Are you missing out on fast-moving price rallies?

January 23, 2017

With the depressed corn prices we've experienced over the last couple of years, the very last thing you want to do is miss a rally, especially one that gets you close to the year's high. Whenever a rally comes your way, you face one of your most important tests as a marketer:

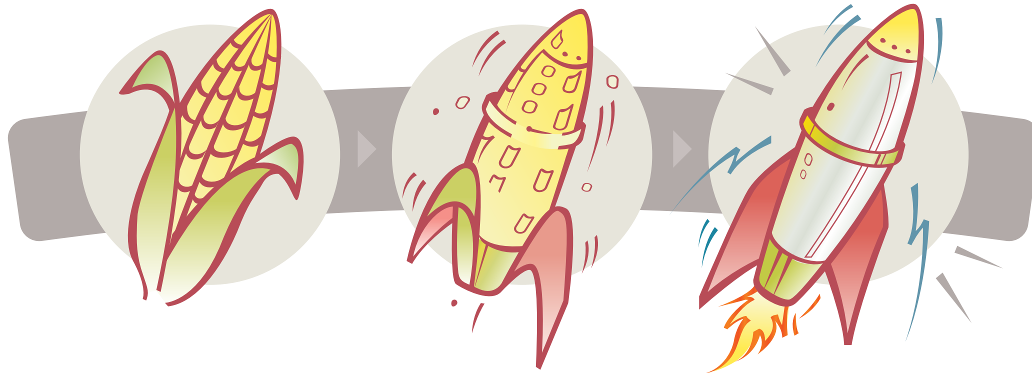
When should you sell after corn prices take off?

The answer to this one is pretty clear. You should sell before the rally ends.

And, while true, this answer is completely unhelpful. Who knows when a rally will end? Who knows if you're selling well below the market potential or right before the market turns – or somewhere in between?

Additionally, certain factors that spark rallies can appear without warning and muddy the waters, making it harder for you to pull the trigger during an upturn in the market.

This paper brings to light the speed at which corn prices can move upward or downward. Then, it offers steps you can take to help ensure that you don't miss a potential upcoming rally.



Eight times since 2005, the price of corn has rallied sharply at the beginning of summer. In seven of those eight rallies, the average time to reach the price high was 77 days. Source: Prophet X

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Three things to know about grain prices.

1. Market rallies can take off a lot faster than you might expect – and the market can crash even more quickly.

Think about how quickly a month can go by, especially when you're busy. At first blush, it seems like a month or two is a significant period of time. Unless, of course, it's the day after Thanksgiving and you have more to do than you can complete before Christmas. Or it's planting season, when most of your time is in the tractor from dawn to dusk.

Time flies just as fast during a price rally. You have only about two months, on average, to make smart sales during a sharp rally from the bottom of the market to the top (based on data since 2006). Futhermore, the time frame for a sell-off back to the previous low may be less than a month. (Please see the table below for assumptions.)

The two best times to sell corn over the past two years provide the most recent examples. In 2015, the front-month continuous corn price rallied from a $3.47 per bushel low to $4.43 per bushel in just one month. The market sold off even more quickly in just 29 days, dropping the corn price to the $3.47 pre-rally level. In 2016, we experienced a nine-week period of rising prices, when corn went from $3.47 per bushel to $4.39 per bushel. A scant four weeks later, the corn price had fallen back once again to the $3.47 pre-rally price.

The selloff is almost always faster than the rally. Since 2006, we have experienced eight significant rallies of more than 10 percent in the first half of the year. If we exclude the highly explosive rally in 2012 from our analysis, the average time from a low to the price high for the remaining seven rallies was 77 days. The average time to erase the rally gains was 31 days.

Be ready to take action when a rally happens

Years in the past decade with a significant rally of at least 10 percent.

