Grain Market Prospects for 2017

A 'Test Drive' of 2017 Grain Sales Strategies

Otis, Kansas – February 14, 2017

DANIEL O'BRIEN

EXTENSION AGRICULTURAL ECONOMIST

KANSAS STATE UNIVERSITY   Department of Agricultural Economics

---

Probability of Corn Futures Trends
Examining 1990-2016 (Last 27 years)

▶ **Likelihood of _Level-Higher_ DEC Corn Futures??**

  ○ **Trends through Spring-Summer (June-July)?**

   ⇨ Spring-Summer Price ⇧ occurred **27/27 Years (100%)**

  ○ **Which direction did prices move by _Fall_ (Nov-Dec)??**

   ⇨ Price moving sideways / higher   =   **9/27 Years (33%)**

   ⇨ Price moving lower   = **18/27 Years (67%)**

Probability of <u>HRW Wheat Futures</u> Trends
Examining 1990-2016 (Last 27 years)

▶ **Likelihood of *<u>Level-Higher</u>* JULY HRW Wheat futures??**

- **Trends through Spring (March-May)??**
  - ⇨ Spring Price ⇨⇧ occurred **26/27 Years (96%)**

- **Which direction did prices move by <u>Summer</u> (July-August)??**
  - ⇨ Price moving <u>sideways / higher</u>   = **10/27 Years (37%)**
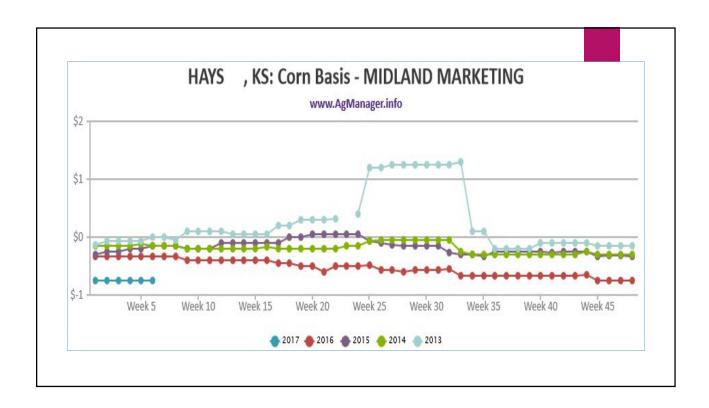 - ⇨ Price moving <u>lower</u>   = **17/27 Years (63%)**
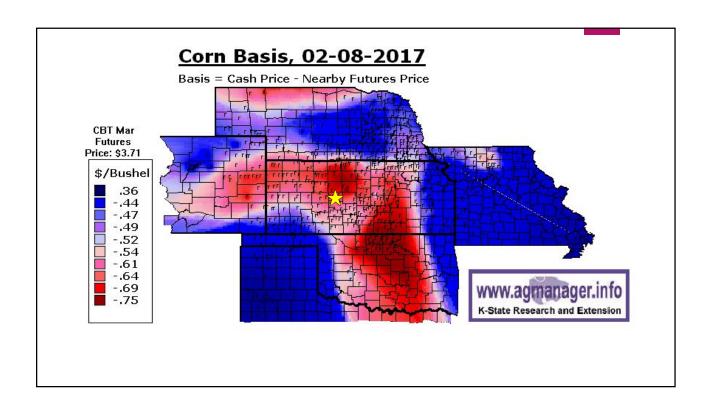
Probability of <u>Soybean Futures</u> Trends
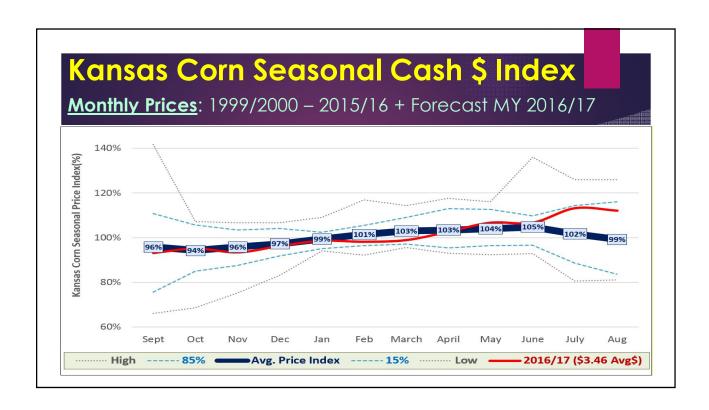*Examining 1990-2016 (Last 27 years)*

