Early-February, 2002

Playing the Averages

We are familiar with the use of averages. There are batting averages in baseball, bowling averages and grade point averages. When determining what corn hybrids and soybean varieties to select, you often use yield averages. In grain marketing, we’re seeing a trend toward the use of price averages. One such use of averages can determine seasonal price trends. Understanding these trends become even more important after a second straight winter when producers are frustrated in their inability to “outguess” the market and sell at the highest price.

The majority of grain gets sold when someone needs the cash, regardless of the seasonal averages. The past 4 years the March futures price for both corn and soybeans were higher at the end of January than they were at the end of February. With 70% to 80% of this year’s corn and soybeans already LDP’ed, the “February break” becomes even more painful for those holding bushels that have no price protection.

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Soybean Averages

I’ve seen a lot of frustration with producers that want to hold soybeans through the winter. Let’s look at the average price of soybeans using July Futures pictured on the chart at the bottom of this page. Note that these are average July futures prices each month from September until the next July. Both lines follow nearly identical patterns, with the 11-year trend at a lower price level. The 2002 July futures updated in early January also follow the same pattern.
Production and exports of South America’s soybeans have grown rapidly in the last 10 years. The seasonal price trend has been in place much longer. Soybean futures typically work their way lower from mid-January into late February. This is the same timeframe Roy Smith calls the “John Deere low.”

**Corn Averages**

The U.S. remains by far the largest world corn producer and supplier. In order to meet this year-around demand, we store much of our corn. To provide an incentive to hold corn off the market, the deferred futures markets are typically higher and offer “carry.”

So, would you guess the seasonal price trends for corn are the same as for soybeans? Again, let’s look at the average price of soybeans using July Corn Futures pictured on the chart in the middle of the next page.

Note that the 27-year price trend is similar in pattern to the 11-year, that is until mid-winter. The 11-year trend is for corn prices to increase from mid-winter into spring. The 2002 July Futures averages are not following the same pattern. In fact, the trend since November has been lower while the 11-year trend lines are for higher prices. This winter we are seeing a counter-seasonal price trend.

**Summary**

Forecasting price is not easy and not always reliable. The old saying is “those who forecast price, should forecast often.” However, you can use averages in order to determine seasonal price patterns as another “tool” for making marketing decisions. If you wanted to pick the best batter in major league baseball, would you use only their home run total? No, you’d probably use the batting average for the entire season or maybe their lifetime.

Trying to hit home runs marketing your corn and soybeans has been difficult the past few years. Consider using the price averages to determine when seasonal price trends provide you the likelihood of a higher price for your crops.

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