Farmers witnessed price weakness in both old crop corn and soybean futures contracts during January and February. Futures prices reflect issues with increasing South American crop prospects and the spreading global coronavirus. Expectations are now that U.S. old crop inventories will remain sufficient until 2020 new crop supplies become available this fall.

According to Todd Hubbs, clinical assistant professor at the University of Illinois, macroeconomic and global demand uncertainty associated with the coronavirus will continue into the late winter and spring months. The good news is that the crop basis levels for both corn and soybeans have maintained their strength this winter. This basis strength reflects underlying demand fundamentals rather than farmer holding. However, a reckoning for old crop futures prices lies in wait into this spring and summer.

Setting July Corn Futures Price Objectives

The winter high price for the July ’20 corn futures price was $4.04½ on Jan. 2. The contracts then traded in a 20¢ trading range from mid-December until the global outbreak of the coronavirus in late January. By Feb. 24, the price had declined another 10¢ to a low of $3.76¾.

The Fibonacci retracement levels help anticipate reasonable price objectives before late June when the July contract goes into delivery. The July ’20 futures daily chart can help determine those price objectives. The high on Jan. 2 was $4.04½, and the low on Feb. 24 high was $3.76¾. That’s a difference of $.27¾ per bushel.

To determine the Fibonacci retracement levels, multiply this amount times 50%, 61.8%, and 78.6% as representative retracement levels for this contract.

The Fibonacci retracement calculations would multiply this amount -- $.27¾ times 50%, 61.8%, and 78.6%. Representative retracement levels for July ’20 contract are $3.90, $3.94, and $3.98 per bushel.

Hubbs anticipates market behavior in March may provide some clues about the producer holding scenario this marketing year. Corn basis should remain strong well into the late spring months. On March 31, the quarterly grain stocks and prospective plantings reports will provide the next round of indicators on potential ending stocks this marketing year and planted acreage potential for crops in 2020. The USDA Outlook Conference on Feb. 20 forecast the U.S. planted acreage at 94 million corn acres and soybeans at 85 million acres, respectively.
Remember, the last notice day of this July contract is June 30, so include time objectives in your old crop marketing plan. These could be pricing bushels every two weeks during April and May when hopefully 2020 planting uncertainty and “short-covering” by commodity funds might take place. Don’t forget to add to your final cash corn price of about $.34 per bushel you received from USDA since August in three different payments.

Setting July Soybean Price Objectives

Soybean production prospects for both Brazil and Argentina have increased this winter. Brazil is expected to be the number one country in the world for both soybean production and exports.

Let’s use Fibonacci retracements of the winter futures price movement to determine reasonable futures price objectives for the July ’20 soybean contract. The high on Jan. 2 high was $9.80, and the low on Feb. 24 high was $8.90¼. That’s a difference of $.89¼ per bushel. The Fibonacci retracement calculations would multiply this amount times 50%, 61.8%, and 78.6% as representative retracement levels for this contract.

Reasonable July soybean futures price objectives would be around $9.35, $9.46, and $9.60 per bushel. Don’t forget, the 2019 MFP payments already received would have provided an additional $1.20 per bushel on average to your cash soybean price received. With a strong processor basis, a producer would receive nearly $10 per bushel for their 2019 soybean crop minus storage and interest costs accrued.

Conclusion

If your unpriced bushels are stored on-farm, make sure you’re checking your bins for grain quality each week. Numerous reports of low test weight corn likely mean a deficit in quality corn, particularly in areas of the Northern and Eastern Corn Belts. Low corn prices and poor quality provide incentives for users to place corn in feed rations and not use that corn for ethanol production or exports. How much quality corn remains up for debate and might be reflected in grain stock reports on both March 31 and June 30. There’s also an estimated 1 billion bushels of corn still to be harvested in the Northern Corn Belt.

Now, discuss with your commodity broker and/or grain merchandiser the risks and rewards when making cash sales or initiating basis contracts, minimum price contracts, or other futures or options transactions. Be sure you understand the risk of being “long” futures and the flow of cash funds involved in these transactions. Expect price volatility during the spring months.

Some advantages of moving cash corn or soybeans on a basis or minimum price contract include helping with cash flow needs this winter, eliminating storage costs and basis risks, minimizing the concern for on-farm stored corn quality, and freeing up labor constraints during spring planting.