Times Of Low Crop Prices Are Easier To Predict Than Times Of Highs Says MU Market Analyst

COLUMBIA, MO.

Crop farmers have a better chance of avoiding the lowest price of the year than catching the highest price of the year, said a University of Missouri Extension market analyst.

"Trying to sell at the highest market price is not a realistic marketing objective," said Melvin Brees, economist at the MU Food and Agricultural Policy Research Institute (FAPRI). "Avoiding the market low is a reasonable goal."

The times of seasonal low prices are fairly predictable.

"Waiting to sell grain when it's hauled away from the combine increases likelihood of getting the low price for the year," Brees said. "The first objective in a marketing plan should be to avoid the market lows."

Low prices can be as hard to predict as market highs, but lows are more likely to occur at harvest time than any other time of the year.

To avoid downside risks, grain marketers should use several marketing tools and marketing times. Marketing is a year-round job.

"For grain that will be delivered at harvest time, pre-harvest sales are more likely to net a higher price and avoid a price low," Brees said.

The futures market currently offers prices above the break-even point for most farms.

Brees tells farmers to plan to avoid selling below the average price of the year. Locking in a price above break-even reduces marketing risks for the year.

"If prices move higher, that may offer the possibility of capturing above-average prices. It is important to be prepared for this opportunity should it occur, especially for corn or soybeans that will be delivered for sale at harvest," Brees said.

For the coming year, Brees expects continued price volatility. Current average expected corn prices vary by as much as $1.60 per bushel among market analysts, he said. "It is possible that futures prices and cash bids could vary more than that. Watching price action closely may be critical for making sales decisions."

There are many signs of a bearish downturn in the markets for both corn and soybeans as ending stocks build. "There is a market adage that says 'One bushel of ending stocks is bearish,'" Brees said. "That is based on the market's use of price to balance supply and demand. If anything is left over, then its price should drop to use it up."

A recent survey of producers by USDA for their supply-demand estimates did not lower corn production estimates as much as many had hoped, Brees said. While domestic use continues to be strong, exports projections are reduced. Foreign crop production estimates continue upward, adding to world carryover.

"A number of factors could contribute to more downside price risks," Brees said.

Most analysts expect larger U.S. corn acreage this year and only small changes in soybean acreage. "This suggests that production should again be more than adequate with trend-line yields," Brees said. "Uncertain economic conditions, reduced livestock feed use, lower energy prices, a stronger dollar and position liquidation by speculators are other factors to watch."

To read Brees' "Decisive Marketing" newsletter, go to the MU FAPRI Web site at http://fapri.missouri.edu and click on "Farmers' Corner." Δ