Imagine 3 months ago you adopted the futures price objectives of $3.86 per bushel for March ’19 corn futures and/or $3.99 per bushel for July ’19 corn, respectively. You could have used these price levels and locked in cash prices, especially when your local basis had strengthened. Bushels delivered for cash flow needs could have occurred in December and early January when weather was much warmer and much better hauling conditions. Note that by the last half of December, basis had strengthened since harvest by an average of 16¢ per bushel at most Central Iowa elevators and 20¢ or more at most corn processors.

Looking back over the past few months, these March and July corn futures price objectives turned out to be very attainable. That’s because corn futures contracts have traded in roughly a 30¢ price range since the harvest low on Sept. 18. This is very common with corn futures during the late fall and winter months because there’s very little new information regarding northern hemisphere production concerns where most global feed grains are grown.

Using Fibonacci Retracements

There’s a pretty simple way to establish a futures prices objective that’s been well-tested over time – Fibonacci retracements. Fibonacci (c. 1175 – c. 1250) was an Italian mathematician from the Republic of Pisa and considered one of “the most talented Western mathematicians of the Middle Ages.”

A Fibonacci retracement is used in technical chart 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 ’19 corn futures prices to retrace its movement from the May 24 high of $4.37 to the Sept. 18 low of $3.54. That’s a difference of about $.82 per bushel. The Fibonacci method suggests multiplying this amount times 38%, 50% and 62% as representative retracement levels.

March ’19 Corn Fibonacci Retracements

This would leave price objectives for the March ’19 corn futures contract at levels around $3.86, $3.96 and $4.06 per bushel, respectively. The $3.86 per bushel objective was reached Oct. 15 and traded above this level on 11 different days before Dec. 19. If you needed to sell corn this
winter, this would likely have been an attractive futures price objective. The best basis was likely at an ethanol plant or a corn milling facility. That basis strengthened the last half of December as fewer bushels tend to be delivered just before the long weekends around Christmas and the new year.

July ’19 Corn Fibonacci Retracements

Use the Fibonacci retracements to try to measure the potential for the July 2019 corn futures prices to retrace its movement from May 24 high of $4.45 to the Sept. 18 low of $3.70. That’s a difference of about $ .75 per bushel. The Fibonacci method suggests multiplying this amount times 38%, 50% and 62% levels. This would leave price objectives for the July ‘19 corn contract at levels around $3.99, $4.08 and $4.16 per bushel, respectively. Those $3.99 or $4.08 levels might be considered for July ‘19 futures price objectives during the late winter and/or spring months.

Selling the Carry

For corn bushels you didn’t want to deliver in November or December, you could have “sold the carry” between the March corn futures contract and the deferred months of May or July futures. On Nov. 15, corn futures carry was 10¢ from December to March, 8¢ from March to May and another 7¢ from May to July. This 25¢ per bushel carry would likely more than cover the cost of ownership for on-farm stored bushels, but not bushels stored commercially.

You could have captured this carry (May or July) via a futures hedge or initiate a hedge-to-arrive (HTA) contract with your merchandiser. Perhaps then making spring delivery of bushels when basis tends to strengthen. Delivering bushels in April or May could then provide some of the best basis opportunities as farmers and elevators are busy with planting related activity.

Note the July ‘19 corn futures contract goes into delivery around Friday, June 28. Use this mid-to-late June as your deadline for pricing the balance of your old crop bushels. Having a deadline is important, especially if you decide to re-own these bushels via long July corn futures (a basis contract) or purchase a July call option (a minimum price contract).

Lessons Learned

Fibonacci retracements are easy to calculate, especially when futures price moves are so well defined – like for corn in 2018. Using these retracement levels to identify price objectives could then provide more confidence to price bushels when futures prices at or near these levels. This could include providing your broker or merchandiser that price objective well in advance and avoiding procrastination. It could also mean you could HTA using the July corn futures contract to capture the between the nearby March and July futures.

There is no one technical chart analysis that works 100% of the time. Besides Fibonacci retracements, consider the use of tools such Relative Strength Index (RSI), Moving Averages, Stochastics and Bollinger Bands.