It’s mid-January and cash flow needs are on the mind of most farmers. The Jan. 12 USDA World Agricultural Supply and Demand Estimates (WASDE) indicated U.S. soybean ending stocks at the end of August will be 470 million bushels, the largest in 10 years. The weighted average national cash price will range between $8.80 and $9.80 per bushel. A Nov. 28, 2018, the acreage forecast by the USDA indicated U.S. farmers are expected to plant another record 91 million acres of soybeans in 2018.

The Brazilian soybean harvest is just beginning and yield prospects are large. Expect soybean exports from Brazil to begin shipping in late January. Dryer conditions during mid-January in Argentina will likely shrink the potential size of the soybean crop that will compete with U.S. soybeans and soybean meal by spring.

This Argentine production uncertainty has lifted soybean futures since Jan. 12. Initially the price rally was short covering and then speculative buying by commodity funds. Based on recent history, the odds are about 60% that July soybean futures will decline from mid-January to mid-February. With a time objective focused on pricing in late January, what should you use as a futures price objective?

Utilizing Fibonacci Retracements

Fibonacci (c. 1175 – c. 1250) was an Italian mathematician from the Republic of Pisa. He is considered to be “the most talented Western mathematician of the Middle Ages.”

A Fibonacci retracement is a term used in technical analysis that refers to areas of support (price stops going lower) or resistance (price stops going higher). The retracement ratios are found in the Fibonacci sequence. The most popular Fibonacci retracements are at 61.8% and 38.2%. Note that 38.2% is often rounded to 38% and 61.8 is rounded to 62%. The midpoint would be a 50% level of retracement.

Let’s use Fibonacci retracements to try to measure the potential for the March 2018 soybean futures prices to retrace its movement from the Dec. 5 high to the Jan. 12 low. The difference between this high and low price is 83¢. Multiply this amount times 38%, 50% and 62% as representative retracement levels.

March ’18 Fibonacci Retracements

Source: www.jimwyckoff.com Jan. 12, 2018

This would leave price objectives for the March ’18 soybean futures contract at levels around $9.76, $9.86 and $9.96 per bushel, respectively. The $9.96 per bushel objective was reached on
Jan. 25 when this newsletter was written. If you need to sell bushels for cash flow purposes this winter, consider making a cash sale very soon. The most attractive basis will likely be at a soybean crush facility while most elevator and co-op bids will be 30¢ to 40¢ lower.

Selling the Carry

Soybean futures price carry is defined as the difference between the nearby March soybean contact and the more distant or deferred months of May and July. By Jan. 25, soybean futures carry was 11¢ from March to May and another 10¢ from May to July. This 21¢ would likely cover the cost of on-farm stored bushels, but perhaps not those stored commercially. Consider capturing this carry (May or July) via a hedge or initiate a Hedge-to-Arrive (HTA) contact for spring delivery when basis tends to narrow. Delivering bushels in April or May could provide some of the best basis opportunities.

July ’18 Fibonacci Retracements

Source: www.jimwyckoff.com Jan. 12, 2018

Using Fibonacci retracements, try to measure the potential for the July ’18 soybean futures contract to retrace its movement from the Dec. 5 high to the Jan. 12 low. The difference between this high and low price is 80¢. Multiply this amount time 38%, 50% and 62% as representative retracement levels.

This would leave price objectives for the July ‘18 soybean contract at levels around $9.95, $10.05 and $10.15 per bushel, respectively. The $10.15 per bushel objective was reached on Jan. 25. Expect the uncertainty of weather and its impact on planting to be the primary driver of higher futures prices. Try to avoid guessing the weather forecasts as a primary component in developing a crop marketing plan.

Note this July ’18 soybean contract goes into delivery approximately June 29. Use late June as your deadline should you decide to re-own these bushels via long July soybean futures (basis contract) or the use of a July call option (minimum price contract). The eight days of June could then be used as a deadline to get most of your old crop bushels priced. Try to avoid your bushels being a part of the 470 million bushels of ending stocks come late August.

Lessons Learned

There is no one technical chart signal that works 100% of the time. Consider that many speculators and market analysts participating in the commodity markets often use these same types of technical signals such as the Fibonacci retracements.

When determining a price objective for pricing the balance of your old crop soybean bushels, consider the use of these Fibonacci retracement levels using the March, May or July ’18 futures contracts. Farmers should be prepared to take advantage of winter pricing opportunities for soybeans based on the uncertainty of production in South America.