

Crop Marketing STRATEGIES

Acreage & Weather Uncertainty: Resetting Futures Price Objectives

The USDA Acreage Report released June 30, 2020, provided a bullish surprise for both corn and soybean futures prices. Since the Prospective Planting report in late March, the trade had become comfortable with large planted acres and relatively good planting weather throughout most of the Corn Belt.

- **Corn:** 92.0 million acres planted, which is up 3% from last year and down from the March 31 Prospective Plantings estimate of 96.9 million acres.
- **Soybeans:** 83.8 million acres planted, which is up 10% from last year and up slightly from the Prospective Plantings estimate of 83.5 million acres.

The futures markets got a “shot in the arm.” The decline of nearly 5 million acres of corn planted this spring overshadowed the larger than expected grain stocks for corn. Most of these bushels are stored “on-farm” as an attractive basis has allowed most elevators and co-ops to move their grain.

Most of the missing corn acres were in North Dakota, South Dakota, and Wisconsin. This will also impact corn basis in those areas.

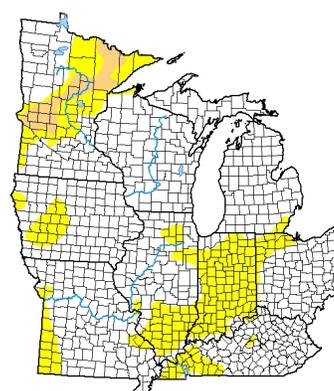
With the decline in corn planted acres, expect harvested acres to drop nearly 4.6 million acres. Even if the final national corn yield remains at 178.5 bu/A forecast, that’s a potential decline in the production of more than 800 million bushels. Ending stocks at the end of the 2020-’21 marketing year was initially forecast at 3.323 billion bushels but could come closer to 2.5 or 2.6 billion bushels for the end of the marketing year.

Weather Uncertainty

With the start of summer, weather becomes critical to corn pollination and soybean blooming. The latest U.S. Drought Monitor reflects only D0 - Abnormally Dry and D1 – Moderate Drought in the heart of the Corn Belt.

U.S. Drought Monitor
Midwest

June 23, 2020
(Released Thursday, Jun. 25, 2020)
Valid 8 a.m. EDT



Intensity:
None
D0 Abnormally Dry
D1 Moderate Drought
D2 Severe Drought
D3 Extreme Drought
D4 Exceptional Drought

The Drought Monitor focuses on broad-scale conditions. Local conditions may vary. For more information on the Drought Monitor, go to <https://droughtmonitor.unl.edu/About.aspx>

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The USDA’s weekly crop progress ratings for June 28 estimated the U.S. corn crop at 73% Good to Excellent. However, Iowa’s corn ratings were at 85% Good to Excellent, likely reflecting some of the best corn crop nationwide. The U.S. soybean ratings were at 71% Good to Excellent, while Iowa’s soybean ratings were at 83%.

Iowa also reports adequate soil moisture levels. As of June 28, the average statewide topsoil rating was at the 89% Adequate to Surplus level. The subsoil rating was at 92% statewide. This moisture levels bode well should heat and dry conditions prevail into the early part of July.

It appears that most of the Iowa corn crop will pollinate during the middle two weeks of July. Expect extended weather forecasts to be watched closely.

Don't expect the USDA to adjust their corn yield projection of 178.5 bu/A until the Sept. 11 Crop Production Report. This will be the release of their first in-field yield estimates collected from more than 3,000 randomly sampled fields across the 10 major corn production states.

New Crop Futures Price Objectives

Let's use Fibonacci retracements as a tool to identify possible futures price objectives for new crop corn and soybeans. The December '20 corn futures contract traded at a life-of-contract low on June 26 at \$3.22 per bushel. The contract high of \$4.04³/₄ was reached on Jan. 15. Expect a potential Fibonacci retracement of at least 38%, 50% or 62% of this price difference. This results in futures price objectives between \$3.53, \$3.63, and \$3.73 per bushel. Consider scale-in incremental sales when these prices are reached.



The winter high price for November '20 soybean futures was \$9.82³/₄ on Jan. 2. The life-of-contract low was \$8.31 per bushel reached on April 21. Expect a potential Fibonacci retracement of at least 38%, 50% or 62% of this price difference. Results would be futures price objectives of \$8.89, \$9.07, and \$9.25 per

bushel. Consider scale-in incremental sales when these prices are reached.



Conclusion

It's easy to get bullish when corn and soybean futures bounce off of extremely low-price levels. Expect price volatility for new crop corn and soybean futures during the early summer months. Weather forecasts will become the driving factor that determines when and at what futures price levels the highs occur.

Don't be surprised that those highs occur in July. Over the past five years, new crop corn and soybean futures price highs tend to occur between late-May and the mid-July time frame.

Consider now what your objectives are for both futures and cash prices. Discipline will be critical in making necessary sales and using written marketing plans is recommended. Share your plan with your commodity broker and grain merchandisers and consider your cash flow needs and on-farm storage capacity.

After the fall harvest, expect futures price volatility to be driven by the impact of the coronavirus pandemic recovery. This could mean that corn for feed, ethanol, and exports could come into question. For soybeans, hopefully China will make large purchases of new crop to fulfill their Phase 1 trade agreement.