

Corn and Soybean: Outlook and Marketing Strategies

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Game Plan

- Crop Insurance Update
- Corn and Soybean
 - Supply and Demand Update
 - Price Outlook
 - Marketing Strategies



Projected (Spring) Crop Insurance Price

Commodity	2018	2019	2020*
Corn	\$3.96 (0.15)	\$4.00 (0.15)	\$3.88 (0.15)
Cotton	\$0.76 (0.14)	\$0.73 (0.13)	\$0.68 (0.14)
Soybeans	\$10.16 (0.14)	\$9.54 (0.12)	\$9.17 (0.12)

- Lower revenue guarantees.
- Lower premiums, maybe? depends on volatility factors; purchase higher coverage levels?
- Reduced credit availability?
- Buy-up 5% prevented planting option?
- Supplemental coverage option (SCO)?
- Don't opt out of the harvest price option!

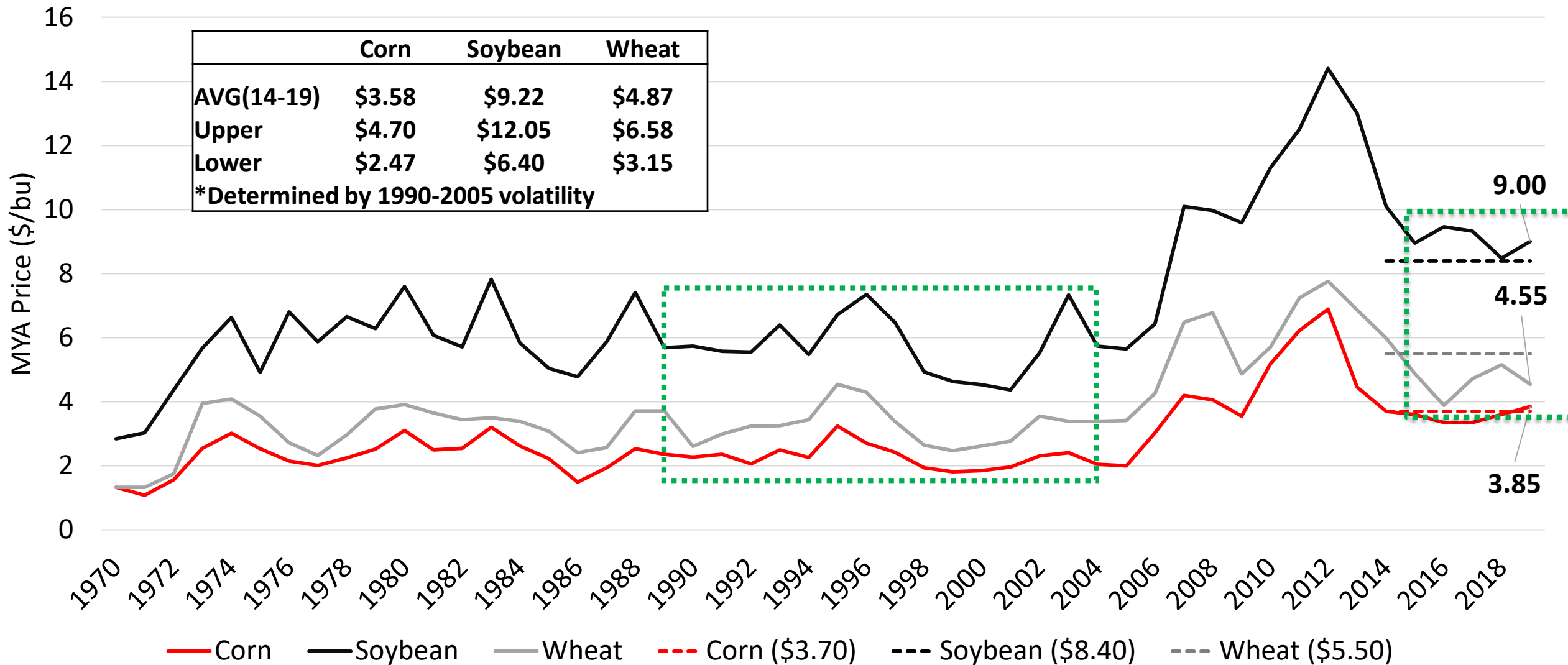
2020 MFP Payments and ARC/PLC Deadline

- MFP 3.0 (2020 crop) - Seemed unlikely given the signing of the Phase 1 agreement.
 - 2 months ago 75/25 against; now 25/75 for.
 - If payments are authorized, what will 2020 payment formula look like? 2018? 2019? Other?
- ARC/PLC 2019/2020 crop year election ends **March 15, 2020**.
 - Don't leave money on the table.

