C&S Grain Market Consulting 11-20-02

Exploring the Four Seasons of the Corn and Soybean Seasonal

The futures market is always digesting new information to enhance its ability to project future prices. The desire for new information for the futures market is like a fire's desire for more fuel, it is never satisfied, as it always wants more!

Some of the fundamental factors weighing on the grain futures market throughout the year are 1) The Weekly USDA Grain Inspections for Export, issued on Mondays. 2) The Weekly USDA Export Sales Totals, issued on Thursdays. 3) The Monthly USDA World Agriculture Supply and Demand Report (WASDE) usually issued around the 10th of the month. 4) The Weekly Commitment of Traders Report, issued on Fridays. 5) The ongoing weather forecast, for any and every import/export region of the world. 6) The Weekly Crop Conditions Report issued on Monday's during the growing season. 7) Continuous ongoing exports rumors. 8) The Quarterly Stocks Report that is issued in early January and at the end of March, June, and September. 9) Any and all other information that may affect perceived ending stocks.

Historically, the general seasonal price pattern for Corn and Soybeans has 4 stages. 1) A gradual rally from the harvest Fall Lows into the Winter. 2) More rapid rallies starting in the Spring. 3) A final crest in prices, usually occurring in the Summer. 4) A rather rapid decline into the harvest Fall Lows.

The Winter Seasonal

The Winter High:

When the general seasonal pattern is studied more closely, however, it can be determined that each one of the calendar seasons has its own seasonal pattern. Following harvest, prices often rally into early Winter in the late-November to mid-January time frame. This rally occurs both in the futures and the cash market, but the cash often outstrips the futures as the basis narrows rapidly toward the last week in November into the first week of December. Since 1973, the average date for the Winter High in *CZ is January 12th, and for **SX it is December 24th. Since 1973, 26.7 percent of the time the ***Annual High is made during the Winter High in CZ and 23.3 percent of the time the Annual High is made during the Winter High in SX.

As the world has commonly become a central marketplace, with multi-national companies operating all around the world, South American weather during this period of time has taken on an increased level of importance due to the rising level of total world production their production is providing. The January Quarterly Stocks Report is also very relevant.

The Winter Low:

After the Winter Rally has run its course, the futures market will have become technically overbought on the charts, and the basis will have narrowed so much that it will usually not be able to maintain itself at so narrow a level. Both the futures and the cash will relax somewhat. Sometimes they relax at the same time; i.e. the basis widens while futures goes down, resulting in a sharp drop in the cash bids. Sometimes they relax in a teeter-totter fashion; i.e. futures goes down but basis stays the same resulting is slightly lower cash bids. Then there are times when the futures will stay flat but the basis will weaken again causing slightly lower cash bids. Finally there are times when cash stays the same because as the futures change, the basis does the opposite, thereby keeping cash the same. Since 1973, the average date for the Winter Low in CZ is February 19th and in SX it is February 10th. Since 1973, 16.7 percent of the time the Annual Low is made during the Winter Low in CZ and 30.0 percent of the time the Annual Low is made during the Winter Low in SX.

The Spring Seasonal

The Spring High:

After the Winter Low as March approaches, new life emerges in all areas, including the market. By this time, the market has worked off its overbought situation in the charts through the Winter Low and everybody is anxious about a new growing season. Prices will often rally in anticipation of new business from all over the world, especially in the Northern Hemisphere, as more of the world's population lives north of the equator. The uncertainties of the up coming growing season usually provide an opportunity for the market to begin building in some weather premiums in new crop contracts. Sometimes the market needs to "buy" acres. The Planting Intentions Report at the end of March along with the Quarterly Stocks Report is usually looked forward to with much anticipation. The average date for the Spring High in CZ is April 12th and for SX it is April 1st. Since 1973, 16.7 percent of the time the Annual High is made during the Spring High in CZ and 13.3 percent of the time the Annual High is made during the Spring High in SX.

The Spring Low:

After the Spring High, however, the charts are technically overbought again, and the market needs to take a break. Taking a break almost always means lower prices, except in demand driven realizing markets where it can mean sideways. Almost all grain market rallies are selling opportunities, except during the initial and middle stages of demand driven realizing markets. These are rare, as I have only seen 2 true demand driven realizing markets in 40 years, 1973-1974, and 1995-1996.

