

Four Fundamentals to Dictate Price

Old Man Winter gave us a good fight, but it's time for spring. It is a season of new beginnings—planting new seeds and starting a new crop production adventure. What crops will you grow this year?

Each year holds unique challenges, and 2015 will not disappoint us. Grain and oilseed prices are now well below what they were this time last year. In 2014, farmers started with prices that assured a profit. This year, prices are near or below cost of production with normal yields. While farmers have seasonally sold inventory off the farm, there is still a lot of grain that must be delivered to the marketplace if we are to ever get domestic inventory in short supply.

As farmers start heading to the fields, I sense many have not decided what to plant. I suspect they are allowing up to 20% of their acres to float between corn and soybeans with their decision based on spring weather conditions and the actual price at planting time. Many times, we hear the market must rally to “buy” acres. This year, farmers might lean toward planting the crop with the least cash flow exposure. In the Midwest, that's likely to be soybeans.

This spring, there are four fundamental factors that will dictate price action:

1 How fast will farmers release stored inventory? If it's not sold by late March, it will be June or July before it is put into the marketplace.

2 Will the U.S. dollar continue to rally, which could hurt exports?

3 Oil and low interest rates should help stabilize the world economy and grow demand prospects for 2015 and beyond.

4 While demand is expected to be stable, the greatest variance in price will be a drop in supply—planted acres and yield. Without a significant weather-induced supply reduction event, current stocks and future supply will overpower the demand side in late summer through early fall, resulting in a normal seasonal price decline into harvest.

The soybean complex saw its 2015 high in early to late February on pre-South American harvest pressure when November soybeans tested above \$10. Any higher price action for soybeans will not happen unless we see a solid reduction of planted acres (below 86 million) or yield (below 42 bu. per acre)—for an eventual net carryover below 350 million bushels. This is why I recommend selling a large portion of expected 2015 inventory.

Looking forward, with big inventory levels on hand, wide basis is expected at the farmer level, which will drive cash soybeans to the \$8 range and cause farmers to store and wait for higher prices in 2016. Feed buyers should be alert to oversold conditions in September and October to lock up yearly feed needs on paper.

While a rather bleak outlook is in store for the soybean complex, corn supply and demand outlooks are slightly better. Feed usage, ethanol usage and exports will improve above 2014's levels. While demand is solid, farmers appear ready to reduce corn plantings. If planted acres are less than 89 million and average corn yield moves back toward 165 bu., we should see carryover closer to 1.6 billion bushels, keeping stocks adequate but not excessive.

Subsequently, it's imperative farmers not get bullish; use any price advance in the December 2015 corn contract beyond \$4.30 to sell inventory by mid-June if at all possible. Once the crop gets planted, any unexpected bearish event could drive corn prices even lower from August to November, especially if old crop inventory isn't cleared. Corn has some hope for a price bounce, but don't overplay your hand. **FJ**

Any opinions expressed herein are subject to change without notice. There is a significant risk of loss in trading futures and options, and trading might not be suitable for all investors. Those acting on this information are responsible for their actions. Contact Bob Utterback at (877) 898-4324 or utterback@utterbackmarketing.com with questions/comments. See full disclosure at www.FarmJournal.com.



BOB UTTERBACK

More than 30 years of commodity insight helps Bob Utterback guide farmers through a disciplined approach to marketing.

@ butterback@farmjournal.com

 farmjournal.com/outlook