Changes In Grain Markets Call For Different Marketing Strategies

LEXINGTON, KY.

Over the past year, a shift has occurred in the grain markets, which has made prices considerably lower than the record highs seen in the summer of 2008. With harvest under way, corn and soybean producers have choices to consider when marketing their crop in the current climate, said Cory Walters, extension agricultural economist in the University of Kentucky College of Agriculture.

"For corn, the market is telling you to store and forward price at the same time," he said. "That's because corn futures have a fairly significant positive carry, or price difference, between current and future contracts with the futures significantly higher."

A positive carry justifies a grower storing the crop if the amount of carry or price difference offsets any storage expenses, interest and other costs specific to each farming operation. Growers can choose to get a futures contract now and store corn. They can also take a speculative, and more risky, approach and store corn without a contract commitment in hopes the markets will go higher.

The soybean market looks very different than the corn market, though. While a drop also occurred in soybean prices, it is not as steep as the drop in corn prices. Unlike the corn markets, current and future contract prices are nearly identical. This means there is a need for the new crop now. Some growers may want to sell now, but others may choose to store the crop, Walters said.

"If you choose to store soybeans, consider taking a speculative position with the hope that future prices between when you put them in the bin and when you pull them out are greater than the cost of storage."

While grain markets are significantly different than 2008, it does not mean grain producers will have an unprofitable year.

"If you take last year's prices out of the equation and average prices from the four previous years, current corn prices are still above average," Walters said.

He added since 2008 prices were so high, producers who have a revenue crop insurance policy or are enrolled in the ACRE program, could potentially see a corn payment, especially if the price of corn drops more.

"The harvest price is likely going to be lower than the crop insurance base price, but potential indemnities could be offset by these really good yields sitting out in the fields," he said. Δ