# A TALE OF TWO TAILS

*Make sure your marketing plan is solid and profitable amid lower prices*

**BY SARA SCHAFER**
*sschafer@farmjournal.com*

The drought of 2012 let corn prices explode to record prices. But don't expect the tail to wag the dog this year.

Steve Johnson, Iowa State University farm business management specialist, says farmers must be realistic about price expectations.

As early as February, USDA and market experts were predicting corn prices to fall to a $4 level. With normal yields on high acreage levels, ending stocks will triple in one year.

"Supply and demand still work, and we're going to have too much supply for the current demand," Johnson says.

If corn prices stay below $5, Ted Seifried, Zaner Ag Hedge Group vice president, predicts most farmers will stick their grain in the bin.

"After a few years of good profits, there has been a large amount of reinvestment back into the operation in the form of storage," Seifried says. "On top of that, many guys have or are in the process of clearing out their bins as prices have been good."

He doubts there's much of last year's crop still in the bin, which means the capacity is there to store a lot of the 2013 crop. "Producers will likely hold on tight to stocks, waiting for higher prices, Seifried says. "If this is done on a large enough scale, it could cause a shortage in the cash market and push basis up and support futures prices."

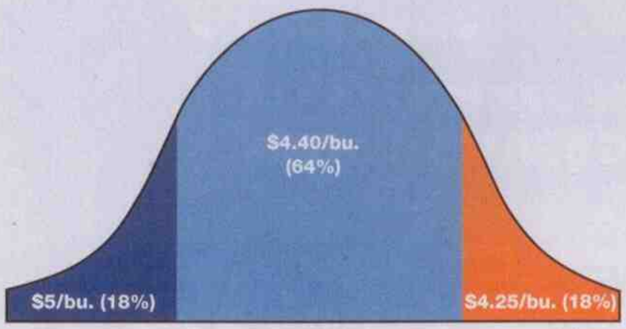
Johnson advises farmers to focus on harvest logistics. Buy all your propane, make sure your bins are working and avoid long-term commercial storage.

"Also, talk to your lender and develop a long-term storage plan," he says. "Your marketing plan should reflect storage costs."

While it's hard to start thinking about 2014 with this year's harvest just around the corner, farmers should start. Seifried says next year is the year that scares him the most.

"Crop insurance levels could be lower, bins could be overflowing and beginning stocks might be the largest in years," he says. "What happens if we have a decent crop next year? That's when we might be talking about ultra-low prices." **TP**

**Cash Corn Price & Probability Forecast**




The probability of the corn market hitting $4.40 is 64% with the high and low ranges being much less likely. Source: Johnson, ISU Extension, July 18, 2013

## CHASING THE WRONG TAIL

In February, Joe Glauber, USDA's chief economist, predicted the average farm price for corn would fall between $4.40 and $5.20, down roughly 30% from the marketing year before. He said this downfall would occur due to normal yields in 2013 and increased acreage.

Working with Brugler Marketing, Steve Johnson, Iowa State University farm business management specialist, decided to plot the price expectations on a bell-shaped curve. Johnson narrowed the price expectations to $4.25 to $5 because of planting and weather challenges. The probability to hit $4.40 corn is 64%, with the high and low ranges being much less likely.

"The last two years, we've been on the left tail," Johnson says. "We chased the left tail, and now we're getting the right tail. Farmers should learn to ignore the expectations for higher prices and plan for average prices."