Record Drought Puts Premium on Marketing

Put on your marketing gloves and prepare for a tough 15-round contest with a fierce opponent: prices. The rip-roaring drought and triple-digit temperatures pushed corn prices up past $7, a $2 per bushel jump in just a matter of weeks. This is a huge boost from the $4 or so that both USDA and private analysts earlier predicted. Even $8 corn is not at all out of the question if hot and dry conditions in parched areas of the heartland continue.

Even so, you might not want to wait for seasonal highs. "If history is any guide, short crops have long tails, and that could hold for the 2012 crop, too," says Darrel Good, University of Illinois grain marketing economist. In other words, 2012 corn prices could peak early—possibly in August, since harvest is likely to be early this year with so much corn planted early.

For producers who haven't done any pricing and aren't in the throes of drought, Good advises aggressive pricing, perhaps on a weekly basis, because it's impossible to know when the crop year's market high will be. He's concerned, though, that prices might overshoot themselves on the top side, and thus move decidedly lower as the marketing year progresses.

Iowa State University economist Chad Hart said earlier this summer that prices could be anywhere from $3 to $8 per bushel at harvest, although around $8 looks more probable. "It's all due to the weather," he said. "Yield expectations continue to decline."

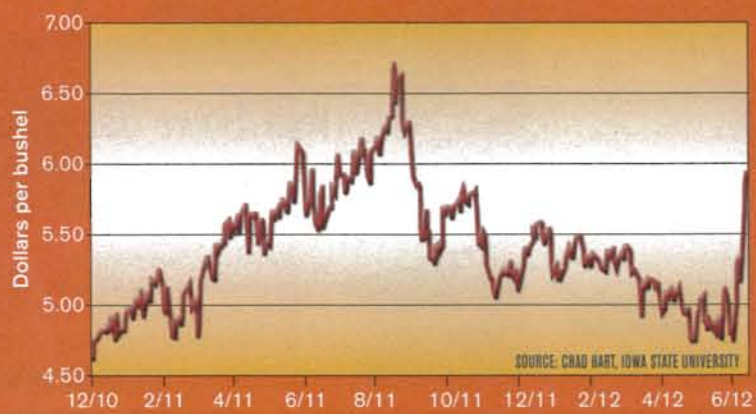
For 2012, prices will be driven by yields and later shift to focus on demand.

Take Action. In Good's view, producers should also look at pricing their 2013 crop because $6 December 2013 might end up being a pretty good price if production is average next year. Two key reasons that 2012 prices are likely to head lower in time: "Exports are really lagging and ethanol production is ratcheting down rapidly," Good says.

The most important question producers need to ask themselves this year is how much corn, if any, they are likely to produce. If your answer is zero or not much, one way to protect yourself from overcommitting sales is to use options, Good says. To reduce the hefty put premium, you could buy a put and sell a call—and that applies to soybeans, too.

—Ed Clark

What Futures Predict for 2012 Corn



Corn prices for this year's crop are expected to remain above production costs, but just barely.

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