Seasonal Corn and Soybean Pricing; Benchmarks for Your Beef Herd: Where to Find Them

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SEASONAL CORN AND SOYBEAN PRICING

by

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Seasonal patterns of corn and soybean prices have a large impact on commodity owners' decisions to sell or store these products. Many decisions to store are made either before or at harvest time depending on producer preferences for risk and market alternative comfort levels. The decision to store or sell 1997 crops has been made already and any sales before 1998 will be done predominantly for tax management reasons. Selling decisions made after the new year is rung in will be based on commodity owners' perceptions of price potential in 1998.

Seasonal price patterns are a tool available to help commodity owners make corn and soybean selling decisions. Price patterns give some indication of expected price movement over the next several months. These expected price changes should be used with storage cost information to decide how long to store commodities. Seasonals help the decision makers determine when they think price will increase, decrease, peak or bottom. This price outlook is an important piece of the post harvest commodity marketing puzzle.

Corn Price Seasonal

Corn price seasonals were computed using several methods: simple, modified simple and 12-month moving averages. All methods yielded similar results as presented in Figure 1. Seasonal patterns were (Continued on page 2)

BENCHMARKS FOR YOUR BEEF HERD; WHERE TO FIND THEM

by

Gene Murra
Emeritus Professor

It is no secret that the agricultural sectors in most states went through a financial crisis in the 1980's. Many livestock producers, especially cattle producers, went through one (and still may be in one) in the mid-1990's. In many cases, producers did not fully realize that there was a crisis until "after the fact". Their financial records, if they existed at all, were inadequate to provide "early warnings".

One result of the 1980's crisis was increased emphasis by Cooperative Extension Services on farm financial management. That emphasis resulted in the Integrated Resource Management's Standardized Performance Analysis (IRM-SPA). One of the main objectives of the program was to enable beef producers to have sufficient business tools and analyses to manage their way through expected low prices in the 1990's.

Lower prices were, in fact, the case in the 1990's. Yet, many beef producers did not have the necessary financial tools to give them sufficient warning about the serious impact of those lower prices. For example, it is not enough to know that lower prices cause lower revenue. It is important to know the impact of that lower revenue on the beef enterprise and other enterprises, not only today but also in the future.

Harlan Hughes, an Agricultural Economist at North Dakota State University, has worked with North (Continued on page 4)
calculated for many time intervals; again results were similar. Since many producers form opinions of crop price patterns over many years of experience, several time intervals reveal whether price patterns have changed over time.

The corn seasonal appears to peak earlier than in the past. The 1990-96 and 1980-89 seasonals show peaking in May through July, whereas in earlier time intervals peaking occurred in July to September. Bottoming activity has remained consistent over the decades with lows coming at harvest time, Oct-Nov. However, the seasonals for the last two decades do seem to reach lows in October rather than November. The authors’ conclusion is that corn price seasonals tend to peak and bottom earlier now compared to the 1940’s through the 1970’s. Such things as better drying technology, use of pre-harvest pricing techniques and improving crop genetics all contribute to this apparent change in corn price seasonals.

Corn seasonals reveal harvest prices 5 to 12 index points below 100 and spring peaks at 10 to 12 index points above 100 (average). This means that, on the average, corn price has the potential to move 15 to 24 percent from harvest lows to late spring peaks. The seasonal pattern also shows that most price gains are realized by March with only modest improvement after April.

Marketers are encouraged to use this information about seasonals when making plans for selling corn in storage. Given 1997 harvest time price and U.S. production numbers, this crop year price most likely will follow the seasonal pattern with the potential to reach a slightly higher than average peak price because surplus stocks are below average. Of course, other factors, such as foreign demand, spring weather, planting intentions, feed demand and storage costs, should be considered in your marketing plan.

Soybean Price Seasonal

The soybean price seasonal patterns presented in Figure 2 are very consistent. The 1970’s interval is based on 1970-1975 data only because price data were not collected by USDA between 1976 and 1981, and the pattern was influenced heavily by the extreme soybean price changes of 1972-1974. The seasonal pattern does not appear to have changed over the decades with lows coming in September to October and peaks from April to June. The soybean seasonal seems to be one month ahead of the corn seasonal. Of course, early spring price activity is influenced by South American expected production. This is probably the most important factor that keeps soybean spring price rises smaller percentage-wise than corn seasonal price increases. These seasonals show that harvest time lows could be three to eight percent lower.
than annual average price and spring highs two to five percent higher. Given the higher than average starting price in Fall of 1997, the potential for flat to only slightly increasing price is most likely for Spring 1998 soybean markets. Of course, as with corn, many other factors must be considered.

According to seasonal analysis, it appears at this time that corn price increases this spring will most likely at least pay costs of storage. Soybean spring price increases most likely will at best pay storage costs. For cash flow needs, it appears that selling soybeans and holding corn yields the most potential for your winter and spring grain marketing plans.

Marketing Alternatives

With plentiful U.S. soybean stocks, record Malaysian palm oil stocks for November and rain in soybean producing areas in South America, lower spring and summer soybean prices are a distinct possibility. For persons holding beans the purchase of a May put either at-the-money or one strike price out-of-the-money looks like a good risk management tool. This strategy sets a minimum price but allows for price improvement if Asian demand picks up or South American production is threatened by El Nino. If cash is needed after the first of the year, a synthetic put may be a useful strategy. Accomplish this by selling cash beans and buying a call option. The cash sale price less the call premium set the price minimum with upside price potential from the call option. This second alternative is most effective if the local basis is at least normal or narrower.

The corn situation, nearly one billion bushels in surplus stocks and less than expected Asian export demand, could lead to flat markets this Spring. Holding on to cash corn to gain from basis improvement and a potential early Spring rally based on increased feed demand and better economic conditions in Asia may be the best alternative at this time. Selling cash corn and replacing it with a call option or futures depending on your risk preferences may pay off this spring.

Watch for pricing opportunities for 1998 crop corn and soybeans. March often is a good time for pre-harvest pricing of these commodities. The seasonal patterns suggest a second time to pre-harvest price is May through June if new crop futures prices follow the same pattern as the old crop price.

Figure 2
SD SOYBEAN PRICE SEASONAL
10 Year Cycles: 1944-1996
Dakota beef cow producers on their IRM program since 1989. He has constructed a set of benchmark levels for producers to use in the analysis of their herds. Those benchmarks are published in two Northern Plains Benchmark Publications. One, titled "Conducting A Comparative Analysis of Your Herd's Production Facts With Other Herds' Production Facts", can be used to compare a producer's herd with the IRM herds in such areas as calving rate, percent calf crop, average weaning weight, and pounds weaned per exposed cow.

The second is titled "Conducting A Comparative Analysis of Your Herd's Economic Facts With Other Herds' Economic Facts". It can be used to compare a producer's herd with the IRM herds in such areas as average debt per cow, debt service per cow, gross income per cow, summer grazing costs, winter feed costs, total cost of production, and unit costs of production.

Both publications use what Harlan Hughes calls "comparative analysis". He calls it the "single most powerful ranch management tool available -- bar none". Both publications are available from NDSU. They can be ordered by calling 701-231-8642.

As Harlan notes in the two publications, there are two key points to consider when using comparative analysis. First, it can help identify potential production strengths and weaknesses. Second, it does not tell how to reduce weaknesses. That is the job of the owner/manager. However, just knowing what the weaknesses are should be a good start in reducing them.

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