More like the 90's and early 2000's

- There have been two major plateaus since World War II, the first from **1955 to 1972** and the second from **1989 to 2003**.
- During those periods, crop prices hovered in a narrow range near the average cost of production.
- Currently, large supplies and flat-to-moderately increasing demand will restrict price increases.
 - Diversification of global production will cause supply disruption to be shorter lived.
- What is the new plateau?
 - For corn, I'd say probably \$4, plus or minus a 40 cents.
- Flat prices mean flat incomes.
 - **Managing expenses without sacrificing yield will be important.**
 - **Attention to marketing to extract price premiums.**

U.S. Corn, Soybean, and Wheat Marketing Year Average Price, 1970-2019*



Price Outlook and Marketing

- New Crop Prices (Futures Contract)
 - Corn: \$3.50-\$4.20
 - Soybeans \$8.50-\$10.50
- Marketing
 - Take advantages of profitable opportunities.
 - Use all strategies and tools available.
 - Consider those that work well in the current price environment.
 - Take advantage of storage and basis opportunities.



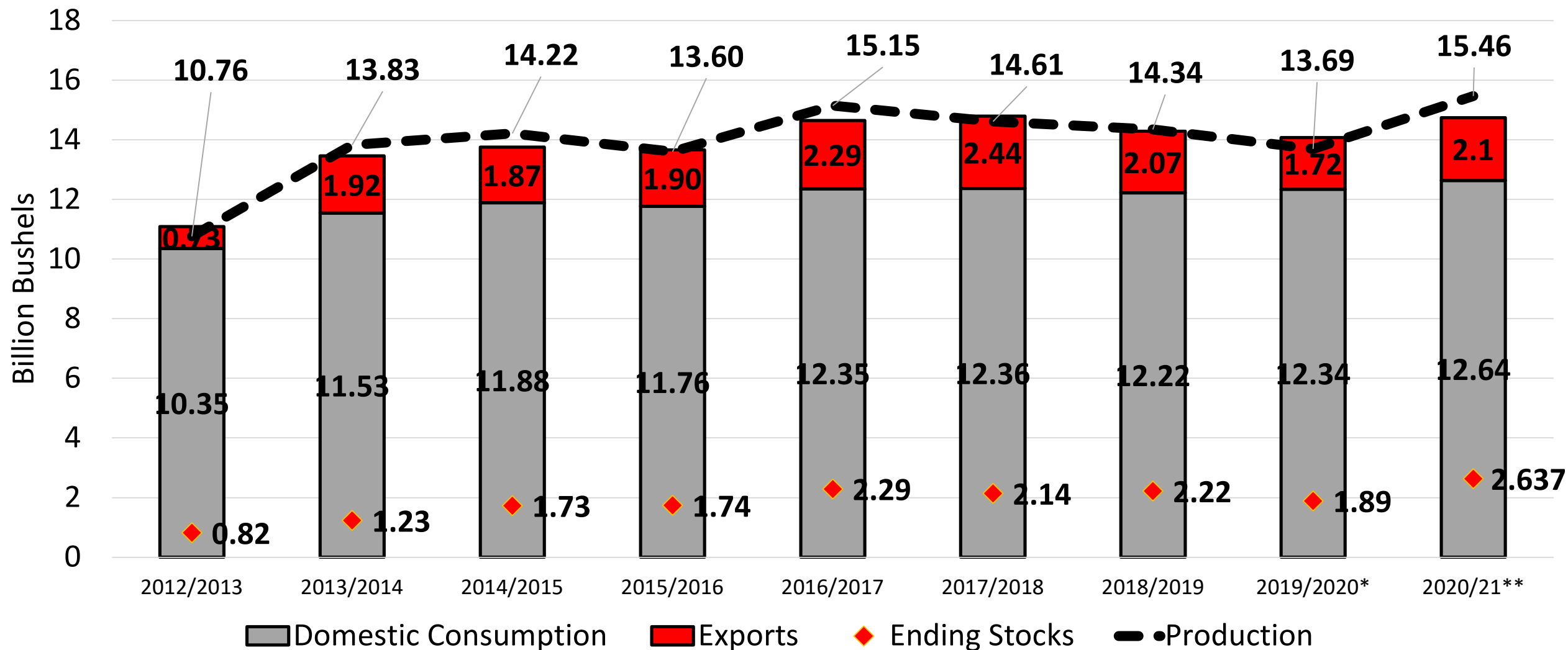
Supply and Demand Update, Price Outlook, and Marketing Strategy