▶ **Likelihood of *<u>Level-Higher</u>* NOV Soybean Futures??**

- **Trend through Spring-Summer (May-August)??**
  - ⇨ Spring-Summer Price ⇧ occurred **23/27 Years (85%)**

- **Which direction did prices move by <u>Fall</u> (Oct-Nov)??**
  - ⇨ Price moving <u>sideways / higher</u>   = **12/27 Years (44%)**
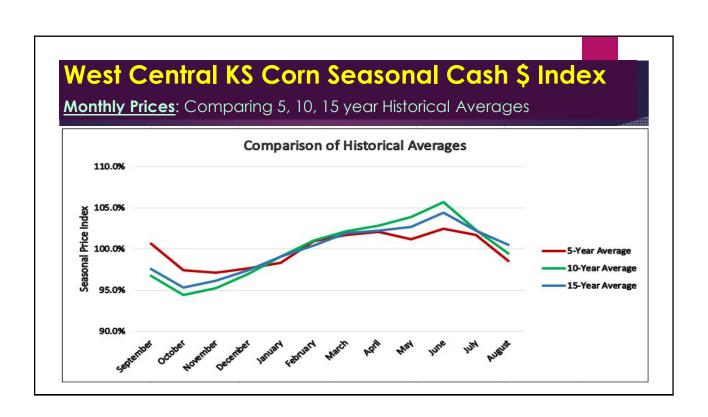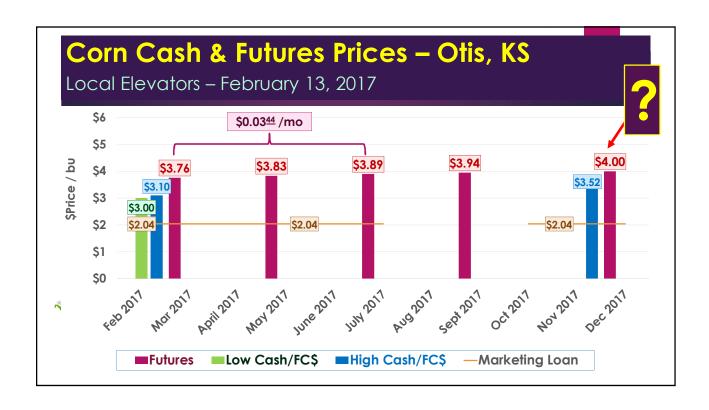 - ⇨ Price moving <u>lower</u>   = **15/27 Years (56%)**

Corn & Sorghum Markets

KANSAS STATE
UNIVERSITY   Department of Agricultural Economics

CME Corn Futures
Monthly Chart: Dec. 2007 – January 2017 + 2/13/2017

01/31/2017 C=359^6 +7^6 O=352^0 H=371^0 L=351^4 Mov Avg-Exponential

MAR 2017
$3.75 ½
2/13/2017

$2.90 $3.18 $3.01

Created with SuperCharts by Omega Research © 1997

Kansas Corn Seasonal Cash $ Index

Monthly Prices: 1999/2000 – 2015/16 + Forecast MY 2016/17

West Central KS Corn Seasonal Cash $ Index

Monthly Prices: Comparing 5, 10, 15 year Historical Averages

Prepared by Daniel O'Brien, Extension Agricultural Economist
Kansas State University

"Kansas Grain Market 'Test Drive" for 2017" Presentation
Walnut Creek District Extension Grain Marketing Strategies Workshop, Otis, KS

