeans. However, the weak carry is also a strong demand signal. Soybean supplies are tight and demand is strong, so buyers want soybeans now and are bidding up prices to get them. They are less willing to pay someone to store soybeans, especially if there may be large South American supplies available next spring. Although the soybean market is sending sell signals for soybeans, understand that strong demand or less than expected production (US or South American) could lead to higher prices.

If a decision must be made between which crop to sell and which crop to store, the markets continue to say: store corn and sell soybeans. New crop cash corn bids are below USDA's price ranges at most Missouri locations. Current cash prices are also near or below breakeven level for many producers. But market carry and the potential for basis gains are offering storage returns for corn. Missouri new crop soybean cash bids are well within USDA's projected price range. Soybean prices are at profitable levels for most producers and any potential gains from storage appear limited at this time. Storing corn may avoid unattractive prices and selling soybeans captures profitable prices.

The decisions are never easy. Any additional weather scares, similar to what occurred during the past week, might offer opportunities to contract for harvest delivery or lock-in market carry on stored grain for late winter or spring delivery. Outside market factors (energy prices, dollar value, the economy, etc.) also continue to influence market participants and could override current market signals.

If one or both crops are stored, understand the speculative risks associated with storing grain. Storing corn unprotected (without forward cash contract sales, hedges or option protection) is speculating on the carry remaining in the market at current or higher price levels along with an expected seasonal gain in basis. Storing soybeans with limited carry or basis gain potential is speculating on higher price levels. Remember that speculating on higher price can be accomplished by using futures or options and avoids the risk associated with storing cash grain.

Asking where the markets are going is not the question to ask because the answer is frequently wrong. It is usually better to ask: What are the markets telling us? Combining market outlook with market signals generally provides information needed for more successful marketing decisions. This, along with being prepared for changing market conditions, usually results in better outcomes than trying to outguess the markets.