CORN

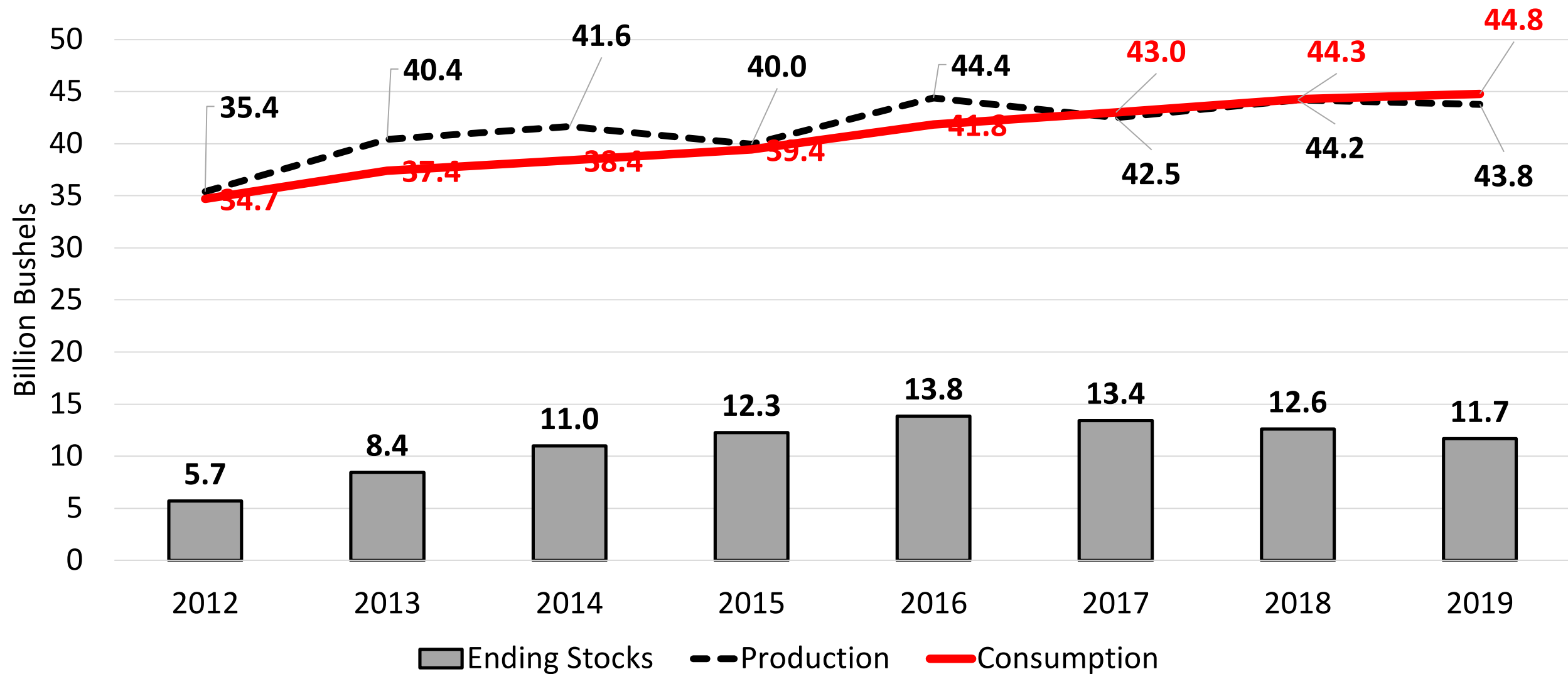
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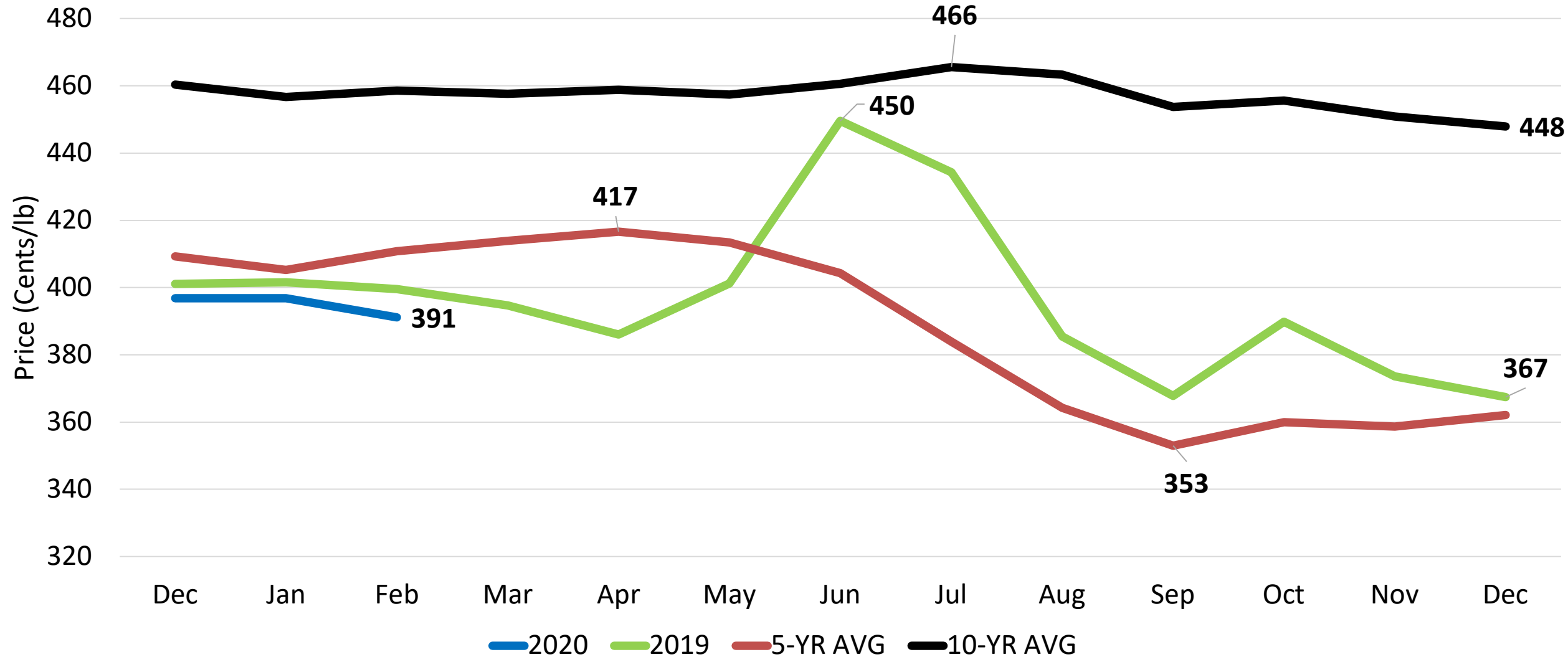
US Corn Production, Consumption, Exports, and Ending Stocks, 2010-2019