February 14, 2017

Corn Cash & Futures Prices – Otis, KS
Local Elevators – February 13, 2017

HAYS, KS: Grain Sorghum Basis - MIDLAND MARKETING
www.AgManager.info

Grain Sorghum Basis, 02-08-2017

Kansas Sorghum Seasonal Cash $ Index

West Central KS Sorghum Seasonal Cash $ Index

Monthly Prices: Comparing 5, 10, 15 year Historical Averages

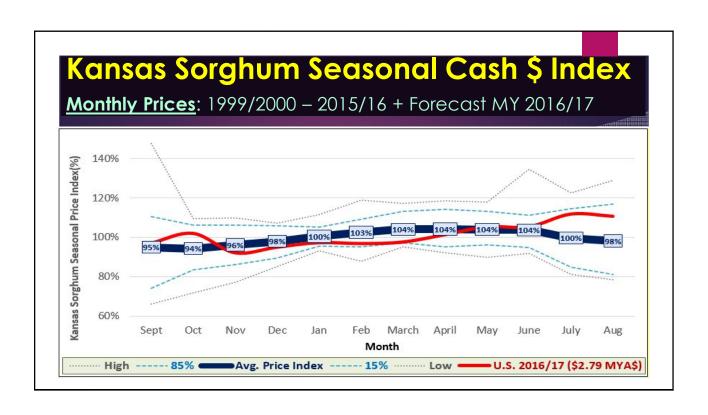**Sorghum Cash & Futures $'s – Otis, KS**
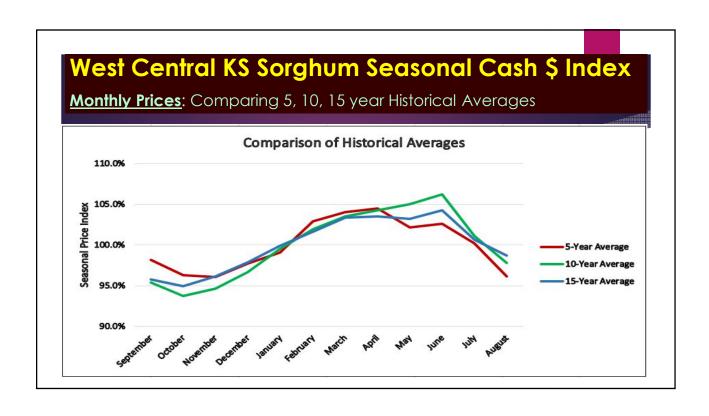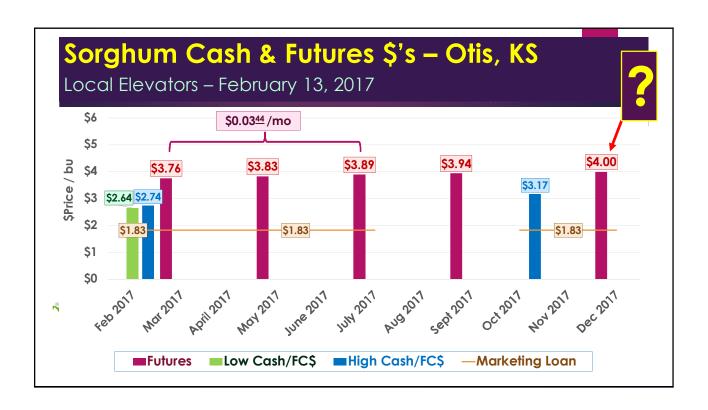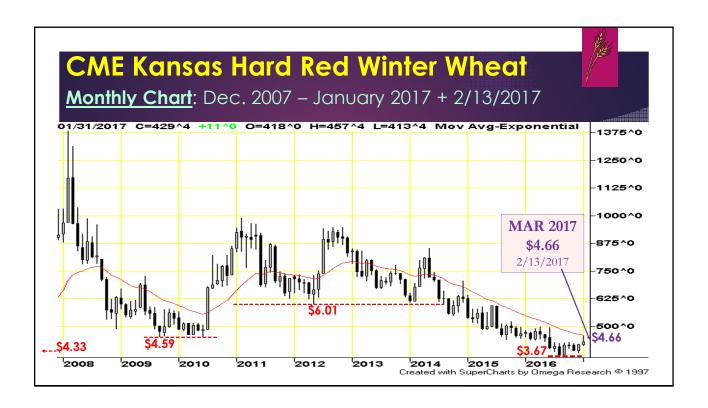
Local Elevators – February 13, 2017

What "Old Crop" Corn & Sorghum Marketing Strategies are Likely to Work Best in 2017?

