



Archer Financial Services, Inc.

## **What's Your Marketing Strategy For New Crop Corn and Soybean Production?**

**By Dennis Smith (May 5)**

Today's comments will be very direct and to the point. The bottom line is, if you're not using the current rally in corn and soybean futures to establish a price floor under expected production, you may be missing the boat. Grain producers should be alarmed that on the backside of last weekend's crazy wet weather, corn futures were unable to penetrate the April highs and soybeans displayed little upside follow through once they penetrated the April highs.

I strongly recommend utilizing put options to establish a minimum price floor to prevent a disaster for your business. If we have a normal growing season, or close to normal, ending stock projections in both the U.S. market and in the world market will very likely drag prices lower. Buying puts establishes a price floor under expected production, while leaving the upside to prices open. It's a way to prepare for a worst case scenario, while hoping for and being in position to benefit in the event that something much better occurs. Depending on hope alone is not recommended. Producers are always willing to pay storage fees to hold their crop off the market, but many times are not willing to pay a premium to establish a price floor. I've never really understood this.

We get our first peak at projecting ending stocks for the crop currently being planted on Wednesday, May 10<sup>th</sup>. One should expect the figures to be bearish. Ending stocks of corn, for this year of 2.3 billion bushels is simply too much corn. There's still corn on the ground in central Illinois and Iowa. Due to reduced acreage, ending stocks for next year should edge downward, but likely not enough to stimulate a major price rally. World corn ending stock figures are bearish.

In soybeans, the situation is even more bearish due to increased acreage in the U.S. in tandem with a hugely successful South American crop. Ending stock projections in soybeans, currently at 445 million bushels, may approach 500 million next year, perhaps larger.

While recent weather has been extreme, the fact is, in regards to corn and soybeans, current weather events have done nothing to reduce actual yield. Some additional acreage may shift away from corn and into soybeans, the corn crop may pollinate later in the summer than ideal, but thus far that's the only real impact from weather to date. Alarmingly, there are no problems anywhere in the world. The huge glut in grain stocks appears likely to continue through another marketing year.

A glance at the weekly corn and soybean charts demonstrates where major support is located. That would be \$3.30 in the corn and \$8.50 in soybeans. Given trend line yield, or even just below trend line yields this year, one better be prepared for a test of these support levels.

What I'm suggesting is a price floor with the upside open. Buying puts. Consider:

For a leveraged position protecting old crop corn prices (or a spec play):

- **Buy Jun corn 365 puts at 4 cents. These expire May 26<sup>th</sup>, or three weeks out.**

For establishing a price floor under new crop production:

- **Buy Aug short-dated 380 puts at 14 cents. These expire July 21<sup>st</sup>, or 79 DTE and if exercised they will provide a short position in December corn futures at \$3.80.**

For a leverage position protecting any old crop soybeans (or a spec play):

- **Buy Jun soybean 950 puts at 4 cents. These expire May 26<sup>th</sup> or three weeks out.**

For establishing a price floor under expected new crop production:

- **Buy Sep short-dated 920 puts at 16 cents. These expire August 25<sup>th</sup>, or 114 DTE. If exercised these will give you a short position in November soybean futures on expiration.**

If you need help in mapping out and executing these strategies feel free to contact me directly. My many years of trading futures markets does make a difference. Feel free to call or email me if you have any questions or would like to open an account. I can be reached at 312-242-7905 or via email at [dennis.smith@archerfinancials.com](mailto:dennis.smith@archerfinancials.com).

Would you like to open an account with Dennis? Go to our interactive New Account application at [Open An Account](#). It is fast, saves on postage and it's green.

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