Global Corn Production, Consumption, and Ending Stocks, 2012-2019



Corn: Average Monthly December Futures Contract Price, 5-YR, 10-YR, 2019 and 2020



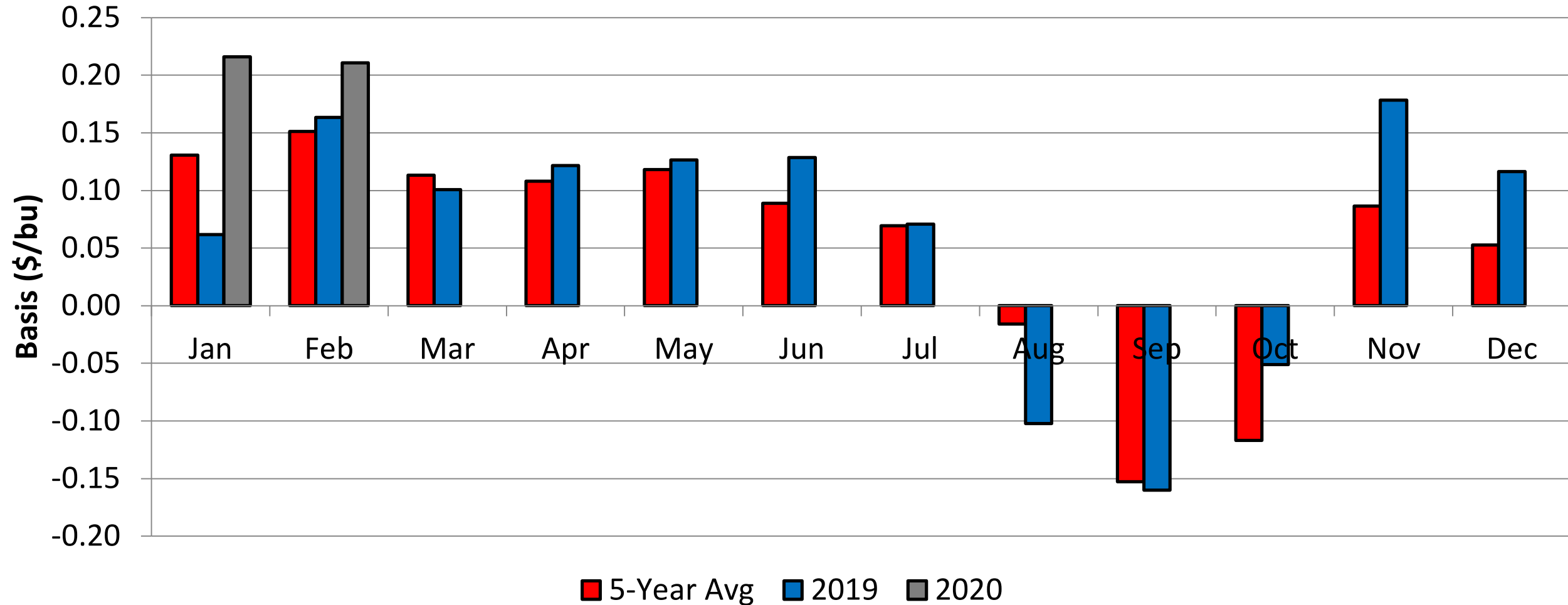
Corn Dec '20 (ZCZ20) - Barchart.com



- **COVID-19 Virus**
- **Phase 1 Trade Agreement with China**
- **94 million acres projected in the US**
- **Reduced Brazilian exports**
- **Final northern harvest numbers 2019**