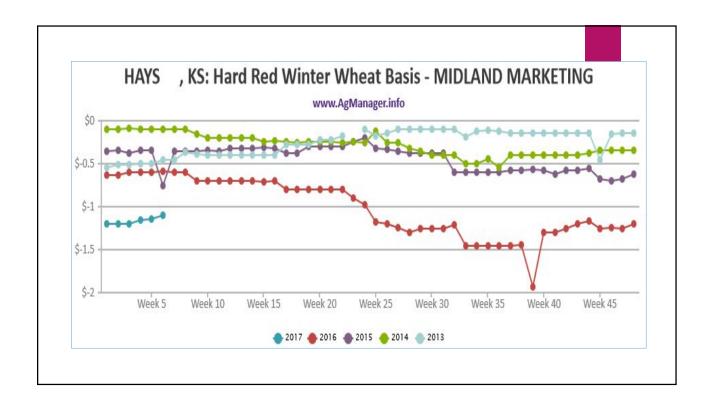▶ **For "Old Crop" 2016 Feedgrains**

- **On-Farm Storage** ⇨ Yes, _but_ not until spring-summer 2017

- **Off-Farm Storage** ⇨ Maybe, _but_ will need larger 2017 rallies

- **Storage Hedge / Fwd Contract** ⇨ No ⇨ futures are "too flat"!

- **Buy Puts or Marketing Loan** ⇨ + Mktg Loans (⇩ put costs)

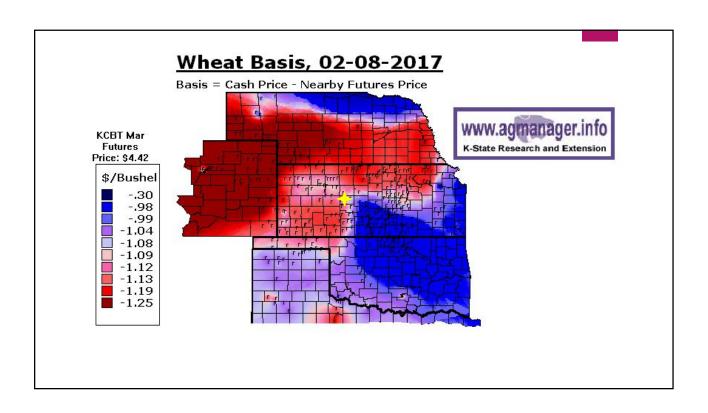- **Sell Cash & Buy Call Options** ⇨ ⇩ wide Basis (But **DO** after sales)

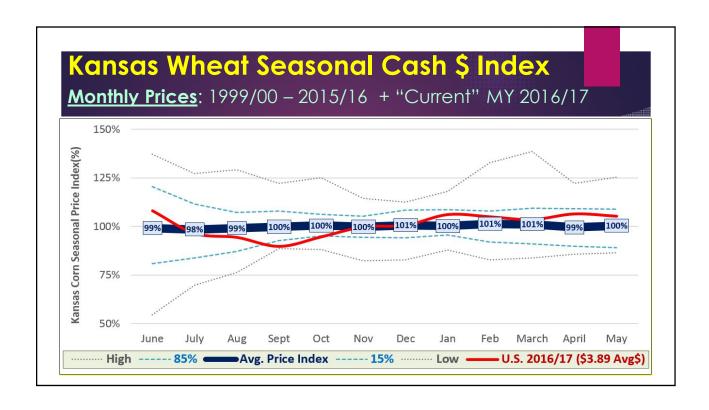## What "New Crop" Corn & Sorghum Marketing Strategies are Likely to Work Best in 2017?

