

CROP MARKETING STRATEGIES

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December Corn Highs

Predicting the highest futures price for the 2006 December Corn Contract is not easy. Emotions play a large part in a producer's own price outlook, especially when it involves their crop facing production risk.

If a producer has already pre-harvest sold new crop corn for delivery, they might get "sellers' remorse" as the market rallies in the summer. This is especially true when futures prices move higher than levels at which most of their pre-harvest sales were made. They might feel as though they've "sold too much already" should their crop be threatened by summer weather. They simply stop selling even as prices move higher, fearing they won't produce enough bushels that they've committed to delivery.

Those that hedged new crop corn by selling futures could be facing margin calls on early sales. Emotionally, that means more dollars are being spent as markets climb even higher.

Crop Insurance Bushels

The use of crop insurance revenue products such as Crop Revenue Coverage or Revenue Assurance with a Harvest Price Option should minimize the concerns for sales committed to delivery. A producer that uses these tools will have a "bushel guarantee" at a percent of their own Actual Production History. They will also have a spring base price guarantee of \$2.59/bushel for 2006 with no basis subtracted. This price was established in February using the average daily closes for the CBOT¹ December Corn Futures Contract. As long as the producer does not commit more bushels to delivery than they have guaranteed, crop insurance will provide both yield and price protection.

A Look at History

A historical review of December Corn Futures Contracts might provide some clues as to when

¹Chicago Board of Trade

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futures price peaks. Note that no two years are the exactly the same and different supply/demand components for that particular year should be considered.

The last major widespread U.S. drought occurred in 1988. The December Corn Futures rallied about a \$1.30/bushel in June of that year as hot dry weather forecasts threatened a large portion of the U.S. crop. The market peaked on July 5th at \$3.70/bushels, well in advance of the assessment of actual yield loss. The market then declined by nearly \$1 per bushel from this July peak before contract expiration in December.



Source: www.jimwyckoff.com

In 2002, the last major drought impacting the Western Corn Belt occurred. The market rallied about \$.70/bushel beginning in late June and peaked on September 9th at \$2.96/bushel. By contract expiration in December, just three months later, the contract declined by nearly \$.60/bushel.

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Source: www.jimwyckoff.com

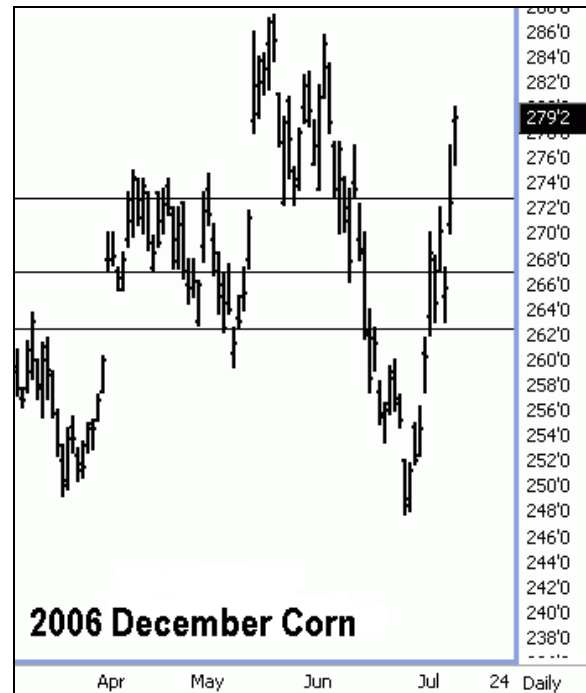
In 2005, a regional drought centered in Western Illinois rallied the December Corn Futures Contract by over \$.40/bushel in June and early July. The market peaked at \$2.73/bushel on July 18th, and declined by \$.85/bushel in the 6 months that followed.



Source: www.jimwyckoff.com

Current December Corn Futures

The 2006 December Corn Futures Contract has rallied with USDA Reports this spring. The Prospective Planting Report reflects the April gap, the May Crop Production Report reflects the May gap, and the Acreage Report and concern for dry weather are reflected in the late June/early July rally. Predicting the highest price is still challenging. The life-of contract high of \$2.87¼ per bushel established on May 18th is the upside objective of this chart as of July 11th.



Source: www.jimwyckoff.com

A major chart gap just above \$2.77/bushel was filled this day. Note the Fibonacci retracement levels noted on this chart of the spring and summer high and low prices have all been exceeded. Strong technical support for this chart should occur in the \$2.75/bushel area. Below that are gaps in the chart around \$2.62 and \$2.57/bushel that could provide support. Below that area is another level of support at the spring low of \$2.48/bushel.

Conclusions

Predicting the highest futures price level for any one year is difficult. Supply/demand components vary from year to year and the emotion of the markets adds to this challenge.

The emerging role of the commodity funds provides more price volatility and larger daily price movements than normal. In 2006, increased demand from ethanol production brings about more complexity to predicting futures price movement. The potential of a large summer sell off should growing conditions improve and trendline or above yields be realized, should be much less.

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