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Memphis Average Monthly Corn Basis (Elevators and Barge Points), 2015-2019 average, 2019, and 2020



5-Year Weekly Nearby Corn Futures Contract



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Corn Strategy: Buy an out-of-the-money put; sell out-of-the money call.

- Goal: Set a price floor and offset the premium cost by forgoing some upside potential
- Dec FC @ \$3.85
 - Buy an \$3.40 put option for 6.25 cents
 - Sell an \$4.60 call option for 8.25 cents
- $5,000 \times \$0.0625 = \312.50 paid in premium
- $5,000 \times \$0.0825 = \412.50 collected in premium
 - \$100 to cover transaction costs or pocket the difference

Corn Strategy Summary

- Removed 88% of downside futures price risk (everything below \$3.40).
- Created unlimited futures loss potential for futures prices above \$4.60.
 - You have the cash crop to offset.
 - Basis movements can still be capitalized.
- Gained \$100 less transaction costs.
- You can toggle strike prices/premiums to find your sweet spot.
- No protection against downside basis movements.



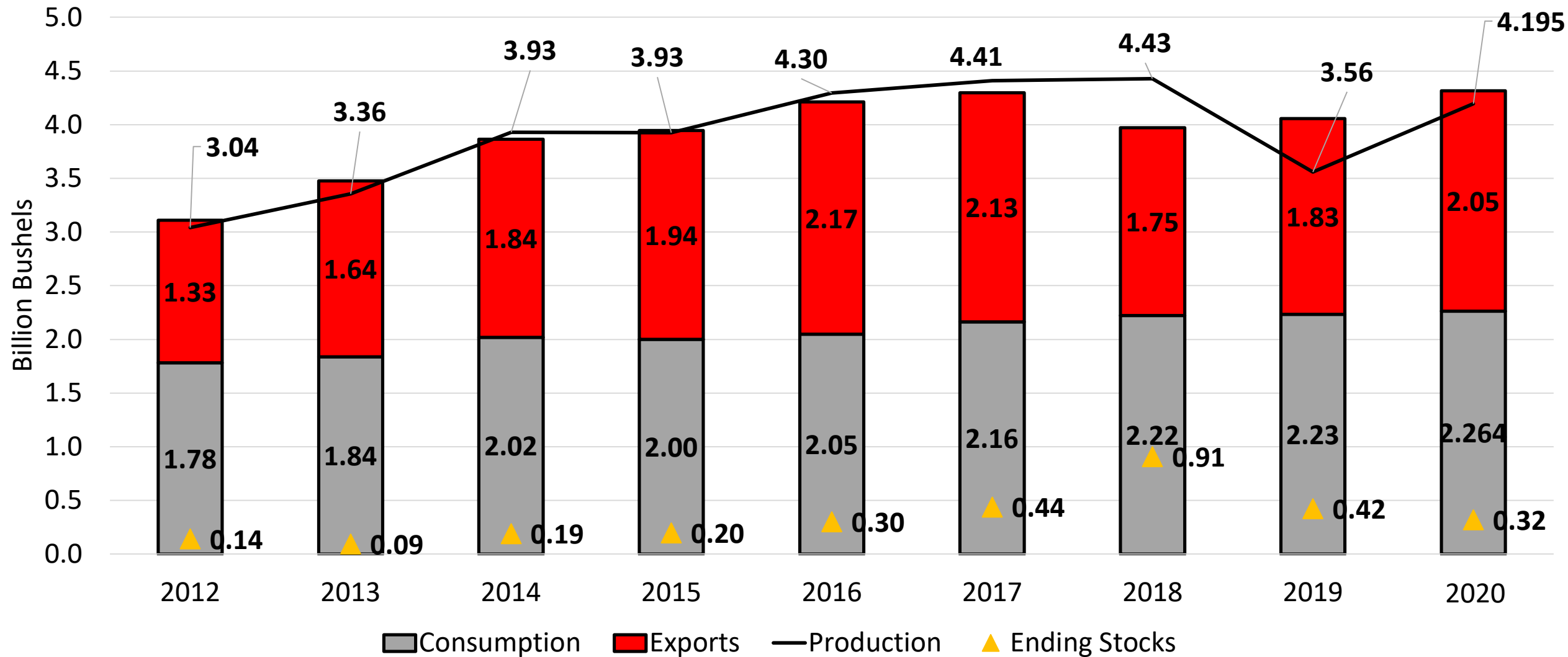
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SOYBEANS