▶ **For "New Crop" 2017 Feedgrains**

- **Futures Hedge (HTA)** ⇨ Yes, _but_ not until spring-summer 2017

- **Forward Contract** ⇨ Maybe, _but_ watch for wide basis bids

- **Buy Puts** ⇨ Maybe @ spring/summer rallies

- **Marketing Loans** ⇨ Be aware of Mktg Loan$ vs Net Put$

- **Fwrd Contract + Buy Calls** ⇨ ⇩ wide Basis (+ rally protection)

Wheat Markets

KANSAS STATE
UNIVERSITY   Department of Agricultural Economics

CME Kansas Hard Red Winter Wheat
Monthly Chart: Dec. 2007 – January 2017 + 2/13/2017

01/31/2017 C=429^4 +11^0 O=418^0 H=457^4 L=413^4 Mov Avg-Exponential

MAR 2017
$4.66
2/13/2017

$6.01

$4.33 $4.59 $3.67 $4.66

2008   2009   2010   2011   2012   2013   2014   2015   2016

Created with SuperCharts by Omega Research ® 1997

HAYS , KS: Hard Red Winter Wheat Basis - MIDLAND MARKETING

www.AgManager.info

Wheat Basis, 02-08-2017

Basis = Cash Price - Nearby Futures Price

"Kansas Grain Market 'Test Drive" for 2017" Presentation
Walnut Creek District Extension Grain Marketing Strategies Workshop, Otis, KS

February 14, 2017

Kansas Wheat Seasonal Cash $ Index
Monthly Prices: 1999/00 – 2015/16 + "Current" MY 2016/17

West Central KS Wheat Seasonal Cash $ Index
Monthly Prices: Comparing 5, 10, 15 year Historical Averages

Wheat Cash & Futures Prices – Otis, KS
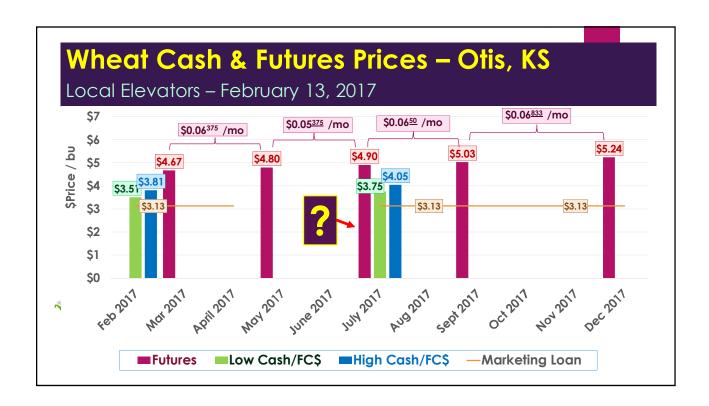### Local Elevators – February 13, 2017

What "Old Crop" Wheat Marketing Strategies are Likely to Work Best in 2017?
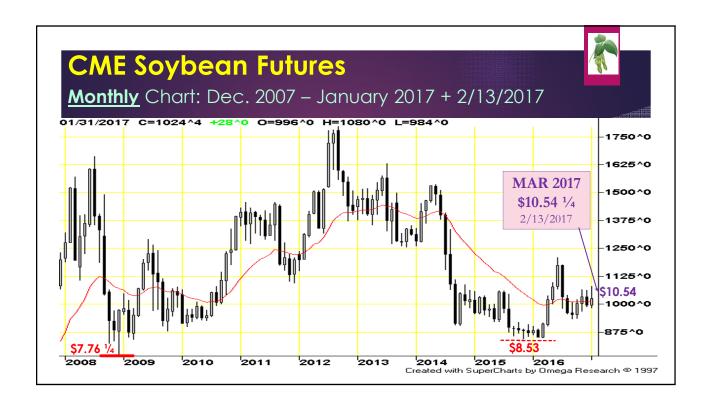
▶ **For "Old Crop" 2016 Wheat**

