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Will Soybeans Hit \$10? Yes on March 18, 2004¹

Growers have horns so big now that even Bevo is nervous. Remember my quote from 3/5/04 in the paper posted at:

http://www.agmanager.info/crops/insurance/price_risk/pr_html04/AB10pr.asp ?

“Just from the tone of this question it is clear that some growers have crossed the line from being farmers to grain price speculators. There is nothing wrong with being a speculator but with nearby soybeans over \$9.30 and growers are holding for \$10? It will not matter anyway because if soybeans prices reach \$10 those same growers will then hold for \$12!”

I provided several ways to buy “price insurance” but leave upside prices still available. Growers that paid no attention to those approaches are clearly better off because they saved the option premiums. After this increase in soybean prices growers holding soybeans will likely do none of those strategies. With this run of the bulls no one is going to price in an up market. So now growers need to ask themselves how far prices will need to fall before they will sell.

Growers need to write out a plan that selects price levels they will sell soybeans. For example with the current nearby over \$10, how many bushels are growers willing to sell at \$9.50, \$9.00, \$8.50 etc. If prices rally to set new tops then move the pricing scale up. For example if the market sets a new high at \$10.50, then using this example growers would not make their first sale until prices fall to \$10.

Where did the author get the 50 cent down number to start sales? The 50 cent number was pulled out of the air, so growers should use any number they are comfortable using. But the

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important thing is to write down the plan and don't end up holding soybeans and hoping prices will recover once prices start to fall.

I would not suggest pricing on the way up because most growers will not follow that plan anyway. Selling soybeans in a downward sloping market means growers will not receive the top of the market. But if growers are not willing to sell on the way up then the only way to hit the top of market is a good price forecast. There are a lot of people claiming to have the "crystal ball" but I am not one of them. Betting on a good price forecast has not been a high payoff according to a University of Illinois' study. However, growers can not store soybeans forever; they will have to sell some day. Selling into a down trending market is an alternative strategy that does not depend on a price forecast.

Corn in Storage. Corn prices have also continued to climb and closed at \$3.12. How high will the corn price go? Beats me, but growers could set up a plan to sell as prices fall. With each rally re-set the scale. For example, the nearby is at \$3.12, then the first sell point would be \$2.87 (using a decline of 25 cents or any number the grower is comfortable using). Any time the market rallies up then growers would reset their new sell trigger at 25 cents below the most recent high. If the market continues to rally up, then the first sales point will also increase.

New Crop. New crop corn is over \$3 at \$3.05 and soybeans are at \$7.67. Most growers will want to cover any new crop grain sold with calls. It could be a hot dry summer. Growers could also follow a scale down selling strategy as described for old crop sales.

Don't forget about the 2005 crop sales. Corn is at \$2.69 and soybeans are trading for \$6.36. If the market continues to rally up it will likely drag the 2005 prices along. Growers will also be able to cover the yield replacement risk with RA-HPO in the spring of 2005. The 2005 RA-HPO will replace lost bushels at the 2005 futures prices; the exact same market growers are selling futures on, December 2005 corn and November 2005 soybeans. Selling futures will require financing so make sure margin calls can be covered.