Year	Rally Start	Start Price*	Rally Peaked	Peak Price*	Rally Erased	Days of Rally	Days Until Erased	% Rally
2016	4/1/2016	$3.47	6/8/2016	$4.39	7/5/2016	68	27	26.5%
2015	6/15/2015	$3.47	7/14/2015	$4.43	8/12/2015	29	29	27.8%
2014	1/10/2014	$4.06	5/9/2014	$5.23	7/7/2014	119	59	28.7%
2012	6/1/2012	$5.51	8/10/2012	$8.44	6/28/2013	70	322	53.1%
2009	2/20/2009	$3.42	6/2/2009	$4.50	7/6/2009	102	34	31.6%
2008	5/29/2008	$5.73	6/27/2008	$7.79	7/23/2008	29	26	36.0%
2007	4/3/2007	$3.43	6/18/2007	$4.29	6/29/2007	76	11	25.0%
2006	3/20/2006	$2.17	7/12/2006	$2.69	8/15/2006	114	34	23.8%
					Median	76**	29**	
					Average	77**	31**	

The rallies in 2010 and 2011 did not occur in the first half of the year and the 8.3 percent rally in 2013 did not meet our 10 percent threshold. Thus, these three years are not included in this analysis.

*Rounded to the nearest cent. Refers to the front-month continuous corn chart.

**2012 was not included in the average or median calculations because we believe the year is a misleading anomaly of typical market behavior.

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2. Price rallies can be sparked without warning.

Factors that spark price rallies come without warning and often leave producers uncertain of how to react. Let's look at what ignited price spikes and declines these past two summers.

In 2015, wet weather caused planting delays in Missouri, Illinois, Indiana and Ohio. In early June, farmers were still in their fields, and by mid-June the corn price had blasted off. When the consistent pattern of rain broke, the corn price began its descent.

Weather is generally the one factor with the greatest ability to cause a change in price direction. Change occurs before it becomes obvious that the weather pattern is definitely shifting. Investor sentiment and geopolitical events are among two other factors that can influence price. There are other nominal factors such as ethanol, the price of crude and the U.S. dollar. However, like weather, there's no way to predict any of them.

This year, the price rally in corn was due to a smaller South American corn crop and weather concerns here at home. Forecasts for a hot and dry summer had market participants hedging against a potential drought. A smaller South American soybean crop also created a shift in export demand to U.S. soybeans, prompting a sharp rally in beans. When the dry forecast for July changed, corn and soybean prices plummeted.

In both years, hedge funds went from net short to net long to net short again. This type of action – speculative money moving from one extreme to the other – tosses rocket fuel on price moves. When that happens, end users commonly panic-buy near the end of bull markets and producers panic-sell near the end of bear markets.

The market is priced for known factors. Change in price happens when unknown factors fuel prices. You have to be ready.

3. Changing a mindset about market direction can be hard.

As we head into winter, the U.S. has an ample inventory and supply of corn. The current USDA forecast calls for a carryout of 2.4 billion bushels. The November 9 USDA crop production report projected a national average yield of 175.3 bushels per acre. At face value, this suggests that there's not much space for prices to rise. And if you're bearish already, this may lead you to manage your marketing in a way that doesn't prepare you for a sudden rally. On the other hand, you may be so happy to finally be in a rally that you're not prepared for the inevitable downturn.

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Getting ready for the next potential rally.

Successful marketing demands that you plan ahead for different potential price scenarios. We always encourage farmers to “do the math.” Develop marketing strategies and look at the cost to manage your risk across many different price scenarios. Decide what makes the most sense for your situation and risk tolerance.

Last year, corn prices reached their lowest levels since 2009. Seasonal data suggested that prices would begin to recover after early October. With hedge funds short corn and export demand strong, one plausible price scenario is July 2017 futures bouncing back to $4.00 if the current December 2017 low of $3.15 holds (a 71 percent chance, based on our research). That futures price could possibly move higher, depending on the final size of this year’s crop, demand and spring weather.

Consider buying $4.50 December 2017 calls to cover bushels you plan to sell once prices recover. Implied volatility is relatively low, and if weather this summer isn’t near ideal and prices break out of the two-year trading range ($3.20 to $4.40), prices could quickly rally to $5.20 or higher. If the market price rises sharply, buying calls helps by allowing you to capture the higher price. Be prepared with a strategy to protect you from a price decline, as well.

This is just one idea among many to consider as you look at various price scenarios and prepare for what the market may do. As always, be sure you understand the risks and costs involved before entering any position.

About Us.

Stewart-Peterson manages commodity price opportunities and risks for businesses whose margins are affected by market price fluctuations. The businesses we work with range from 800-acre corn growers to billion-dollar food companies; from trucking companies to 5,000-head dairies; and from commodity sellers to commodity purchasers. To learn how we help businesses build a favorable average price in any market, please call 800-334-9779 or visit stewart-peterson.com.

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