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Preharvest Soybean Marketing Strategies

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Cornhusker Economics

Cooperative Extension

Institute of Agriculture & Natural Resources
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Market Report	Yr Ago	4 Wks Ago	5/17/00
Livestock and Products, Average Prices for Week Ending			
Slaughter Steers, Ch. 204, 1100-1300 lb Omaha, cwt.	$66.02	$72.25	$70.14
Feeder Steers, Med. Frame, 600-650 lb Dodge City, KS, cwt.	80.86	92.58	*
Feeder Steers, Med. Frame 600-650 lb, Nebraska Auction Wght. Avg.	88.00	98.07	103.00
Carcass Price, Ch. 1-3, 550-700 lb Cent. US, Equiv. Index Value, cwt.	103.69	116.19	113.74
Hogs, US 1-2, 220-230 lb Sioux Falls, SD, cwt.	33.50	48.00	49.00
Feeder Pigs, US 1-2, 40-45 lb Sioux Falls, SD, hd.	31.50	58.97	44.50
Vacuum Packed Pork Loins, Wholesale, 13-19 lb, 1/4" Trim, Cent. US, cwt.	102.50	117.20	124.70
Slaughter Lambs, Ch. & Pr., 115-125 lb Sioux Falls, SD, cwt.	84.50	103.25	89.75
Carcass Lambs, Ch. & Pr., 1-4, 55-65 lb FOB Midwest, cwt.	181.50	210.00	210.00
Crops, Cash Truck Prices for Date Shown			
Wheat, No. 1, H.W. Omaha, bu.	2.94	2.96	2.93
Corn, No. 2, Yellow Omaha, bu.	1.92	2.08	1.93
Soybeans, No. 1, Yellow Omaha, bu.	4.43	5.14	4.98
Grain Sorghum, No. 2, Yellow Kansas City, cwt.	3.28	3.67	3.38
Oats, No. 2, Heavy Sioux City, IA , bu.	1.30	1.29	1.20
Hay, First Day of Week Pile Prices			
Alfalfa, Sm. Square, RFV 150 or better Platte Valley, ton.	*	92.50	102.50
Alfalfa, Lg. Round, Good Northeast Nebraska, ton.	*	47.50	70.00
Prairie, Sm. Square, Good Northeast Nebraska, ton.	55.00	70.00	70.00

* No market.

Soybean producers who decide to use the futures markets to price their crop face a number of important decisions. Among the choices they face are whether to use futures or options on futures, when should positions be established and liquidated, which futures months are most appropriate and what particular marketing strategies or combinations of strategies to employ. Ongoing research in Nebraska on soybean marketing strategies from the early 80's through the present has revealed evidence that relatively simple marketing strategies employing futures markets can be profitable for producers, and that the most profitable strategies have been relatively consistent over time. As can be seen on the chart below of the November soybean futures price from 1989 through 1998, definite seasonality appears on average, with peak prices generally occurring in mid-spring, and rather steadily declining prices during the growing season until harvest. Declining prices are punctuated on average with an early summer rally, perhaps explained by trader concerns about adequate moisture, and an early fall rally perhaps explained by trader concerns about potential early frosts.

A number of strategies were evaluated by comparing to cash sale at harvest in the most recent study of prices from 1988 through 1997. The simplest strategies were "calendar" hedge strategies placed in either early May or late June using the November futures contract, liquidated October 15 when the beans were sold. The May calender hedge resulted in a 10-year average price of $6.25, or $0.36 per bushel over cash sale at harvest, and the June hedge $6.37, or $0.48 over harvest sale. One year (1988) when prices rallied strongly from May through June caused the June hedge to be preferred. Removing that year from the analysis favored the May hedge over June by $0.17 per bushel.

Several more complicated strategies were evaluated with mixed results. Moving average strategies where hedges were placed based on buy and sell signals resulting from the comparison of different length moving averages were less profitable than simple calender hedges. The market seems to move too fast during the growing season to allow moving averages to be of much value and rallies were missed. Put option strategies were similarly disappointing. Puts have the potential advantage of allowing a producer to establish a floor price, while prices rally during the growing season. The advantage comes with a price

however, the high cost of put premiums and interest on premiums. The higher cost simply was not recovered during this study period when compared with the calender hedge results that "lock in" a price when the futures position is established (ignoring basis effects). The typical downtrending market during the growing season offered few opportunities to take advantage of rising prices. The best put strategy increased average price received by only $0.15 per bushel compared with cash sale at harvest. If put options are used, however, several conclusions appeared: "in the money" puts were more costly but ultimately more profitable than "at" or "out of the money" puts, early liquidation of puts with no intrinsic value to recover some of the time value leaves the producer at the mercy of a generally downward trending market, and moving averages were equally ineffective in determining when to buy put options.

Capitalizing on rallies resulting from early frost scares was evaluated for producers who choose not to employ a strategy initiated earlier in the year. A selective strategy that placed a hedge in those years when prices rallied 2.5% or more after September 1 resulted in a $0.42 per bushel gain over the unhedged cash sale in the six of 10 years that prices rallied in September. If prices did not rally (four years out of ten), no strategy was employed.

The table below summarizes the results of the study. Those interested in further details are referred to Nebguide G00-1402-A.

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