

# CROP MARKETING STRATEGIES

## The Winter Break

**The Impending Crash:** The term "break" on the farm is usually not a good term, but occurs almost every winter in the grain markets. Since the harvest of 2007, corn futures contracts have increased over 20%, exceeding \$5.00 per bushel in the nearby March 2008 contract. Soybean futures had an even better performance, rising nearly 40% to \$13 per bushel on the nearby contract. As the old adage goes, "the cure for high prices is high prices." Given the mature phase of most bull markets, the risk was there for a significant downside "correction."

It's impossible for anyone to accurately and routinely predict at what actual prices bull markets will top out, or at what actual prices bear markets will bottom. However, when looking at a mark from a "time" perspective, rather than from a "price" perspective, sometimes it's more plausible to attempt to suggest a "time" at which a market may peak or bottom. This is opposed to trying to suggest a price at which a market will peak or bottom.

Longer-term price charts for the corn and soybean futures, suggest that it's plausible these markets could put in market tops, or at least witness significant and sustained downside price corrections, in the six-week period from mid-January to mid-March of 2008. As suggested in December newsletter, the outside markets such as oil, gold and the dollar value index might give early signs of such market corrections. Uncertainty of U.S. and global equity markets and recession threats could mean that speculative and index funds keep sell stops under the market that "sell futures" should the markets correct lower.

**Soybeans:** The market likely to have the greatest correction is soybeans. It's a supply-driven market that rallied from late summer lows near \$9 per bushel futures to highs over \$13 in the nearby March 2008 futures contract. A review of the Monthly Soybean Chart indicates that the 35-year old high of \$12.90 per bushel on the nearby contract was surpassed following the Jan. 11<sup>th</sup> USDA Final Crop Production Report. Note "highs" on the monthly chart over the past 35 years seldom last more than a couple months. Soybean meal and oil can be substituted with other global products, and a new crop is produced every 6 months in the U.S. should there be growing problems in South America.



Source: [www.jimwyckoff.com](http://www.jimwyckoff.com)

**Beans in the Teens:** Prices since last October were in a steep uptrend and the objective for the bulls was to push prices to the all-time high of \$12.90 per bushel, basis nearby futures realized in June 1973. And then the fabled market maxim

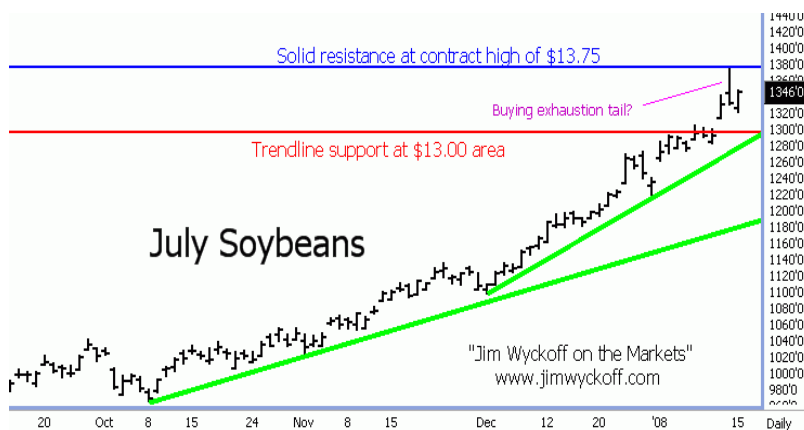
STEVEN D. JOHNSON, Ph.D.  
FARM & AG BUSINESS MGT.  
FIELD SPECIALIST  
SDJOHNS@IASTATE.EDU  
515-261-4215

# CROP MARKETING STRATEGIES

"beans in the teens" would likely be the next upside objective for the bulls. It happened, for 3 days in January of 2008, nearby the nearby March soybean futures price traded about \$13 per bushel. But any bull market needs to be fed additional bullish news.

While no significant fundamental information occurred, the pending U.S. recession and response by the federal government triggered uncertainty of global proportions. The "rush to cash" would likely mean the "sell stops" placed by the speculative traders were triggered as the funds retreated to the sidelines.

**Technical Correction:** A review of the July 2008 soybean futures chart gave some early indications of the potential "topping action" in soybean futures. This July contract hit an inner day high of \$13.75 per bushel on Monday, January 14<sup>th</sup>. That is the "highest tick" in the soybean futures markets in history. That same day, the market collapsed late in the session, creating a "buying exhaustion tail" as noted on the chart. The next day, the market traded both higher and lower, closing lower and forming a "key reversal." Both signals are strong technical indicators of a market correction. Follow through selling was triggered in subsequent days, and "beans in the teens" lasted a total of 3 days on the nearby contract.



Source: [www.jimwyckoff.com](http://www.jimwyckoff.com)

**Conclusion:** The old adage "the cure for high prices is high prices" was once again confirmed. The highest soybean futures price in history was witnessed in mid-January. Knowing your cost of production, having price objectives and market plans for 2007 soybeans and a portion of your 2008 soybeans were well rewarded. Guessing when the highest price would occur, and then not doing anything about it is frustrating. Soybean futures prices in 2008 and 2009 will likely remain abnormally high, as the global competition for corn, wheat and oil seed crops continues. Having a price objective and a plan when such prices occur will be well rewarded.

Steven D. Johnson, Ph.D.  
Farm & Ag Business Management Field Specialist  
Iowa State University Extension  
(515) 261-4215  
[sdjohns@iastate.edu](mailto:sdjohns@iastate.edu)