- **On-Farm Storage** ⇨ By <u>now</u> are waiting for Spring 2017 rally

- **Off-Farm Storage** ⇨ Ditto on-farm, *but* need <u>larger</u> 2017 rallies
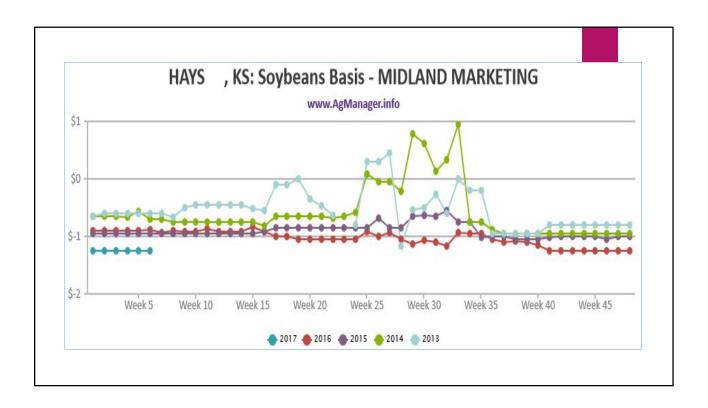
- **Storage Hedge / Fwd Contract** ⇨ <u>Hedge w. open basis (HTA)</u>

- **Buy Puts or Marketing Loan** ⇨ <u>+ Mktg Loans**</u> (only buy put *if* LDP)

- **Sell Cash & Buy Call Options** ⇨ ⇩ <u>wide Basis</u> (but do *if* after sales)
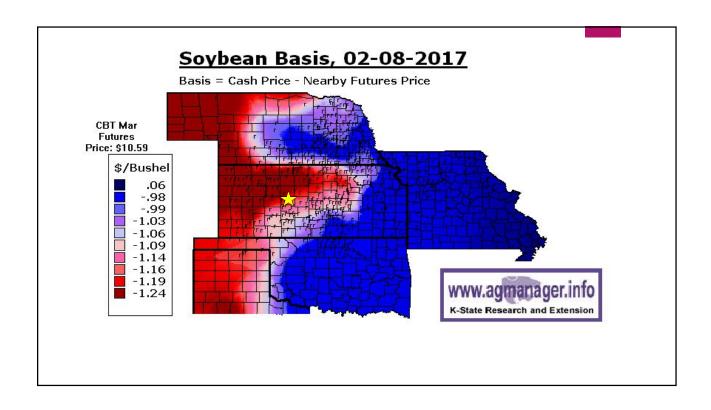
What "New Crop" Wheat Marketing Strategies are Likely to Work Best in 2017?
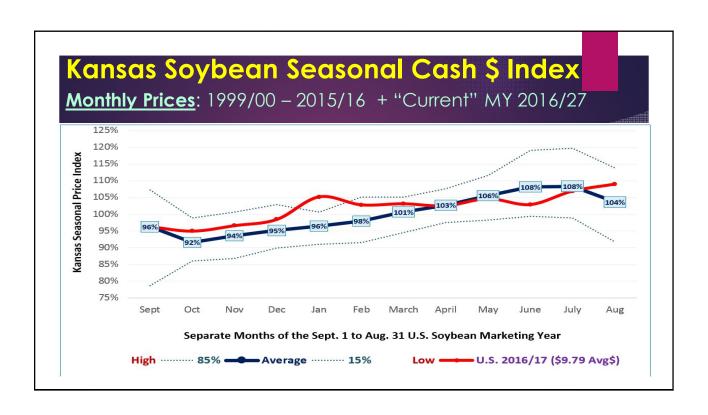
▶ For "New Crop" 2017 Wheat

- **Futures Hedge** ⇨ Yes, _but_ not till Spring 2017 (watch basis risk***)

- **Forward Contract** ⇨ Maybe, _but_ watch for wide basis bids

- **Buy Puts** ⇨ Maybe @ Spring rallies above Mktg Loan

- **Marketing Loan** ⇨ Today's dominant strategy (end dates?)

