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WEEKLY OUTLOOK

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TOO EARLY TO SELL 1994 CROP CORN AND SOYBEANS?

In most years, new crop corn and soybean sales during the winter months is not even an item of conversation. Typically, prices during that time are relatively stable at low levels. Producers generally look to the spring/summer time frame for weather rallies and forward pricing opportunities. The highest price for December corn futures over this past 20 years almost always occurred in the June through October period. The one notable exception was 1992, when the high was reached in March. That year, the market became concerned about dry weather conditions very early. As it turned out, corn production was record large in 1992 and futures dropped by $.70 per bushel from March to November. In the case of soybeans, the highest price in November futures has also been reached in the June through October period. Even in 1992, when corn prices peaked in March, soybean prices made a high in June.

There is more interest in new crop pricing this winter because of the high prices following the small 1993 crops. For corn, the market was late in recognizing just how small the crop was, so that prices are not following a typical short crop pattern. In the past, prices in years of severe crop damage peaked in the summer or early fall. This year, prices really did not move higher until after the November crop estimate. The highest cash price for the marketing year to date occurred on January 14. The central Illinois cash price was near $2.95 on that date, about $.80 higher than the low reached on October 5.

The price of 1994 crop corn has also rallied since November, but remains at a discount to old crop prices due to the expected rebound in corn production in 1994. The highest price for December 1994 corn futures to date is $2.73, reached on January 14. That contract is currently trading near $2.65. For the period 1990 through 1993, the high in December futures ranged from $2.75 to $2.965. The lowest price for December futures in each of those years ranged from $2.045 to $2.25. The low price occurred in June one time, July one time, and November in two of the four years. The lowest price for December 1994 futures to date is $2.365, reached last September.

The recent price pattern for soybeans has been similar to that of corn, except that the 1993 floods pushed soybean prices much higher last summer. Prices, however, declined sharply into October and then rebounded following the November crop estimate. To date, the highest cash price for the marketing year was established on January 13 at $7.07 per bushel in central Illinois. The high price to date is $1.28 above the low established on October 4.

The price of 1994 crop soybeans also moved higher following the November crop estimate. That price is at a discount to old crop prices, reflecting expectations of a larger 1994 crop. The contract high for 1994 November futures is $6.6575, reached on January 14. That contract is currently trading near $6.45. The high for November 1993 futures was $7.575. In the three years prior to that, the high in November futures ranged from $6.51 to $6.82. The lowest price for November futures in each of those four years ranged from $5.17 to $5.555. The contract low for November 1994 futures is $5.815, established in June 1993.

Based on historical price patterns and price levels of the past four years, the market is currently giving producers mixed signals about pricing new crop corn and soybeans. On one hand, prices for the new crop are relatively high, approaching the highs offered in the 1990 through 1993 period for corn and the 1990 through 1992 period for soybeans. These prices are well above the levels that will exist by late summer or early fall if favorable crop conditions materialize. On the other hand, history shows that prices do not peak in January, suggesting that better pricing opportunities may be available during the 1994 growing season.

So, what to do? We favor making a first new crop sale at current price levels. Seasonal price patterns may not be typical this year. The recent 90-day weather outlook and prospects for increased acreage open the door for large crops in 1994. Sales in excess of 25 percent of the crop, however, should probably be accomplished with options strategies. Purchasing put options or replacing cash sales in excess of 25 percent of expected production with call options might be considered. In addition, the cost of either of these strategies can be reduced by selling call options for the same delivery month with a substantially higher strike price. This strategy establishes both a price floor and price ceiling. The strike price for the short call options should be established at levels that would represent acceptable prices even in a weather market.

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