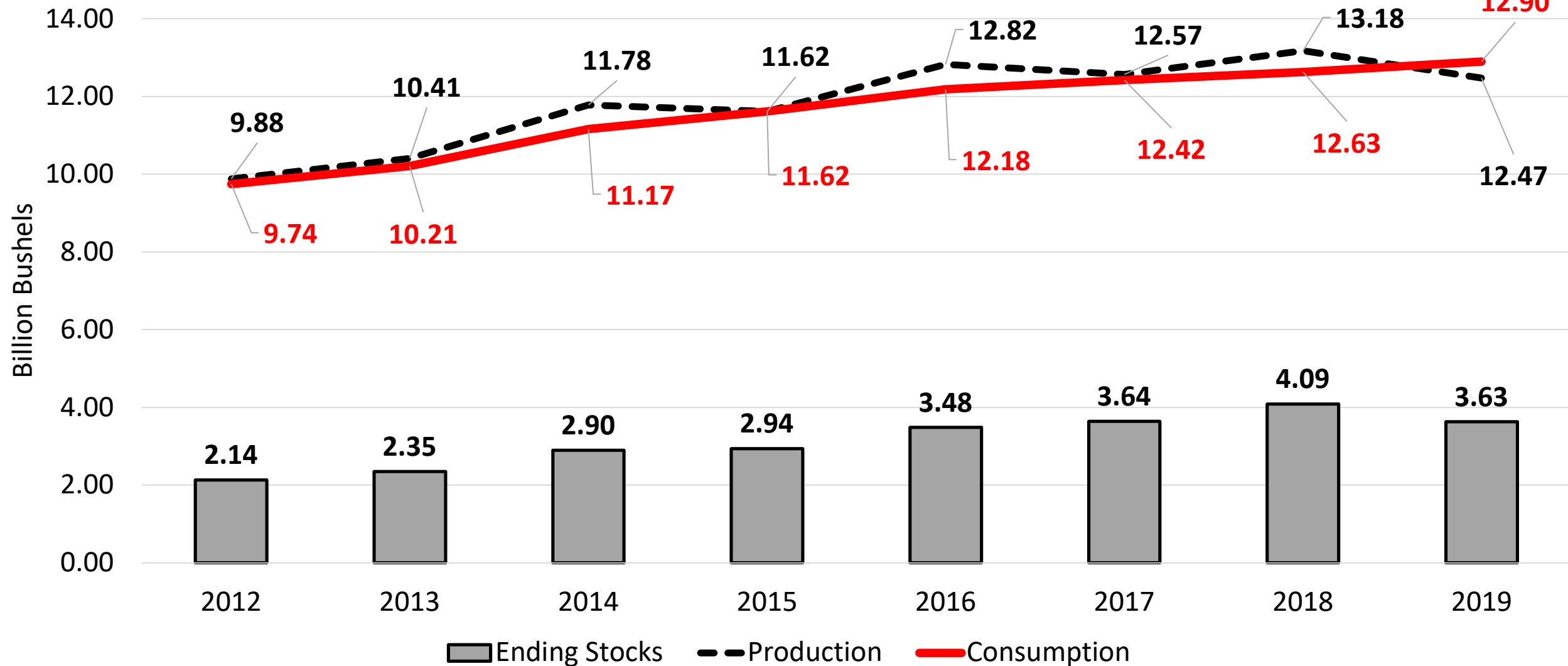
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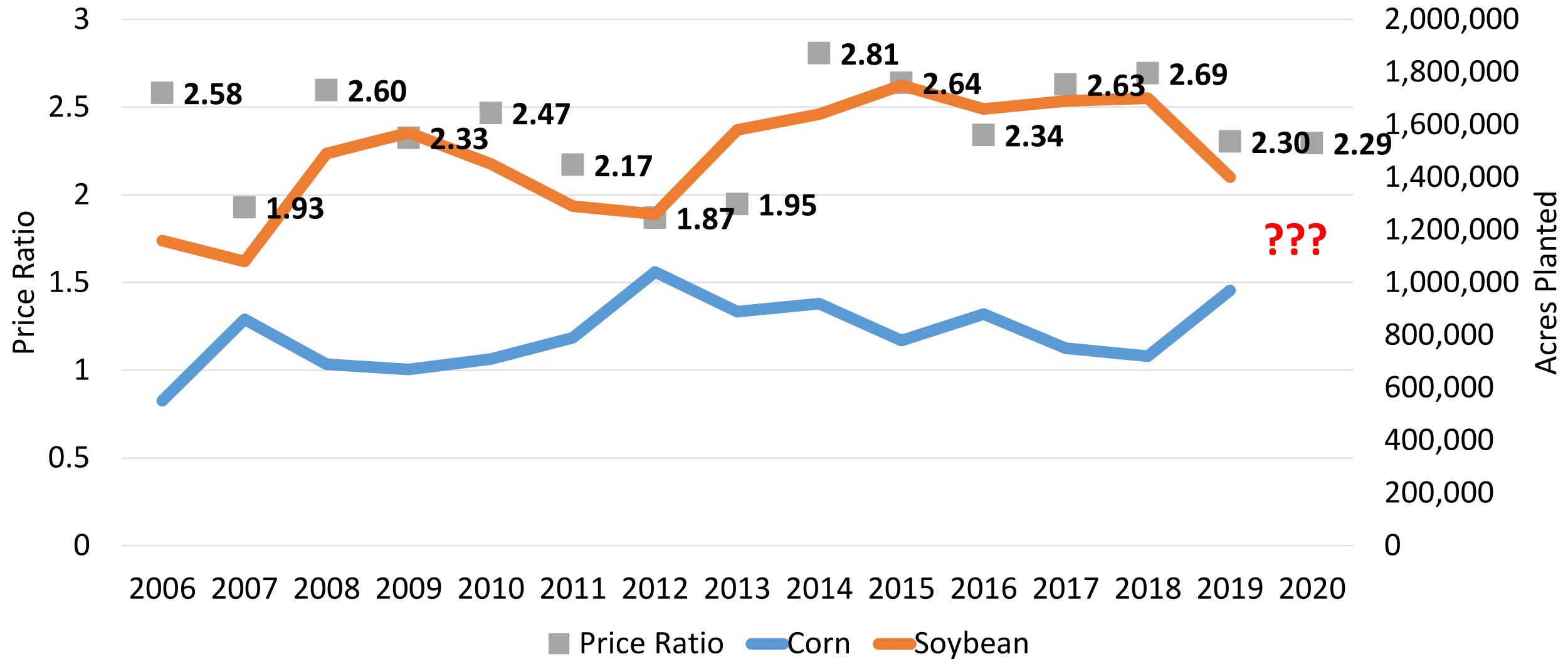
US Soybean Production, Consumption, Exports, and Ending Stocks, 2012-2020



