

SIGNALS OF GRAIN MARKET DIRECTION FOR 2010

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With the fall harvest of United States feedgrain and oilseed crops moving toward completion, the direction of grain prices through the coming winter, spring and summer months is an open question. With the delayed fall harvest, uncertainty about the final size of the U.S. corn and other crops is likely to persist until the USDA Crop Production report on January 12, 2009. Add in the uncertain and volatile outlook for foreign and domestic economic conditions, currency exchange rates, and energy prices, and you have a number of critically important market factors that could impact U.S. grain prices throughout the coming year.

By focusing on some primary, basic sources of market information, it is possible to at least form “conditional expectations” of the direction of U.S. grain market prices as they move into 2010. These expectations are “conditional” on the avoidance of major, unanticipated factors affecting U.S. grain markets. To do this, it is profitable to examine important grain marketing information related to a) historic seasonal price patterns, b) current futures market carrying charges, and c) futures price forecast distributions implied by grain put and call option premiums. Corn, soybean and wheat price information will be examined to form an expectation of the likely direction of U.S. grain prices in 2010.

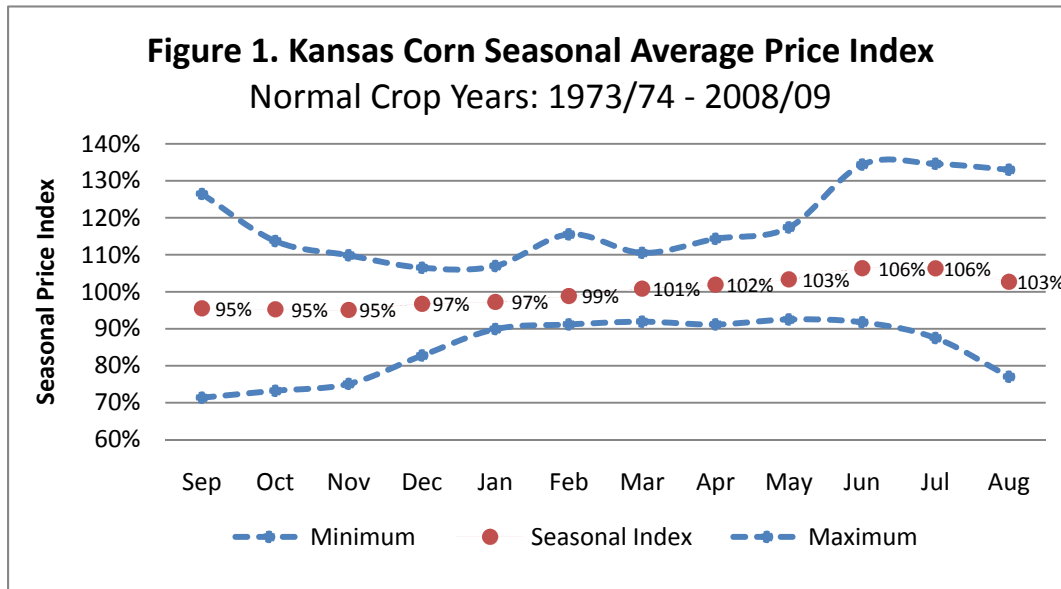
The point of reference for the carrying charge and options-based price analysis will be U.S. futures and options market closes on Friday, November 27, 2009.

Corn Prices

Corn Seasonal Average Price Trends: If in the coming months Kansas corn prices followed the average historic seasonal pattern for normal crop years, there would be a general price increase from November 2009 (i.e., 95% of the season average price index) into March 2010 (i.e. 101%) and then on into June-July 2010 (106%) (Figure 1). The times of greatest price volatility during normal crop years have been in February and again in June-August. Cash corn prices in Kansas have tended to consistently move sideways to higher from December through June, but then to become more variable in their trends during July and August. (Source: Dhuyvetter, www.AgManager.info).

