Early-December, 2001

**Seasonal Price Trends**

No one knows with a high degree of accuracy what corn and soybean futures prices will be in 2 months, 6 months or one year from now. We only know futures prices will do one of 3 things… go up, down or sideways.

This does not minimize the importance of understanding seasonal price trends for both corn and soybeans. Some of the reasons that farmers use these seasonal trends include timing cash sales for both old and new crop bushels, minimizing price risk of bushels that are LDP’ed and selecting averaging windows for new grain contracts such as A+, Floored Average and Market Index Forward.

Economists and market advisors in both the public and private sectors have written extensively about seasonal price trends. Both corn and soybeans have 20-year seasonal price trends that are highest in the spring (late March, April, May, and early June) of the year. Some producers will forward price a portion of their expected new crop production based on these trends for higher spring prices.

Harvested bushels not forward priced typically see lower cash prices. When local cash prices reflected by the Posted County Price (PCP) fall below the established county loan rate, LDP vs. marketing loan decisions can be made. Many producers store their crops after harvest expecting higher prices and justify their decision on seasonal price trends that will reward storage related costs.

The 2001 crop year proved that no trends are full proof. The highest corn futures price occurred in December ’00, and by spring prices had fallen 20 to 30 cents per bushel. Decisions to continue storing were then based on the likelihood of fewer U.S. corn acres. Hot, dry conditions in July provided a window of only a few days that proved to be the best spring and summer pricing opportunity for corn in 2001.

One of the more interesting analyses of seasonal price trends comes from the private sector. Roy Smith, farmer and market advisor from Plattsmouth, NE, has compiled trends and related descriptions using Futures Charts. Roy tracked March Corn Futures each year from 1980 until 2001. The highest price occurs in the spring (April) and is often matched in June when weather concerns rally prices.

Corn prices then continue their slide lower through harvest. Small rallies occur immediately after harvest and again after the first of the year. The lowest price typically occurs in early December and again in February. By late winter farmers often sell inventory to generate cash prior to their March

Source: [www.soyroy.com](http://www.soyroy.com)
1st payments. Roy calls this mid-February price decline the “John Deere low” after his own experience with annual payments on his 4440 tractor during the 1980s.

For soybeans, the post-harvest rally that Roy calls the “Dead Cat Bounce” is the surest of all the seasonal moves. There has been a rally during or soon after harvest every year in the past 22 years. Roy also keeps track of the price of the May Soybean Futures to describe other seasonal moves.

Timing the Dead Cat Bounce move after harvest is more difficult than simply watching the calendar. Roy recommends recording your local cash soybean price beginning about October 1st. This usually coincides with the beginning of the Midwest soybean harvest. He then watches for prices to rise. Sometimes that happens almost immediately and some times it takes weeks. When he sees several days with prices higher he begins his count. The bounce always lasts at least 10 trading days. If the price drops but does not go below the lowest day, that still counts as a day higher. The range over the years is between two weeks (10 trading days) and 12 weeks.

When the market has rallied for at least the minimum number of days, he looks for a cash price improvement of at least 35 cents. On average, the rally is 50-60 cents. In unusual, high price years it has been as much as a dollar. You never know exactly when or how high the top will be and Roy indicates that deciding when to sell after the minimum move has been achieved is a judgment call. One guideline he uses is that the futures price will usually also rally at least 35 cents. If the market seems to still be strong when the 35-cent minimum has been reached in the cash market, waiting until the futures price gets to that level is usually a good idea. There is normally plenty of time to make the sale. It is unusual to see a bounce end quickly with prices dropping sharply once the 35 cents has been reached. However, waiting too long can result in missing the best opportunity to make sales until the following summer.

Summary

The advantages of using seasonal price trends such as Roy’s “Dead Cat Bounce” are:

- no production risk because the beans are in the bin implemented in the cash market, thus limiting the downside price risk of LDP’ed bushels
- no margin calls or option premiums
- limits storage and interest charges.

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