Rallies that are the result of a hope for new business and the anticipation of cropping problems can experience deep corrections; sometimes even new contract lows. As the planting season gets underway, unless it is evident that serious problems are developing, the market soon realizes that another crop is getting planted. The market always assumes that trendline yields will be forth coming until proven otherwise! So the Spring Low follows the Spring High. The Final Planting Acreage and Quarterly Stocks Reports at the end of June are always very important. Since 1973, the average date for the Spring Low in CZ is June 5th and May 24th for SX. Since 1973, 23.3 percent of the time the Annual Low is made during the Spring Low in CZ and 26.7 percent of the time the Annual Low is made during the Spring Low in SX.

The Summer Seasonal

The Summer High:

After the Spring Low, a new uptrend will begin. Why? Because the market is too short, or because new demand news surfaces, or because the crop ratings start to slip, or finally because Summer comes and it is Hot and Dry! Nothing can fire up the grain markets like a Hot, Dry, Summer Weather Scare! They are fantastic selling opportunities! It's like Christmas in July! There have only been a handful of years that the Summer Weather Scare rallies were not selling opportunities Since 1973 in CZ, the Fall Highs have been above the Summer Highs only 8 times: 1974, 1976, 1980, 1993, 1995, 1997, 2000 and 2002. Likewise in SX since 1973, the Fall Highs were above the Summer Highs only 8 times: 1974, 1980, 1983, 1995, 1997, 1999, 2000 and 2002.

The Summer High rally is almost always a weather market. The trade hinges itself on each new forecast, both public and private, sometimes by the hour. Pollination fears along with ear filling and kernel depth fears because of excessive heat for Corn, or pod filling and insect and disease fears for Soybeans are real, but they are almost always couched in a supply side fear scenario, not a demand driven scenario. Therefore, when the fear has passed, market volatility will last for several days or weeks, but the Highs have been made. The average date for the Summer High in CZ is July 8th and for SX it is July 9th. Since 1973, 36.7 percent of the time the Annual High is made during the Summer High in CZ and 46.7 percent of the time the Annual High is made during the Summer High in SX.

The Summer Low:

After the wild Summer weather scare rally, the charts are really overbought! Prices will often crash from 50 to 75% of the rally in just a few days, and are almost always followed by yet another surge to "test" the Low of the High Day, or the Low of the High Week, before trending down for a period of time. The entire cycle from Spring Low to Summer High and back to Summer Low can be extremely volatile and extremely emotional, giving you financial whiplash that may take more than a season to recover from. This season is not for the faint of heart nor for those with shallow emotional and financial pockets! Since 1973, the average date for the Summer Low in CZ is August 23rd and for SX it is August 14th. Since 1973, 26.7 percent of the time the Annual Low is made during the Summer Low in CZ and 10.0 percent of the time the Annual Low is made during the Summer Low in SX.

The Fall Seasonal

The Fall High:

After the technical correction has taken place in the charts the next weather scare season is upon us…"Frost"! So, the market again heads higher playing the weather forecast game. At the same time, South America is getting ready to start planting, and to help insure another adequate harvest south of the border, the market adds a little incentive, just to be sure. **Fear is a stronger motivator than greed, and the market hates to be faced with uncertainties. The market never worries about too much supply, only too little.** The September Quarterly Stocks Report at the end of September is also always an important factor. Since 1973, the average date for the Fall High in CZ is September 26th and for SX it is September 12th. Since 1973, 20 percent of the time the Annual High is made during the Fall High in CZ and 16.7 percent of the time the Annual High is made during the Fall High in SX.

The Fall Low:

By now, of course, harvest has started in the southern Midwest and is rapidly expanding to the north, so as soon as the "Frost" scare is past, the market heads down into the harvest or Fall Lows. Since 1973, the average date for the Fall Low in CZ is November 12th and for SX it is October 17th. Since 1973, 33.3 percent of the time the Annual Low is made during the Fall Low in CZ and 33.3 percent of the time the Annual Low is made during the Fall Low in SX.

Cycle To Cycle:

With harvest usually more than 50% completed when the Fall Low is printed, the market starts thinking about the Post-Harvest Winter Rally, and the cycle gets ready to do it all over again for next year.

The ride never ends! Enjoy it, for it can be as good or as bad as you make it. Remember that fear is stronger than greed, that the principle of atrophy always drags a market lower when the buying pressure is done, and the market does not care about anyone.

*** CZ stands for new crop December Corn Futures.**

**** SX stands for new crop November Soybean Futures.**

***** The Annual Highs and Annual Lows are the highest and lowest prices traded in the last 12-months of the contracts life.**

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