Corn Futures Carrying Charges: Corn futures closing prices in November 27, 2009 exhibited \$0.05⁰⁸ per bushel per month carrying charges between the CBOT December '09 and March '10 contracts, which is calculated to be 85% of full commercial carrying charges. Commercial charges are estimated to be approximately \$0.05 per bushel per month at 3.1% interest annually. Futures carrying charges for the March to May '10 and May to July '10 corn contracts were 75% and 79% of full commercial carrying costs, respectively, but then declined to 50% of carrying charge costs from the July to the September '10 contract. If month-to-month spreads between futures contracts approach or fully cover commercial storage charges it is an indication or signal that the grain market is paying those people who are holding grain inventories (i.e., crop producers) to continue to hold their inventories for later sales. These carrying charge coverage

levels in the corn market indicate no “rush” or “hurry” on the part of buyers to purchase corn from farmer-sellers through late spring – early summer, 2010.



Implied Corn Futures Price Distributions: Grain futures options put and call premiums can be used to determine how grain futures market participants assess the probability of various high or low futures price outcomes. With a few critical assumptions, these implicit price forecast distributions can be calculated using the OPTIONS© program from the University of Minnesota.

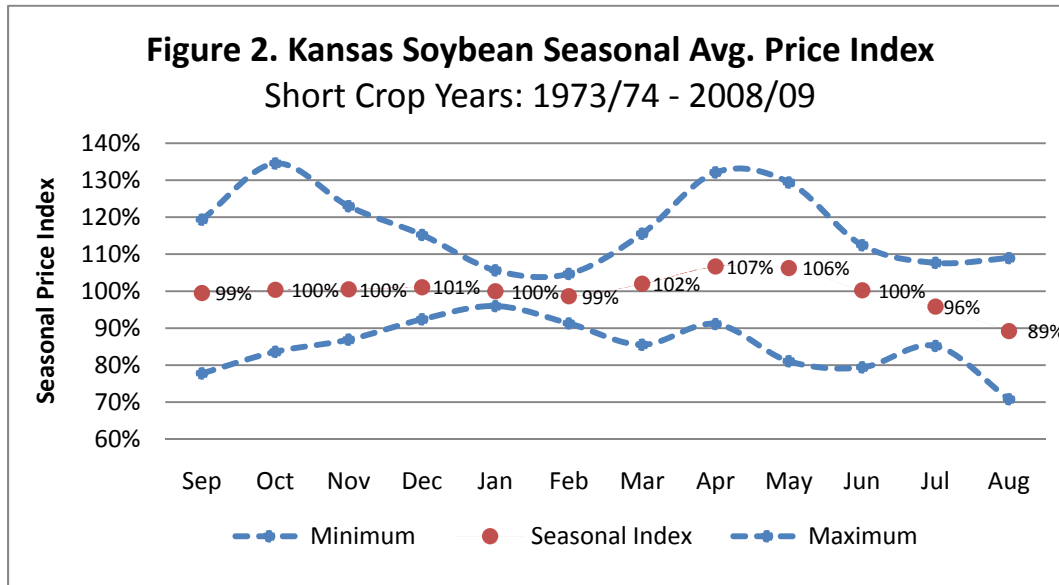
The options-based price forecast for March 2010 corn futures on November 27, 2009 was \$4.14 per bushel, which was slightly higher than the futures contract close of \$4.12 ¾ on that day, with a 30% chance of prices falling below \$3.84, and also a 30% chance of prices rising above \$4.40 by contract expiration. The options-based price forecast for July 2010 corn futures on November 27th was \$4.24 per bushel, which was lower than the futures close of \$4.31 ¼ on that day, with a 30% chance of prices falling below \$3.61, and also a 30% chance of prices rising above \$4.63 by contract expiration.

The options-based price forecast for new crop December 2010 corn futures was \$4.03 per bushel, which was markedly lower than the futures close of \$4.43 ½ on that day, with a 30% chance of prices falling below \$3.32, and also a 30% chance of prices rising above \$4.74 by contract expiration. The risk averse attitude of the corn options market for corn prices further and further into 2010 is reflected by the difference between the options-base price forecasts and the actual market closes for the July 2010 and December 2010 corn futures contracts.

