Cooperative Extension Service

WEEKLY OUTLOOK

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WHAT ARE YOUR PLANS FOR DISMOUNTING THE BULL?

Bull riding is a popular sport at some rodeos. The task is to ride a bull for a prescribed period of time. The biggest problems occur in dismounting, which may be abrupt, sometimes unplanned, and the rider may sustain injury in the process.

There are many parallels to bull riding in the current weather driven crop markets. A weather market creates increased volatility in futures and options markets. When caught up in a bull market, emotions take over, and the decision making process becomes muddled. Decisions are often unplanned and financial injury may be sustained in the process.

There have been three weather related markets in recent years — 1980, 1983, and 1988, that may provide some insight into the current markets. While no two markets are exactly the same, there are some common traits of weather markets that may help in making marketing decisions in the current environment:

First, supply and demand and annual average price projections do not provide much help in making marketing decisions in these types of markets in the short run. The crop size is not known; the first government crop report will be released on August 11. Producer emotions are heavily influenced by local crop conditions. Demand estimates are based on past trends, but as prices rise, the amount demanded declines. Both supply and demand estimates are subject to major revisions.

Second, use of technical analysis works better in volatile markets and helps reduce the emotional elements in decision making. Traders and analysts use various technical indicators to make buy and sell decisions. These buying and selling decisions move the markets. Some analysts and traders combine the use of technical price indicators with fundamental indicators. Examples of fundamental indicators include the 6-10 day weather forecasts that are updated and released 3 times a week, weekly crop progress and condition reports, weekly export inspections, planting intentions, grain stocks estimates, and crop production reports.

Many producers were reluctant sellers of corn and soybeans last spring. After suffering large price declines, the same producers are conditioned to rush to sell on the first major price rally. Based on historical trends, that would be a mistake. Past price rallies have taken 4 to 6 weeks or more to make the major price move. It takes time to convince some traders that conditions have changed and prices are going higher. The forecast of more favorable weather conditions often causes selling and a temporary decline in prices. Profit taking may set off additional margin calls for those who recently entered the futures markets. When the amount of rain is different than expected or crop condition reports are worse than expected, the markets resume their upward trend.

There are several types of technical indicators to forecast price tops and changes in trends. With da' bar charts, price objectives are established by identifying previous contract highs. If those are exceeded, weekly or monthly continuation charts are used to identify previous highs of the nearby contract. These first two objectives ($6.20 and $6.60) have already been exceeded for soybeans. Further price objectives, however, are not well defined. There are several previous highs between $7.80 and $9.15 on the monthly continuation chart. The high in 1988 was $11.00 and the all time high (1973) was $12.90

The recent high for December corn futures was $2.61. The next objective is the contract high of $2.685. Additional objectives might be $2.75 (the 1992 spring high), $3.02 (the 1990 summer high), $3.60 (the 1988 high), $3.75 (the 1983 high), $3.90 (the 1980 high) and the record high of $4.00 (1974).

Trying to pick market tops can be hazardous for your financial health. Let the charts help provide the signals. Things to watch for include: reaching a price objective, breaking an uptrend line, a bearish key reversal formation, failure to make a new high and new high close after a small retracement, and failure to rally on bullish news. Supporting technical indicators on moving average and point and figure charts and a high relative strength and/or stochastic index are red flags warning a top is near. Remember the market will be the most bullish at the top. If these signals emerge, sell some of the crop regardless of how bullish the fundamental situation appears. Extremely high prices may offer an opportunity to make some sales of the 1994 crop.

A note of caution — keep abreast of market conditions. If the fundamental crop situation deteriorates, prices will rally towards the next price objective. With low grain stocks a really disastrous crop situation could send futures prices to new record highs. This is not expected in 1993. As you ride the bull, mak plans (and write them down) on how you plan to dismount.

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