



Recent Price Changes on Harvest-time Corn and Soybean Contracts

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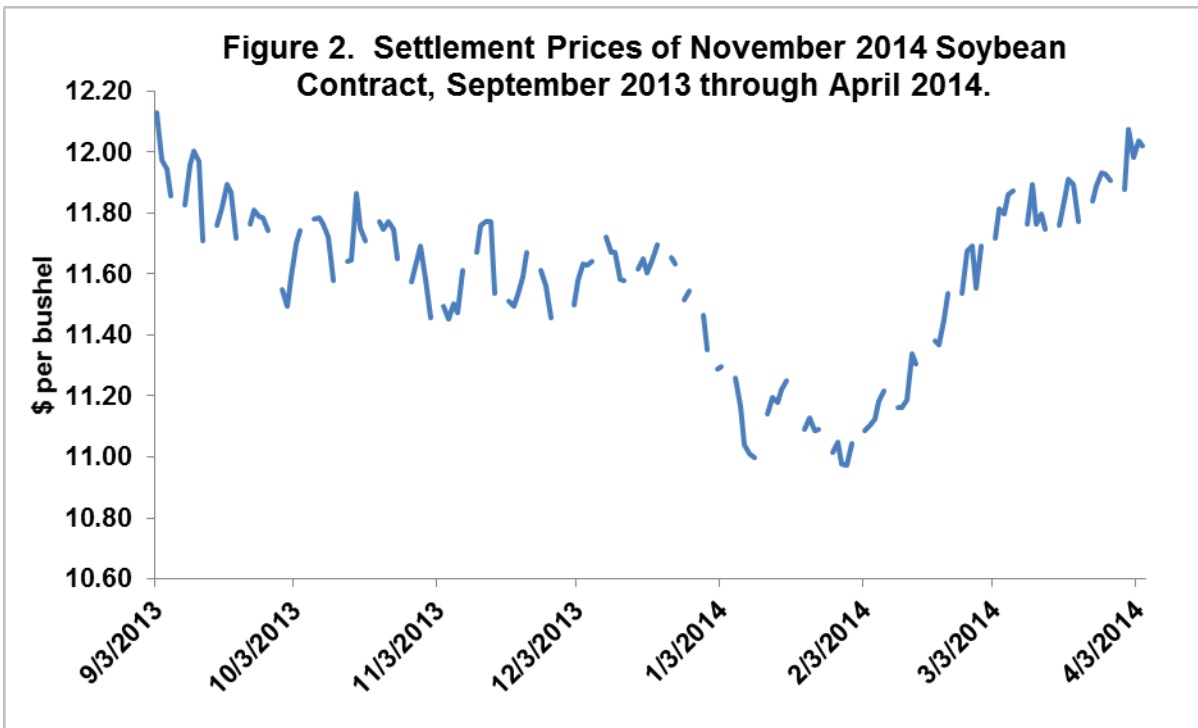
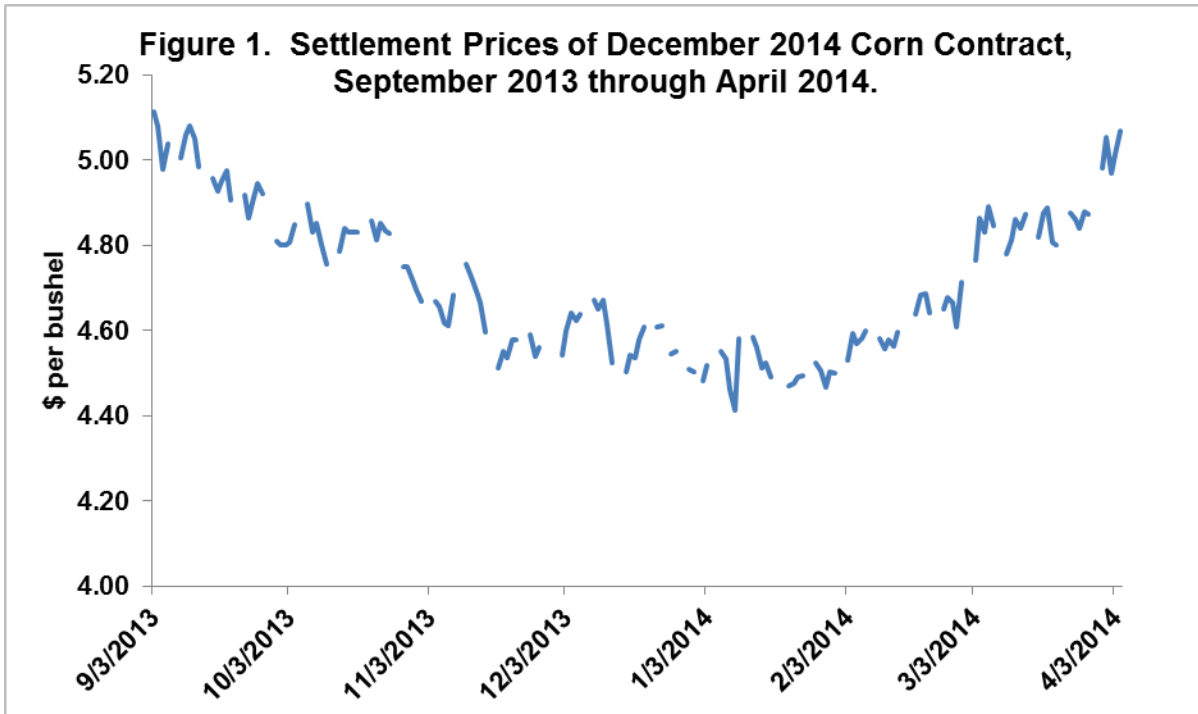
Futures prices for 2014 harvest-time contracts provide estimates of prices at 2014 harvest. During the past seven months, futures contract prices ranged by \$.60 per bushel for corn and \$1.00 per bushel for soybeans. This variation results in differences in revenue forecasts and can cause difficulty in decision making. While these price changes do cause difficulty, similar price changes should be expected in the future. Current futures price levels suggest near long-run price levels for 2014.

