Expect Seasonal Patterns to Work: Pre-Harvest Marketing the Rallies

In each of the past 5 years, new crop corn futures prices have rallied into the early spring months, but peak by early summer. This reflects the period of the greatest uncertainty of production in the northern hemisphere and is deemed the seasonal price pattern. New crop soybean futures prices tend to move higher in both the late fall and winter months when southern hemisphere production is threatened. Then soybean futures prices typically rally again in the spring through the early summer months, similar to corn.

So why don’t most farmers take advantage of these seasonal price patterns? The causes can vary, but tend to be a combination of procrastination, fear of being wrong, and the lack of a crop marketing plan with the discipline to implement that plan. Guessing the highest futures price is difficult and often ends in missed opportunities. Hopefully you were able to establish a new crop marketing plan early in the spring, reflecting the seasonals.

**Setting New Crop Price Objectives**

Consider your cash flow needs for the fall and winter months. An effective marketing plan might be to sell new crop bushels incrementally as futures prices move higher in the spring. Your price objectives should reflect the futures price when they’re above the projected prices used for revenue protection crop insurance purposes. Those prices were determined in February 2018 at $3.96 per bushel for corn and $10.16 per bushel for soybeans, respectively.

**New Crop December Corn Futures**

The December ’18 corn futures contract life-of-contract high was on July 11, 2017, at $4.29 ½ per bushel. From previous newsletters, this was the upside price objective established for 2018 spring and summer months. Waiting for this price level to make adequate sales carries the risk of not making enough sales or never reaching this level, thus the importance of a time objective as well. Whichever occurs first, time or price.

On May 24, the upside price objective was reached intraday as extremely hot and dry conditions were forecasted for much of the Corn Belt. Speculative funds remained net long corn futures in anticipation of weather uncertainty.

![December '18 Corn Futures](source:www.jimwyckoff.com)

With either time or price objectives met, hopefully adequate new crop bushels were already made. A farmer should have feel good about the successful implementation of his/her marketing plan. The hope is that futures prices would move even higher than previous sales so
additional bushels could be marketed at these high prices.

Unfortunately, few farmers were disciplined enough to implement such a plan. December futures price had declined by more than 40¢ per bushel in just 14 trading sessions. December was expected to find support at the $3.80 price level in mid-June. That’s the same level this contract traded at for much of the months of December and January.

With much of the growing season still ahead, what might be reasonable price objectives to set for making additional new crop sales? These objectives should reflect both futures prices when above the projected price of $3.96 per bushel, basis (local cash minus futures price) as well as the farm’s breakeven costs.

**Utilizing Fibonacci Retracements**

Fibonacci (c. 1175 – c. 1250) was an Italian mathematician and was considered “the most talented Western mathematician of the Middle Ages.” A Fibonacci retracement refers to areas of support (price stops going lower) or resistance (price stops going higher). 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 and sometimes the 88.6% level can also be considered.

Use Fibonacci retracements to try to measure the potential for the December corn futures prices to retrace its movement from the $4.29 ½ high to the $3.80 low. The difference between this high and low price is 45.5¢ per bushel. Multiply this amount times 38.2%, 50%, 61.8% and 88.6% as representative retracement levels. The resulting price levels are $4.01, $4.07, $4.12 and $4.24 per bushel, respectively. Consider these as levels as reasonable price objectives to pre-harvest market additional new crop corn bushels.

**New Crop November Soybean Futures**

The November ’18 soybean futures contract put in their life-of-contract highs around $10.60 per bushel 4 times between April 10 and May 29. Expect this $10.60 ½ futures price level to be the upside price objective for 2018 growing season barring extreme growing conditions this summer or fall.

**November ’18 Soybean Futures**

Source: www.jimwyckoff.com   June 14, 2018

Use the Fibonacci retracements to measure the potential for the November soybean futures prices to retrace its movement from the $10.60 high to the $9.25 low. The difference between this high and low price is $1.35 per bushel. Multiply this amount times 38.2%, 50%, 61.8% and 88.6% as representative retracement levels. The resulting price levels are $9.77, $9.93, $10.09 and $10.44 per bushel, respectively.

Consider these levels as reasonable price objectives to pre-harvest market additional new crop soybean bushels. Hopefully you’ll get another opportunity to sell new crop November soybeans when above the 2018 projected price of $10.16 per bushel.