- **Forward Contract + Buy Calls** ⇨ ⇩ wide Basis (+ rally protection)

Soybean Markets

KANSAS STATE UNIVERSITY Department of Agricultural Economics

CME Soybean Futures
Monthly Chart: Dec. 2007 – January 2017 + 2/13/2017

HAYS   , KS: Soybeans Basis - MIDLAND MARKETING
www.AgManager.info

"Kansas Grain Market 'Test Drive' for 2017" Presentation
Walnut Creek District Extension Grain Marketing Strategies Workshop, Otis, KS

February 14, 2017

Soybean Basis, 02-08-2017

Kansas Soybean Seasonal Cash $ Index

West Central KS Soybean Seasonal Cash $ Index

Monthly Prices: Comparing 5, 10, 15 year Historical Averages

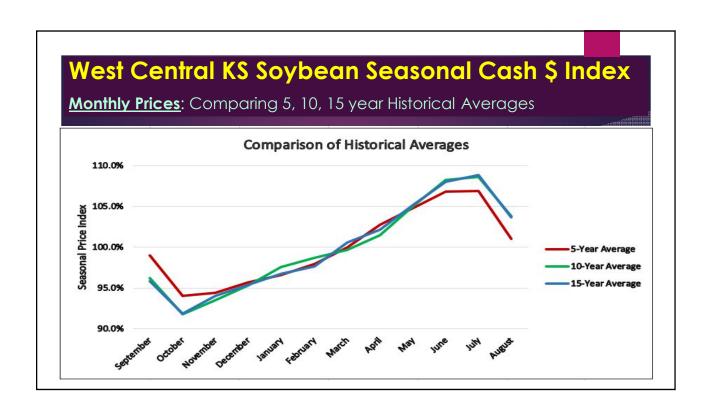Soybean Cash & Futures $'s – Otis, KS
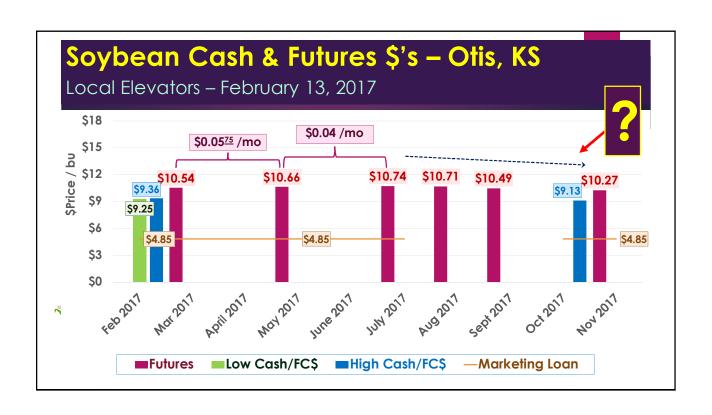
Local Elevators – February 13, 2017

What "Old Crop" Soybean Marketing Strategies are Likely to Work Best in 2017?

▶ **For "Old Crop" 2016 Soybeans**

- **On-Farm Storage** ⇨ Yes, _but_ @ risk to ⇧ 2017 So. America crop

- **Off-Farm Storage** ⇨ Ditto On-Farm storage _but_ at <u>higher costs</u>

- **Storage Hedge / Fwd Contracts** ⇨ <u>No!!</u> – futures are "too flat"!

- **Buy Puts or Marketing Loans** ⇨ <u>Yes ⇨ Buy Puts</u> (No ⇨ Mktg Loan)

- **Sell Cash & Buy Calls** ⇨ Use after cash sales **"IF"** mkt rallies

What "New Crop" Soybean Marketing Strategies are Likely to Work Best in 2017?

▶ **For "New Crop" 2017 Soybeans**

- **Futures Hedge** ⇨ ??? – How much risk of low fall 2017 $'s?

- **Forward Contract** ⇨ Ditto, _but_ watch for wide fall '17 basis bids

- **Buy Puts** ⇨ <u>Yes</u> – @ spring/summer rallies

- **Marketing Loans** ⇨ _Extremely_ low Mktg Loan$ vs Net Put$s

- **Forward Contract + Buy Calls** ⇨ Use as <u>post-FC</u> rally protection