Summary for Corn Markets: Taken together, the normal crop seasonal price trends and carrying charges in the corn market would indicate that prices are likely to move at least moderately higher from now through March 2010. Beyond that, although prices are likely to continue moving higher, there is less certainty regarding the upward trend. Acreage decisions, weather influences, and export prospects for U.S. corn are all likely to have a growing influence on corn prices in the spring and summer months of 2010.

Soybean Prices

Soybean Seasonal Average Price Trends: With strong U.S. exports of soybeans in the first part of the 2009/10 marketing year, and with declining export prospects once the South American soybean crop is harvested in the spring months, it appears that U.S. soybean prices are following a historical short crop seasonal price pattern. If Kansas soybean prices do follow the average historic seasonal pattern for short crop years in the coming months, prices would essentially move sideways with some minor variability from November 2009 (i.e., 100% of the season average price index) into February 2010 (i.e. 99%). Then prices would rise from February through April to 107% of the seasonal average price before declining from May (i.e., 106%) through August (i.e., to 89% of the seasonal average price) (Figure 2). The times of greatest price volatility during short crop years have been in early during September-November, and in the spring during April-May. Cash soybean prices in Kansas have tended to consistently move sideways from December through February, but then to become more variable for the remaining months of the marketing year (i.e., through August). (Source: Dhuyvetter, www.AgManager.info).



Soybean Futures Carrying Charges: Soybean futures closing prices in November 27, 2009 exhibited \$0.02⁸⁷ per bushel per month carrying charges between the CBOT January and March 2010 contracts, which is calculated to be only 38% of full commercial carrying charges. Futures carrying charges for subsequent soybean futures contracts were even smaller, with negative carry beginning with the September 2010 contract. These small carrying charge coverage levels indicate that soybean buyers desire to buy soybeans “right now” as opposed to later, which is a healthy signal of support for soybean markets through late spring, 2010.

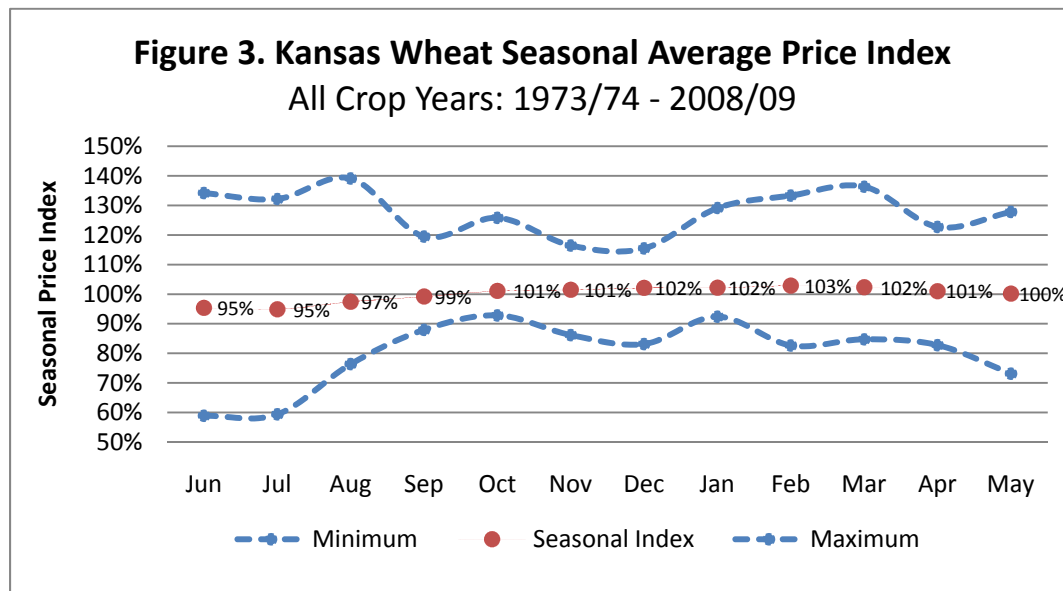
Implied Soybean Futures Price Distributions: The options-based price forecast distribution for March 2010 soybean futures on November 27, 2009 was \$10.19 per bushel, which was markedly lower than the futures close of \$10.65 ¼ on that day, with a 30% chance of prices falling below \$9.53, and also a 30% chance of prices rising above \$11.05 by contract expiration. The options-