Futures Contract Price Changes

On September 11, 2013, the Chicago Mercantile Exchange (CME) futures contract for corn with a December 2014 expiration had a settlement price of \$5.12 per bushel. From this \$5.12 level, prices for the December contract generally fell until January 2014, hitting a low of \$4.41 per bushel on January 9th (see Figure 1). From the January 9th low, prices generally rose. On April 7th, the December contract settled at \$5.05 per bushel, within \$.07 of the \$5.12 price on September 11, 2013.

Soybean prices followed a similar path to corn (see Figure 2). On September 11, 2013, the CME November 2014 soybean contract had a settlement price of \$12.13 per bushel. From this \$12.13 level, soybean prices generally fell, hitting a low of \$10.97 per bushel on January 30, 2014. Since January, prices on the November 2014 contract generally rose. The settlement price on April 7th was \$12.08, only \$.05 different than the \$12.13 settlement price on September 11, 2013.

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Observations

The following observations are drawn from these recent price changes. First, price changes during the past seven months are “normal”. While information has become available providing accurate estimate about yields, supply, and demand during this period, there was nothing to suggest structural changes were

occurring that which would influence overall price levels. Changes of \$.60 per bushel in corn and \$1.17 per bushel for soybeans occurred as information on supply and demand became more certain. Just as these price changes occurred in the past, they are likely to occur in the future.

Second, this price variability makes decision-making more difficult. Harvest time contract prices serve as indicators of price at harvest. On farmland yielding 180 bushels, a \$.60 change in corn price result in a \$108 change in revenue ($\$108 = \$.60 \times 180$ bushels per acre), which will result in a similar change in returns. One decision is in setting cash rents. A \$108 change in revenue projections based on a price differences would likely result in different cash rents. Moreover, estimates of the floor offered by 2014 crop insurance products varied between September 2013 and February 2014, potentially impacting a farmer's risk management decisions. Similarly, acreage decisions become more difficult as variability changes relative prices. For example the soybean-to-corn price ratio was at a high of 2.58 on December 16, 2013 ($\$11.62$ soybean price / $\$4.50$ corn price). On April 5th that ratio was 2.38, indicating that corn production is relatively more profitable on April 5th than on December 16th.

Third, there has been some pessimism regarding price. At the recent Agricultural Outlook conference, USDA released a 2014-15 marketing year price forecast of \$3.90 per bushel for corn. It is quite possible that prices may be at these levels, perhaps below, but futures contracts now suggest higher prices, leading to the fourth point.

In the past seven months, corn prices varied around what likely is near the long-run average price for corn: near \$4.50 per bushel. There will be considerable range around this long-run price: with some year's significantly above the long-run average, like occurred between 2010 and mid-2013, and some year below the long-run average. In the last seven months, soybean prices have average higher than what likely is the long-run average: somewhere near \$10.50 per bushel. Overall, price levels in the past seven months suggest a near typical year for price levels relative to long-run average prices. Currently, prices are above those long-run averages.

Summary

Recent price variability represents the normal type of variability likely to exist in agriculture, presenting the usual difficulty in making decisions. Current levels of prices are slightly above where long-run prices are expected to average, thereby currently suggesting 2014 will be a near normal year as far as prices are concerned. Of course, this could change. Excellent yields could lower prices and vice versa. Demand situation could also change pricing outlook.