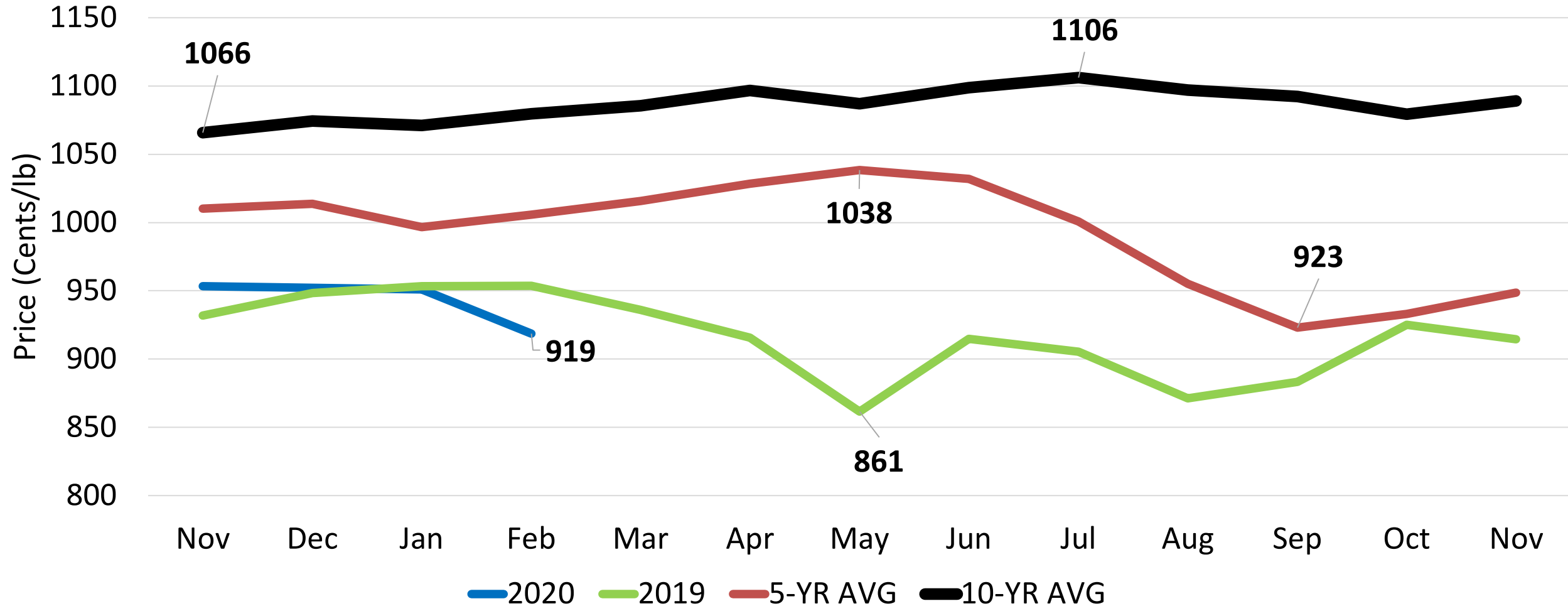
Global Soybean Production, Consumption, and Ending Stocks, 2012-2019



