Make Way for Large Crop

The USDA in its July 12th Supply/Demand Report now projects U.S. farmers will harvest this fall the largest corn and soybean crops in history. Corn production is estimated at 10.635 billion bushels and 2.9 billion bushels of soybeans.

As a result of improved crop conditions since this report, new crop corn prices have declined by more than $1.00 per bushel. The chart below reflects 2004 prices compared to both the 10-year average and the 5-year average.

Because of tight global carry out stocks for feed grains, post-harvest prices are expected to improve. The focus for corn will transition from supply to demand with the approach of harvest.

In a similar fashion, the price movement for new crop soybeans declined by more than $1.50 per bushel from spring highs reflected in the chart below. New crop prices are still higher than both the 5-year and 10-year averages.

Many producers with crop marketing plans were able to capture a portion of this price risk premium. Harvest prices are not expected to decline to levels in which loan deficiency payments (LDPs) will be provided by the federal government. With just months prior to harvest, producers are encouraged to develop marketing strategies that can capture some of the highest harvest prices in recent years. This is especially true for soybeans.

Some of these strategies include:
1. Estimate the potential size of both your corn and soybean crops using previous year’s production as compared to 2004.
2. Determine your on-farm storage and drying capacity and the timeliness by...
which you can move bushels away from the field.

3. Understand basis (the difference between cash price and futures price). Note implications that a narrow basis at harvest reflects good demand and incentive to move new crop bushels. Replacing these sold bushels with long futures or call options should be considered. The chart below is a 5 year history of corn basis for the Des Moines market.

![Corn Basis Example: Des Moines (vs. Dec. Futures)](chart)

Source: Iowa Farm Bureau Federation

4. Calculate the futures market carry (difference between nearby futures month and the deferred months). Likely the corn market has carry, rewarding future delivery. The soybean market may have no carry and is inverted, thus no reward for storing unless you expect higher futures prices and/or improved basis.

5. Assess your own cash flow requirements for the next year; estimate the month(s) in which cash is needed and develop appropriate market strategies that can reduce risk and/or maximize revenue.

In recent years, when new crop futures prices decline into mid-summer, producers may plan to store more bushels since they “missed” higher prices. Many times market psychology leads to storage strategies with no predetermined price objectives or time frame in which these bushels will be sold. Determining these factors prior to harvest and focusing on the total revenue generated per acre rather than price per bushel is recommended.

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