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# WEEKLY OUTLOOK

Department of Agricultural Economics  
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## CORN PRICING 1989 CROP SOYBEANS

In last week's letter, a possible strategy was outlined for pricing 1989 crop soybeans by first selling March 1988 futures. A look at that strategy was recommended because of the current large discount in 1989 crop futures, compared to 1988 crop futures, and the probability that the discount would narrow as the 1988-89 marketing year progressed. Similar relationships in the corn market are considered in this week's letter.

Unlike the soybean market, corn futures currently show a small carrying charge through July 1989. December 1988 futures closed at \$2.79 3/4, and July 1989 futures closed at \$2.90 per bushel on June 13. September 1989 futures closed at only \$2.68, while December 1989 closed at \$2.53. The fact that December 1989 futures are a 37-cent discount to July futures suggests that producers might be tempted to price 1989 crop corn by first selling July 1989 futures with the expectation of moving the hedge forward at a smaller discount or even a small premium. An examination of recent rallies in the corn market shows that this strategy has had mixed results.

**1983-84.** A massive acreage-reduction program and hot, dry growing conditions led to a sharp rise in corn prices in the summer of 1983. December 1983 futures had a high closing value of \$3.71 on August 23, 1983. On the same day, July 1984 futures closed at \$3.81; September futures, at \$3.53; and December futures, at only \$3.21. The 60-cent discount in futures from July to December 1984 suggests that hedging of 1984 crop corn might have been attempted by selling July futures and then moving the hedge forward at a more favorable spread later in the year. This strategy was only partially successful in the 1983-84 marketing year. The July-December discount narrowed to only about 40 cents by June 1984.

**1980-81.** The dry growing season of 1980 pushed prices to the highest level at harvest. December futures had a high closing value of \$3.93 3/4 on November 28, 1980. On the same day, July futures closed at \$4.16 3/4, and December 1981 futures closed at \$3.85 3/4. Again, pricing of the 1981 crop could have been accomplished by selling July futures on the expectation that the July-December discount would narrow. In fact, that spread did narrow fairly quickly. By the end of January 1981, the discount was only 10 cents. By the end of March 1981, December futures were an 8-cent premium to July futures, and by the end of June, December futures were a 20-cent premium to July futures. By holding the July futures position to the end of June 1981 and then moving the hedge to December futures, a producer would have had a net selling price of \$4.38 for December futures, more than 50 cents above the price offered on November 28, 1980.

In three other recent marketing years--1974-75, 1976-77, 1979-80--corn prices staged significant rallies during the growing season or at harvest. The kind of hedging strategy described in the two examples above could have been followed in each of those years. In both 1976 and 1979, the deferred December futures contracts--1977 and 1980, respectively--were not yet trading at

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the peak of the rally. Hedging of those crops would have been accomplished by selling July futures with the expectation of rolling the hedge forward. In 1979, December 1980 futures started trading on September 21 at a 2-cent premium to July futures. In 1976, December 1977 futures started trading on October 1 at a 16-cent discount to July futures, but eventually went to a 10-cent premium.

The highest closing price for December 1974 futures was \$3.95 on October 3, 1974. July futures closed at \$4.06, and December 1975 futures closed at \$3.45 1/2. December futures remained at a discount to July futures throughout the life of the July contract. However, the discount did decrease by about 20 cents.

**Conclusions.** The strategy of pricing 1989 crop corn by hedging in July 1988 futures may not be completely successful. That is, December 1989 corn futures may remain at a discount to July 1989 futures. History suggests, however, that the chances of the discount turning into a premium are good. Even if a premium does not materialize, the discount will probably not increase once the current rally reaches a peak. Hedging of the 1989 crop in July 1989 futures should be considered.



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