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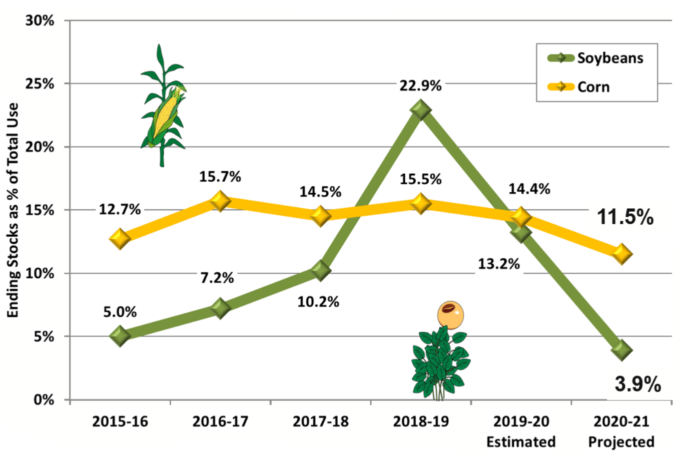
Crop Marketing STRATEGIES

The 2020 Roller Coaster Ride; Capturing High Prices

The year 2020 will long be remembered for the COVID-19 pandemic and a roller coaster ride for the ag economy. However, the last half of 2020 brought the “perfect storms” of economic recovery, U.S. crop stress late in the growing season, aggressive Chinese buying of U.S. ag products, and then problems with South American weather and production concerns.

Since early August, nearby March ‘21 corn futures have rallied more than $1.80 per bushel and March ‘21 soybean futures nearly $4.50 per bushel, respectively. The graph below reflects the Dec. 10, 2020, World Agricultural Supply & Demand Estimates (WASDE) report over the past 6 years. Note the tight U.S. ending stocks come Aug. 31, 2021. Both corn and soybean ending stocks are expected to decline to their lowest levels in 7 years when 2013/’14 stocks to use ratios were 9.2% for corn and 2.6% for soybeans.

U.S. Ending Stocks as % of Total Use



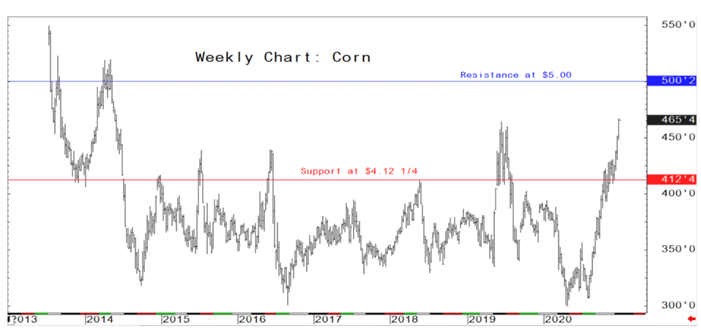
Source: USDA WASDE Reports., Dec. 10, 2020

Using Historical Weekly Charts

No one knows one can predict the future with a great degree of accuracy. However, using the past to predict the future makes sense. Market technicians like Jim Wyckoff work with commodity ag futures traders. He encourages the need to pay close attention to the longer-term weekly and monthly continuation charts for current futures markets. History shows that strong-trending markets tend to gravitate toward historical highs or low prices depicted on these weekly charts. Longer-term charts also tend to weed out distracting “market noise” that can be seen on the shorter-term daily charts.

The weekly corn futures chart below shows a strong bull market is in play. The next upside target for the bulls is the 2014/’15 market year high, around $5.00 per bushel. Expect that this $5.00 area could prove strong chart resistance for commodity traders as they set sell stops to protect their profits. The nearby March ‘21 corn futures contract closed at $4.84 on Dec. 31.

Weekly Corn Chart



Source: www.jimwyckoff.com, Dec. 30, 2020

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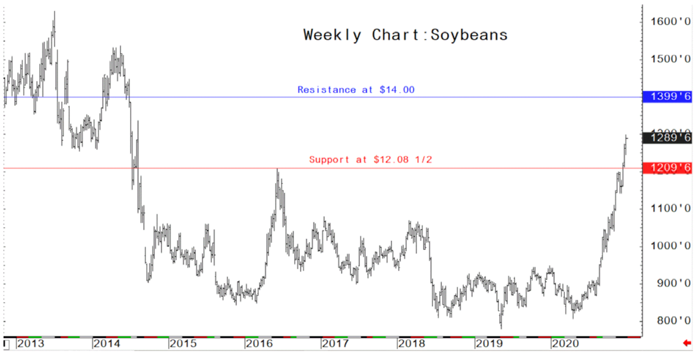
The weekly soybean futures chart below reflects the 2016 high of $12.08½. Nearby futures should now serve as chart support. The next level of resistance is likely the $14 per bushel area, where strong chart resistance could occur. The nearby March '21 soybean futures contract closed at $13.11 on Dec. 31.

Weekly Soybean Chart



Source: www.jimwyckoff.com, Dec. 30, 2020

Note in both these Weekly Corn and Soybean charts, by early 2014, the high futures market prices began to collapse to the more normal levels experienced for more than 6 years. That's because farmers globally expanded production to capture this potential for higher commodity crop prices. The weather became more favorable, and the supply of commodity crops available overwhelmed the demand.

A Plan to Manage Risk

With the explosion in corn and soybean prices since August, the emotion of selling becomes more difficult for most farmers. Loss aversion is an important concept associated with prospect theory. It is encapsulated by the expression "losses loom larger than gains" (*Kahneman & Tversky, 1979*).

The key to marketing discipline in capturing these high prices is having a written plan with both time and price objectives. Whichever happens first should initiate a sale. Those price objectives should be associated with your crop breakevens and a reasonable return on investment. Selling as the market moves higher can help overcome the inactivity associated with prospect theory and the fear of loss. This is true for remaining old crop bushels and even more critical for the new crop bushels you plan to produce in 2021.

New crop corn futures prices are roughly $.50 per bushel less than the nearby March contract. New crop soybean futures are roughly $2 per bushel less than the nearby March contract. However, this does not mean that new crop futures prices will ever reach these nearby contracts' levels. That's because the demand-driven market is now with a limited supply of bushels available. Typically global weather-related problems last 6 to perhaps 9 months. Farmers have a chance to price both old crop and new crop bushels during that time frame at high levels. New crop corn and soybean futures prices now appear to be profitable, with Dec. '21 corn futures over $4.30 per bushel and Nov. '21 soybeans over $11 per bushel, respectively.

Conclusion

There's an old saying that the markets are most bullish at the top. Expect that could play out in January with the USDA Final Crop Production and WASDE reports to be released on Jan. 12. South American weather uncertainty will likely be playing out about this same time. Old crop basis should remain strong with great demand both domestically and for export. This could trigger farmer sales to generate cash flow at extremely high prices.

Also, commodity funds will set "sell stops" on futures trades and take their profits should market prices move significantly lower. A market top could occur for both old and new crop bushels. Consider using the past to predict the future. As the saying goes, "the cure for high prices is typically high prices!"

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