based price forecast distribution for July 2010 soybean futures on that day was \$10.47 per bushel, which was lower than the close of \$10.72 $\frac{3}{4}$ on that day, with a 30% chance of prices falling below \$9.45, and also a 30% chance of prices rising above \$11.16 by contract expiration. Both of these results indicate a risk averse / price protection-oriented attitude on the part of soybean option market participants, especially at historically high price soybean price levels.

Summary for Soybean Markets: Taken together, the short crop seasonal price trends and carrying charges in the soybean market indicate that prices are likely to move sideways from now through February- March 2010. Beyond that, prices could continue to move higher into May but to also to be extremely volatile. Just as for U.S. corn, acreage decisions, weather influences, and export prospects for U.S. soybeans are all likely to strongly influence U.S. soybean prices in the spring and summer months of 2010.

Wheat Prices

Seasonal Average Price Trends: If in the coming months Kansas wheat prices followed the average historic seasonal pattern for all crop years since 1973/74, there would be a small price increase from November 2009 (i.e., 101% of the season average price index) into February 2010 (i.e. 103%) and then a small decline into May 2010 (100%) (Figure 3). The times of greatest price volatility for wheat have been during June-July, February-March and again in May. Cash wheat prices in Kansas have tended to essentially move sideways to slightly higher from December through February, and then to become more variable in February and March. (Source: Dhuyvetter, www.agmanager.info)



Wheat Futures Carrying Charges: Kansas City Board of Trade wheat futures closing prices in November 27, 2009 exhibited \$0.04⁹² per bushel per month carrying charges between the December '09 and March '10 contracts, which is calculated to be 77% of full commercial carrying charges. Futures carrying charges for the March to May '10 and May to July 2010 contracts were 94% and 97% of carrying costs, respectively. As for corn futures, these carrying

charge coverage levels indicate no “rush” or “hurry” on the part of buyers to purchase wheat from farmer-sellers through late spring – early summer, 2010.

Wheat Implied Futures Price Distributions: The options-based price forecast distribution for March 2010 KCBT wheat futures on November 27, 2009 was \$5.66 per bushel, which was essentially equal to the futures close of \$5.66 ½ on that day, with a 30% chance of prices falling below \$5.05, and also a 30% chance of prices rising above \$5.96 by contract expiration. The options-based price forecast distribution for new crop July 2010 KCBT wheat futures on November 27th was \$6.04 per bushel, which was higher than the futures close of \$5.91 on that day, with a 30% chance of prices falling below \$4.81, and also a 30% chance of prices rising above \$6.61 by contract expiration.

Summary for Hard Red Winter Wheat Markets: Both historic seasonal average price trends and futures carrying charges for wheat appear to indicate that Kansas wheat prices are likely to move marginally higher during the December 2009 through February 2010 period. However, options based price forecast information indicates greater promise of wheat price strength into the new crop July 2010 contract. Wheat futures prices tend to be quite volatile during the spring and early summer months due to U.S. wheat weather and production uncertainty, and to significant changes U.S. wheat export prospects. Barring a short crop of wheat in the U.S. or other significant economic influences at home or abroad, this same wheat price pattern is likely to persist into 2010, with volatile U.S. and Kansas wheat prices during the spring – summer developmental period followed by prices ultimately declining into summer harvest (i.e., should the U.S. wheat crop come through relatively undamaged).