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Decisive Marketing
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Complicated and Risky

Will uptrending corn and soybean futures prices continue moving to new highs? Or are the markets heading toward a collapse, eventually setting new lows? There are market analysts predicting each of these extremes with plenty of analysts at various places somewhere in between. Strong demand, the potential for further production losses in a late harvest, strong export markets, a weaker dollar, higher energy prices, investment funds adding to long futures positions and a number of other factors support the arguments for continued uptrends in corn and soybean prices. But record crop yields, large total crop production, more than adequate ending stocks, financially squeezed livestock producers, expected production increases in South America, large world wheat supplies, economic worries and other fundamental factors suggest that considerable downside price risk exists. A number of factors influence prices and on any given day it is difficult to tell which factor(s) is driving prices. The situation is complicated and risky, but marketing decisions must be made.

December 2009 corn futures prices have been in an uptrend since the September low near $3.05 and are currently near $4.00 per bushel. This results in cash prices that are in the upper one-half of USDA's projected 2009-10 corn price range from $3.25 to $3.85. But higher prices may still occur and these prices are still significantly below the June high of $4.73 for December corn futures. In spite of record yields, the USDA's November production estimates lowered total production expectations. Along with a weaker dollar, tighter world coarse grain supplies suggest improved corn export potential in the coming year. Livestock populations and increased ethanol production support the USDA's projections for record corn use during the current marketing year. Projected 2009-10 corn ending stocks are above average, but due to record demand, the stocks/use ratio is below average with only an expected 46 day supply at the end of the marketing year. Once the delayed harvest is complete, basis may strengthen and market carry in deferred month futures prices offer storage returns.

Considerable down side corn price risk also exists. In spite of lower total production estimates, record yields will still result in the second largest corn crop ever and there are concerns that demand may not live up to expectations. Other factors such as any combination of slowing of the economic recovery, weaker energy prices, strength in the dollar or long position liquidation by fund traders would also likely lead to lower corn prices.

The soybean market may be even more puzzling. Only limited market carry is offered by deferred month futures prices, which signals little return for storing soybeans. Most cash bids are in the upper one-half of the USDA's projected price range from $8.20 to $10.20. But the

price trend is up, which points toward higher prices. January 2010 soybean futures prices have rallied more than $1.50 from the early October lows near $8.85 and now have the August and June highs of $10.57 and $11.04 in sight. The seasonal trends suggest prices normally move higher following harvest. Basis also typically strengthens after the end of harvest. However, much of the current rally may be tied to outside market factors such as the weaker dollar, speculative buying, etc. Although record soybean use is expected, record U.S. and World production is expected to lead to increased domestic and world soybean carryovers. This suggests downside price risk, especially at current price levels.

Should sales be made? Corn and soybean prices have risen to profitable levels and most cash bids are near or in the top one-half of the USDA's forecast price ranges. There is significant downside risk from a number of market factors. For soybeans, limited market carry suggests little return for storage. These are market signals to sell. In complex and risky markets, it is hard to argue against making profitable sales at good prices!

What about the price trend? Corn and soybean prices are in uptrends. There is also the old market adage, *"the trend is your friend."* This refers to the expectation that the direction prices are moving (the trend) suggests the direction that prices will continue to move. Those who follow trends, also look for market signals that the trend is changing or reversing. The theory is that the trend is your friend because it tells which direction prices are going and it signals when price direction is changing or has changed. Selling based on the market trend can be accomplished with a variety of strategies. However, following a price trend is not as easy as it may sound. It requires understanding trend signals and following the markets closely to identify trend changes. It is necessary to set sales objectives and have the discipline to follow through with sales when the pricing objectives are met.

Scale up selling: This can be accomplished in a number of ways by selling predetermined percentages or amounts of the crop as prices move higher at predetermined price intervals. Some advocate making sales of increasing quantities to increase the average price. Others prefer to spread sales evenly. For example, a producer could make a corn sale now and then add to sales at each twenty-cent price increase. This is a relatively easy strategy to follow and can be successful, but it does have some shortcomings. The uptrend may reverse before many sales have been made leaving the producer with most of the crop unpriced as the market collapses. Or an extended uptrend may continue long after the producer has sold most of the crop with price triggers set too close together at lower prices.

Price target and price traps: Using price targets is similar to scale up selling in that sales are made as price move higher. The difference is the price targets are specific upside price

objectives and price traps serve as downside protection. Price targets are often determined by previous market highs, other chart resistance prices or specific profitable price goals. Sales are made as the price objectives are triggered. Price traps are lower priced sales targets. If the uptrend stalls and prices decline, the objective of the price trap is to trigger sales at an acceptable price before prices decline further. This type of strategy is more complicated, but it still allows capturing higher prices in an uptrend and provides some downside protection. Cash bids for price targets and trap prices can often be placed at an elevator to be filled if the objectives are met. The same can be done by placing open orders with a broker for futures sales. Price targets and traps have similar shortcomings on the upside as using scale up sales. On the downside, sometimes prices drop sharply and when the downside price trap is triggered, the actual price may be significantly lower because the market "blew through" the price trap.

Trailing stop: This is similar to using price traps. The objective is to use downside stops (trap prices, downside price targets, etc.) to follow an uptrending market up. As the trend continues with higher prices, the trap or stop prices are raised to higher levels, but still below the current prices. No upside price objectives are used, the objective is to follow the market higher until the trend reverses and then sales are triggered. The advantage of this strategy is that no sales are made at intermediate levels because the trend is being followed until it reverses. But it requires following the markets closely and it requires discipline in making sales. Sales are also never made at the highs because sales are being made after prices reverse and move to a downside stop price. When markets fall rapidly, the sales price can be triggered at prices well below the highs. Larger sales quantities must also be sold, since no sales were made on the way up to average out over multiple sales quantities.

The current corn and soybean market price action provides opportunities and risks in uptrending markets. Making sales now at profitable prices, using scale up sales, price targets and traps, or using trailing stops represent reasonable strategies to capture profits and manage risk. However, not all of these strategies are appropriate for everyone and using a market advisor might be helpful. Some are more complicated than others and none completely eliminate risk. The bottom line is, the markets are offering profits and whether sales are made or delayed while following the trend, don't let prices in the upper one-half of the expected price range get away!