Cooperative Extension Service

WEEKLY OUTLOOK

A joint publication of the Departments of Agricultural Economics, Colleges of Agriculture of Purdue University, West Lafayette, Indiana, and the University of Illinois at Urbana-Champaign

February 25, 1991

PRICING NEW CROP CORN

Corn prices have been in an extremely narrow range since mid-September 1990. March 1991 futures have traded in a 20-cent range, from $2.27 to $2.47 per bushel. Cash prices in central Illinois have ranged from a low near $2.10 on October 1, to the current level just above $2.35 per bushel. Prices for the 1991 crop have been trading at a premium to old crop prices. December 1991 futures have ranged from $2.42½ to $2.64 per bushel. The extremely stable prices experienced during the first half of the marketing year are expected to become more volatile during the second half of the year.

Over the past 15 seasons, the range in corn prices from September through August has not been less than $.50 per bushel. The average has been about $1.00 per bushel. Prices over the next 6 months are likely to exceed the highs seen since mid-September. New lows may also be established. Much depends on how the 1991 growing season unfolds, not only in the United States but in the rest of the world. World stocks of corn at the end of the 1990-91 marketing year are projected at 69.4 million tons. That level of stocks represents only 15 percent of total annual use. Stocks in the United States are projected at 3.2 million tons (1.26 billion bushels) or 16 percent of annual use. Any threat to the 1991 crops could send prices sharply higher. A trouble free growing season could push 1991 crop prices sharply lower.

On February 22, March 1991 corn futures closed at $2.38¼ per bushel, while March 1992 futures closed at $2.66¾ per bushel. In essence, new crop prices are $.28¼, or 12 percent, higher than old crop prices. This substantial premium makes forward pricing of new crop corn attractive, particularly if a spring/summer rally does materialize. Three obvious questions arise about pricing new crop corn -- When? How? and How much? To a large extent the questions are interdependent. When to price and how much to price are very much dependent on what method of pricing is used. Some form of forward pricing should probably be considered with December futures between the recent high of $2.64 and the contract high of $2.75. Prices at the higher end of that range, or possibly above that range, should be rewarded with fairly substantial sales.

Cash forward contracts are attractive in some areas because of the relatively strong basis associated with the new crop. Production uncertainty, however, may limit the amount of the crop to prudently price with forward contracts alone. Forward pricing using the futures market may offer more flexibility than cash contracts. Since the futures contract does not commit the producer to delivery, a larger percentage of the crop can be more comfortably priced. Re-ownership is also easier with futures contracts. Re-ownership may be desirable if weather problems do arise and prospects for higher prices develop during the growing season. Re-ownership may also be desirable if large crops are produced and prices are pushed to new lows near harvest time. The major disadvantage of the futures market is the exposure to margin calls.

Both forward cash contracts and selling of futures offer the advantage of locking in a price at a reasonable level on a portion of the crop. Downside price risk is eliminated on that portion of the crop. Unless these transactions are reversed, however, the producer does not benefit from higher prices. The larger the percentage of the new crop that is priced, the more concern is associated with higher prices. One alternative is to incorporate options into the marketing plan. Some or all of the cash sales or hedges could be offset by the purchase of call options. If corn prices do increase, the value of the options would also increase. If prices remain stable or decline, the option would be allowed to expire. Alternatively, the purchase of put options could substitute for either cash or futures sales. The options would establish a minimum selling price, but allow the producer to benefit from higher prices. Declining corn prices would be partially offset with increasing option values. If corn prices move higher, the option could be sold or allowed to expire.

Independent of the method used, it is probably important to do some forward pricing of the 1991 crop. In 14 of the past 15 years, the highest price of the season occurred in the May through September period. The high was in June 5 times and in September 5 times.

Darrel Good

Issued by Darrel Good
Extension Specialist
University of Illinois

Cooperative Extension Service
United States Department of Agriculture
University of Illinois
At Urbana-Champaign
Urbana, Illinois 61801

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