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WHEN AND HOW SHOULD YOU PRICE YOUR CROPS?

As the 1995 harvest winds down, soybean futures are making life of contract highs; corn futures are at 8 year highs, and wheat futures are at 15 year highs. Commodity prices are on all farmer's minds and are the main topic of conversation at rural coffee shops across the country. Corn and soybean prices have experienced a counter-seasonal price rally. Harvest pressure on prices has almost been non-existent. Pre-harvest pricing was larger than usual. When harvest yields turned out to be disappointing, farmers had ample storage, and many have become reluctant sellers. Others can't believe these prices will last and are selling all their crops and making multi-year sales for future years. Who is right?

A historical look at other short crop years provides an insight into what to expect. Since 1970, we have had 6 years when usage had to be curtailed due to short supplies. Except for 1993 , the reduction in crop production was caused by summer drought. When the short supplies were officially recognized, the futures prices rallied sharply. Once prices reached levels where rationing of usage occurred, they drifted irregularly lower for the next 6-9 months. Futures prices typically peaked before, or during harvest. Livestock feeders suffered most from the short supplies. The higher prices stimulated increased acreage the following year. With normal (average) weather, crop yields recovered and supplies were ample to surplus for the next year. Producers who didn't forward price part of next year's production took sharply lower prices at harvest. This has led to the old adage, "A Short Crop Has A Long Tail". Analysts have also labeled this as "An Anticipatory Bull Market" or a "Supply Driven Bull Market".

This marketing year is different from the other short-crop years. It has some of the characteristics of a "Realized Demand Bull Market, or a "Demand Driven Bull Market". Demand driven markets typically lasts longer, go higher than expected, and peak later. In reality, there are characteristics of both types of markets. It was shortages in production, both U.S. and foreign, that triggered the stronger markets, and the low stocks and continued strong demand that makes it different from other short crop years.

In corn, record utilization of 9.4 billion bushels for the 1994-95 marketing year (up 23 percent) illustrates the potential demand for 1995-96, if supplies were available. Developing nations in the Pacific Rim countries and China will likely continue to be important export markets. USDA projections for the 1995-96 marketing year include a 4 percent increase in meat and poultry production and a 15 percent decline in grain used for livestock feed. Current prices appear to have only started to do the job of rationing available corn supplies.

World soybean production is expected to be 8 percent below year earlier levels. Foreign nations depend upon the U.S. to meet their shortfall (production minus consumption). This should result in stronger export demand for soybeans and soybean meal. The key is meal demand. Early reports indicate the Brazilian 1996 soybean acreage will be down at least 5 percent. The condition of the South American soybean crop next spring may hold the key to when peak soybean prices will occur.

By June 1, 1996, world carryover stocks of wheat are expected to be the lowest since the USDA began maintaining records.

If the November and/or final crop reports indicate less production or export demand is boosted, the supply-demand situation will become tighter. Technical analysis (previous highs of near-by futures) provides the best indications for price objectives in this environment. Price objectives for corn are: $3.60 (1988) and later objectives $3.75 to $4.00. There are several previous highs in near-by soybean futures which can serve as price objectives: $7.50 (1994), $7.55 (1993), $10.90 (1988) and the record $12.90 (1973). Price objectives for wheat are $5.40, (1980) and the record $6.45 (1973). These prices are quite bullish, and are not price forecasts. Several things must fall into place before (or if) these price objectives are realized. When and how rationing occurs, and prospects for 1996 crops will help determine the price peaks. Soybean prices need to rally to buy 1996 acreage from bullish corn, wheat and cotton. The USDA final crop report and December 1 *Grain Stocks* reports (released January 11, 1996) are key reports.

Use technical analysis (from bar charts or moving averages) to establish sell signals. One should not fall into a trap of trying to pick a top and sell at a certain price just because prices haven't been that high in several years. With low stocks, prices could surpass previous highs if there are production problems with the 1996 crops. This is the biggest danger in multi-year sales. For these reasons, sales of future crops should be protected (from a potentially wildly bullish market next summer) with call options. How to do this will be the subject of futures letters.

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