

Selling the Frost Scare

Much has been made about the late maturing corn crop across the Corn Belt. However, soybean development is triggered by sunlight, and abundant August rains were favorable for adding 2009 yield potential. The market price highs in soybeans tend to be in the spring and early summer months, yet, late summer sales along with good quality and quantity soybeans can provide profitability above the cost of production.

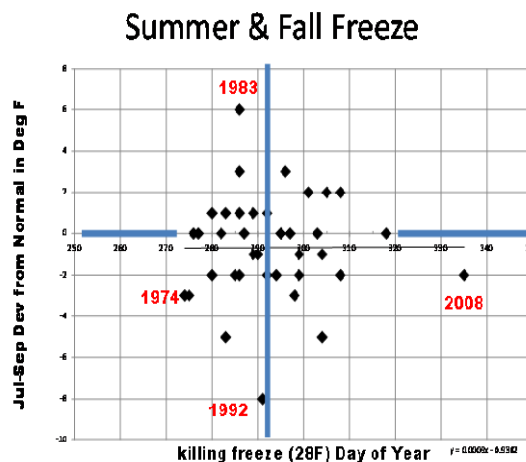
Iowa Soybean Maturity

According to the ISU Agronomy Integrated Crop Management News, it is critical to avoid soybean quality problems. Most soybeans will have developed to R5 or greater stage by mid-September. Stage R5 gives the first indication of bean seed development in the upper part of the plant. Soybeans must reach developmental stage R6 before a hard killing freeze. Stage R6 is called the "full green bean" stage. A plant has reached this stage when there are full sized green beans filling the pod cavity of at least one pod at one of the four uppermost leaf attachment points (nodes). Even at stage R6 a freeze will cause some yield loss.

Killing Freeze Dates

The average date for Iowa's first killing frost (28°F or below) ranges from the first week of October in northwest Iowa to around the third week of October in southeast Iowa. However, ISU Agronomy Extension research has found that summer temperatures have very little predictive value for estimating when the killing frost will occur.

The average temperatures for July, August and September plotted in the following chart for every year from 1970 to 2008.



Source: <http://twitter.com/ElwynnTaylor>

The hottest summer was 1983 and the first killing frost was 6 days early. The coldest summer was 1992 and the fall freeze was 1 day early. The earliest killing freeze during this period was 1974 when frost occurred 2 weeks early. The latest killing freeze was in 2008, when the temperatures averaged 2 degrees Fahrenheit below normal. This was nearly the same temperature realized in 1974. Dr. Elwynn Taylor states, "Cooler than normal summer temperatures tend to expand the window for the initial killing frost."

Frost Scare and Soybean Prices

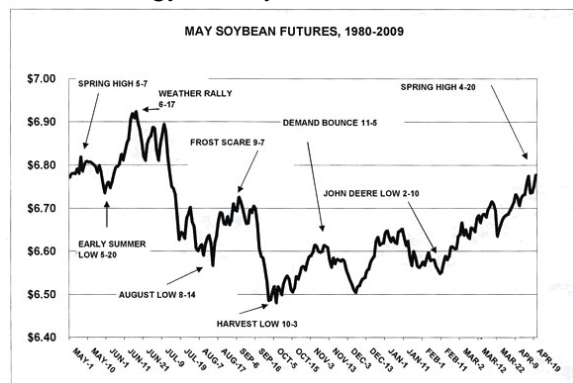
The summer of 2009 looks to be one of the coolest on record, which has led to forecasts of an early killing frost. This has kept the futures price premium in the soybean market into late August.

A review of soybean futures prices since 1980 reflects what Roy Smith calls the "Frost Scare" that typically occurs in late August and early September. In analyzing 30 years of data that features the May futures contract; Smith found that the single day for "selling a frost scare in soybeans" was 9-7, or the 7th trading day of September. This date typically falls just ahead of the USDA September Crop

CROP MARKETING STRATEGIES

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Production Report. In 2009, the September Report will be released on Friday morning, September 11th. Thus, the 10th could be a key date for implementing a pre-harvest sales strategy for soybeans



Source: www.soyroy.com

Marketing Strategies

Several marketing tools can be used to capture soybean prices. If you have adequate on farm storage and prefer to protect only the futures price, consider hedging by selling the November soybean futures contract. Another strategy would be to buy a November soybean futures put option. Should the U.S. soybean crop prove large and the South American crop gets off to a good start later this fall, you can establish a price floor and not commit bushels to delivery.

If you are willing to commit bushels to delivery, consider a forward contract especially if you are making delivery to a soybean processor. However, if the harvest basis appears wide and you are delivering to a local elevator, check into a hedge-to-arrive contract. Use a January or March delivery in order to fix the future price expecting much better basis opportunities this winter. The improved basis opportunity should easily justify a few months of commercial storage.

Selling Crop Insurance Bushels

Most producers use crop revenue insurance products (CRC or RA-HP). These are

typically farm-level products that guarantee the actual production history (APH) yields on a farm times the spring base price. In 2009, that price guarantee for soybean is \$8.80/bu. It reflects the average November soybean futures daily settlement prices for the month of February.

Producers should have a level of comfort to pre-harvest sell these insurance bushels. However, caution should be used in committing too many bushels to delivery. The sale could be through the use of forward cash contracts and/or hedge-to-arrive delivery. Committing bushels beyond the level of coverage times the APH bushels should be cautioned. The use of other futures hedges or put options strategies for those bushels can be used for bushels that you prefer not to commit to delivery.

Conclusion

The odds of a severe weather problem in soybeans at harvest are reduced with a normal October killing frost date across Iowa. Understand that the cool 2009 summer temperatures might have delayed the maturity of much of the corn crop, but has less impact on soybeans. The larger soybean yields will reduce the breakeven cost per bushel. Consider spreading your financial and market price risk with pre-harvest market strategies.

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