Current U.S. Corn Supply and Demand

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The *Prospective Plantings* report (March 2019) projected a 4 percent increase in 2019 over 2018 corn acreage with expected plantings of 92.792 million acres. Combining projected harvested acreage with an expected yield of 176 bushels per acre amounts to expected production of 15.030 million bushels for 2019.

Projections produced in March and May assumed that Mother Nature would cooperate and allow farmers to plant their corn crop in a timely manner. However, due to unforeseen adverse planting conditions, these projections must be revised. The Midwest has experienced excessive rainfall and flooding that has hindered planting. The USDA *Crop Progress*report on June 3 reported that U.S. corn planting was 67% complete in the week ending June 2. The five-year average is 96% complete, for the same period, so planting progress is lagging 33%. Stated differently, 30.7 million acres ([1.0-0.67]*93 million acres) of the projected plantings remain unplanted as of June 2.

A clearer picture will be evident about how many of the 30.7 million acres get planted in the highly anticipated June 28 USDA *Planted Acreage* report.

The 2019/2020 U.S. corn production will be below earlier projections leading to higher prices given current demands. New crop (December 2019) corn futures have recently rallied 80 cents per bushel from $3.70 to $4.50 and are anticipated to go higher as production prospects continue to dwindle, and demand must be rationed. The greater the reduction in total supply, the higher corn prices will need to rally to ration demand.

Marketing Strategies for NC Corn Farmers

Given the current corn markets supply uncertainty, what is a good marketing strategy for a NC corn farmer in 2019/2020? In volatile markets where the overriding trend on futures price is upward as is the case currently, a sound marketing strategy is to employ a dollar cost averaging approach.

Dollar cost averaging involves breaking a portion of your total expected production that you are confident in producing (say 75% of expected production) into smaller sub-portions (for example three portions of 25% of expected production) for marketing. If and when new crop futures prices rally on market uncertainty resulting in a new crop forward contract price that enables the grower to lock in a profit, they should pull the trigger on the forward contract for that portion of expected production. By using a forward price contract on this portion, all price risk is eliminated.

An additional potential component to this strategy, to enable upside price potential, is to purchase a call option for the number of bushels in the sub-portion that has been forward contracted.

Adding this component essentially coverts the forward price contract to a minimum price contract. With a call option in place, if the corn market rallies above the futures price that was locked in with the forward contract, the farmer will still capture additional futures gains to net price because the call option will be more valuable.

The call option is not free, however, the closer to the money, the more expensive the premium. The cost of the option does reduce the net return of the strategy, but with the benefit that if corn futures rally then the sub-portion forward contracted and covered by the option will capture these gains and hopefully surpass the cost of the call option. This strategy can alleviate farmers concerns that they might have pulled the trigger too soon.

Of course, there are many other marketing possibilities that can be implemented in an uncertain, volatile, and rising market. The dollar cost averaging strategy using forward contracts is simple and enables profits to be locked in, and with the addition of the purchase of a call option can be transformed into a minimum price contract.