

CROP MARKETING STRATEGIES

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Soybeans: LDP and Marketing Loan Strategies

The cash soybean prices have been on a wild ride since the USDA Crop Production Report was released on September 12th. It appeared with increasing crop size, we'd see lower futures prices and wide harvest basis at harvest. As a result, there would be a Loan Deficiency Payments (LDP) for soybeans that could exceed could exceed 20 cents per bushel. However, mid-September rainfall slowed soybean harvest across much of the Corn Belt resulting in higher futures prices and lower early harvest LDPs.

Timing Fall Soybean LDPs

The largest soybean LDP in Iowa during the 2005 harvest was only \$0.05 per bushel and occurred October 12th and again on October 24th. There was never another chance to LDP soybeans this past marketing year. For those that used the marketing loan for their 2005 soybean crop, there has been a marketing loan gain available since mid-August.



Source: CARD Center for Agricultural & Rural Development

This chart reflects an 8-year history of soybean LDPs in Iowa. Note that during harvest that in 5 out of the last 8 years there were LDPs available. In 4 of those 8 years the LDP remained into the late winter or spring months, which mean the cash price reflecting the Posted County Price (PCP) remained

below the county loan rate. With large U.S. ending stocks projected at 449 million bushel as of September 1st and the potential for large U.S. production this fall, this same LDP risk is possible into 2007.

2006 Soybean LDP Outlook

Predicting when the largest soybean LDP will occur is much more difficult than that of corn, which generally occurs at harvest. With the large U.S. soybean stocks consuming commercial storage space this fall, the basis should be wider than normal. With the normal fall harvest pressuring the nearby November soybean futures contract, soybean LDPs could last through most of harvest. To a large extent, the size of the LDP depends on the size of the crop reflected in the October 12th USDA Reports and response of the futures price.

Marketing Considerations

Develop your own cash flow strategies and consider both your on-farm and commercially stored bushels. If you take the LDP on all or a portion of your soybeans, can you manage the risk of lower prices and a threat of an even larger LDP that could occur later in the marketing year?

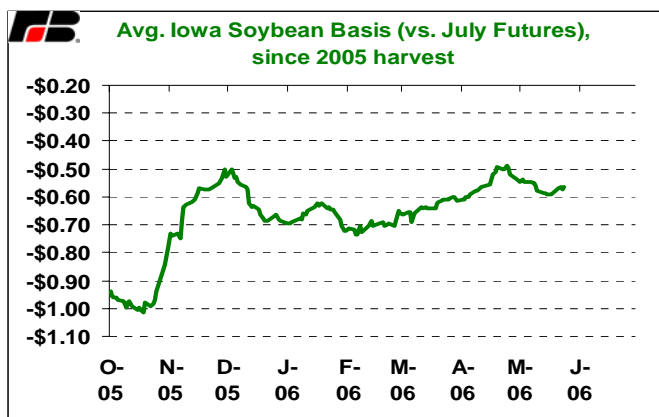
The "carry" or "spread" between November 2006 and July 2007 futures contracts has now declined to around 25 cents per bushel. This "spread" was nearly 40 cents just a few weeks ago, which is abnormally large and nearly rewards the full cost of commercial storage. Where on-farm storage space is available, the grain market may signal a reward for storing soybeans. However, considering the cost of storing soybeans commercially around 4 cents per bushel per month plus interest, any basis improvement during the post-harvest period might not cover commercial storage. On-farm storage with lower costs of grain ownership makes more sense for storage strategies beyond the winter months.

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Expect Post-Harvest Opportunities

With soybeans stored commercially, a consideration is to sell some soybeans after harvest anticipating a better basis and potentially higher prices that result from the uncertainty of South American soybean production. This usually occurs in the months of November and December.



Source: Iowa Farm Bureau Federation

Note in the graph above that the average Iowa Soybean Basis (vs. the July Soybean futures) narrowed rapidly as the 2005 soybean harvest concluded. Expect a slightly wider harvest basis this fall, but a rapid improvement post-harvest.

LDP or Marketing Loan

Producers should develop LDP and/or Marketing Loan strategies before harvest that reflect their own cash flow needs, risk-management ability and price outlook. Taking the LDP at harvest exposes those unpriced bushels to downside price risk. Thus, use of the marketing loan on all or a portion of 2006 soybeans might be a consideration.

To use the marketing loan, you'll need to have harvested the soybeans and complete form CCC-666 at your local FSA office. The office will take a few days to conduct a lien search on those bushels, and internal reviews by FSA of existing paperwork could delay the loan process even longer.

Locking in the PCP

Each day when LDPs are available, the Posted County Price (PCP) is established for each county and subtracted from the county loan rate to determine the LDP. Once marketing loan funds are dispersed, a lock-in of the PCP can be initiated in all or a portion of the bushels by completing FSA form CCC-697. A lock-in request can only be filed for specific bushels once and is valid for up to 60 days after filing.

Marketing Strategies

Consider the potential that exists of using the Marketing Loan and 60-day PCP lock-in and the following strategies:

Strategy 1: Store the soybeans at harvest, request a marketing loan, once the loan proceeds have been dispersed, look to see if the PCP is below the county loan rate, lock-in the PCP for up to 60 days and plan on making a cash sale within 60 days.*

Strategy 2: Store the soybeans at harvest, use the marketing loan and the 60 day lock-in for the PCP.* Make a cash sale within this 60 day period, payoff the loan at the PCP, reduce storage costs and waive the interest on the loan. You might consider reowning these bushels using a long futures position or purchasing a call option. However, note there is a risk of futures trading.

* Consider claiming the lock-in of the PCP on a day when there's a large move higher in nearby soybean futures. You will need to complete FSA form CCC-697 in order to lock-in the PCP.

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