Tennessee Corn and Soybean Price Ratio and Planted Acres, 2006-2020

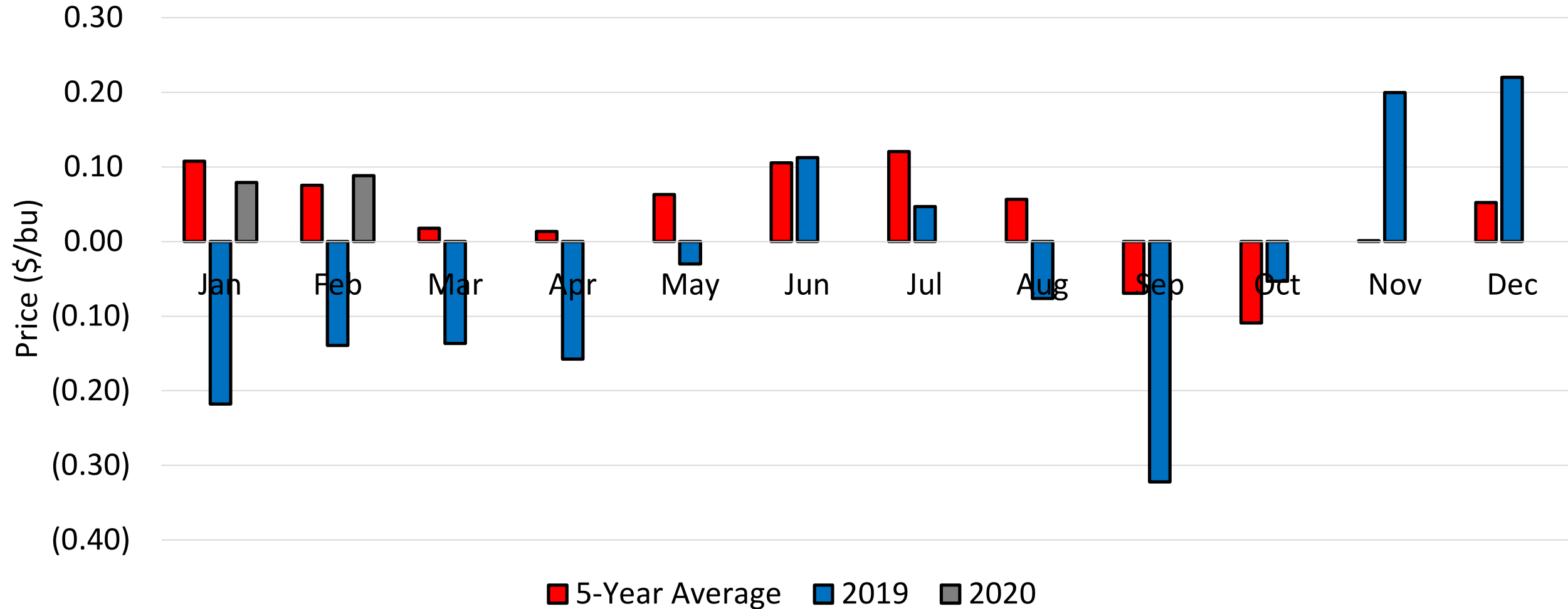


Soybean: Average Monthly November Futures Contract Price, 5-YR, 10YR, 2019, and 2020





Memphis Average Monthly Soybean Basis (Elevators and Barge Points), Average (2015-2019), 2019, and 2020



5-Year Nearby Soybean Futures Contract



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Soybean Strategy: Buying Call Options

- Goal: Participate in upward movements in soybean futures for a defined potential loss (the premium)
- Aug 2020 FC @ \$9.16
 - Buy a \$9.60 call option for 20 cents
- $5,000 \times \$0.20 = \$1,000$ premium paid
- If August futures prices exceed \$9.80 you gain: August FC - \$9.80.

Soybean Strategy Summary

- Participate in a rally in the futures market.
- Cheaper closer to the contract expiration.
- Toggle strike price/premium and examine different contracts.
- Risk premium loss.
- No protection against basis movements.

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THANK YOU

