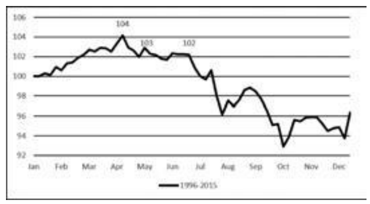
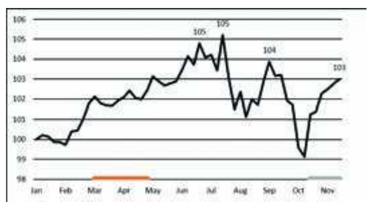
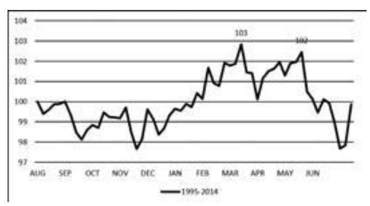
Watch markets for seasonal patterns

Taking advantage of these trends to your benefit is both an art and science







BY DAVID DERWIN

Seasonality in farm commodity prices is a commonly followed market indicator and it makes some sense. Given crops are planted in the spring, subject to weather throughout the growing season and then harvested in the fall, they follow a natural pattern throughout the calendar year.

But the more important question is: can you profit from it? The answer is yes… if you are prepared.

I've highlighted the price fireworks leading up to Canada Day and 4th of July many times in the past. These seasonal moves higher often mark the yearly top for grain prices and can provide the opportunity to hedge a portion of your grain early in the crop year at some very good levels. So it was interesting to read a research piece by the agricultural economics department at the University of Nebraska-Lincoln called "Crop Price Patterns." It looked at 20 years of corn, soybean and winter wheat futures price data from 1996 to 2015 to find the seasonally best time to sell grain. Here are a few excerpts and charts from their research: "The corn price shows a spring rally in the December corn contract occurring in April/May, followed by a decline in prices beginning in late June and early July. The price for the December corn contract is highest in April, May and June, during the period of greatest uncertainty of actual production. As more information becomes available about the potential supply of corn the price of corn declines. The contract reaches its low during harvest in October when the largest supply of domestic corn is available and actual production is realized.

April, May and June provide the best potential for pre-harvest marketing corn of the December corn contract."

Next is the new-crop soybean price.

"There are several notable differences between corn and soybean production. Unlike corn, almost half of soybeans produced in the U.S. are exported. U.S. soybeans face competition from foreign production in Argentina and Brazil. As a result, the November soybean contract price is greatly influenced by global supply and demand. The price pattern has a moderate incline from January until midsummer. The spring rally that was evident in corn is stifled by Southern Hemisphere harvest in March, April and May. The price index for November soybeans is highest in June, July and September during the development of the U.S. crop and the dormant period for Argentina and Brazil. Planting conditions in Brazil and Argentina in November and December could be the cause of the improvement as the contract approaches expiration.

June and July provide the best potential for pre-harvest marketing soybeans at peak prices of the November soybean contract."

Finally, we have wheat. "Winter wheat presents a unique pattern.

The new-crop winter wheat contract remains relatively low from August until the end of January, during the planting and dormant season for the crop. The July new contract slowly increases from January until it peaks in March as the bulk of moisture is provided to the crop through late-winter and earlyspring precipitation. There is some volatility in the price pattern during the heading stage of the crop with a rapid drop in April and recovery in May. After May, the price gradually decreases as the July contract approaches expiration. March and May provide the best probability for pre-harvest marketing winter wheat at peak prices of the July Kansas City contract."

The common thread I found between all these markets is that the seasonal highs usually occur between April and June.

While the average peak from top to bottom may only be five per cent to 10 per cent, all those dimes and quarters can add up to dollars, but only if you have hedging strategies in place ready to capture them.

This year is turning out to be another good example of this pattern.

So far, the highs for corn, wheat and soybeans were around the middle of June. This provided a good hedging opportunity for a portion of production but I would be ready to capture any higher moves that come our way.

Bottom line, seasonal grain patterns are nothing new and while this seasonal pattern has held up well this year so far, it doesn't mean it will happen every year.

There is both an art and science to using seasonalities since you have to decipher which years the price pattern will repeat itself and hold, marking a high for the crop year, and which years it won't. In addition to this, you still need to determine the most appropriate strategy to take advantage of the pattern if it does occur and how many tonnes to protect.

Both are key parts of the hedging process and marketing success.

As always, seasonals are just one of many tools in the farm marketing tool box and another guide to use throughout the year to reduce risk, manage revenues and capture pricing opportunities.

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