GRAIN AND OILSEEDS MARKET SEASONALITY

EFFECTS OF WEATHER ON THE MARKET

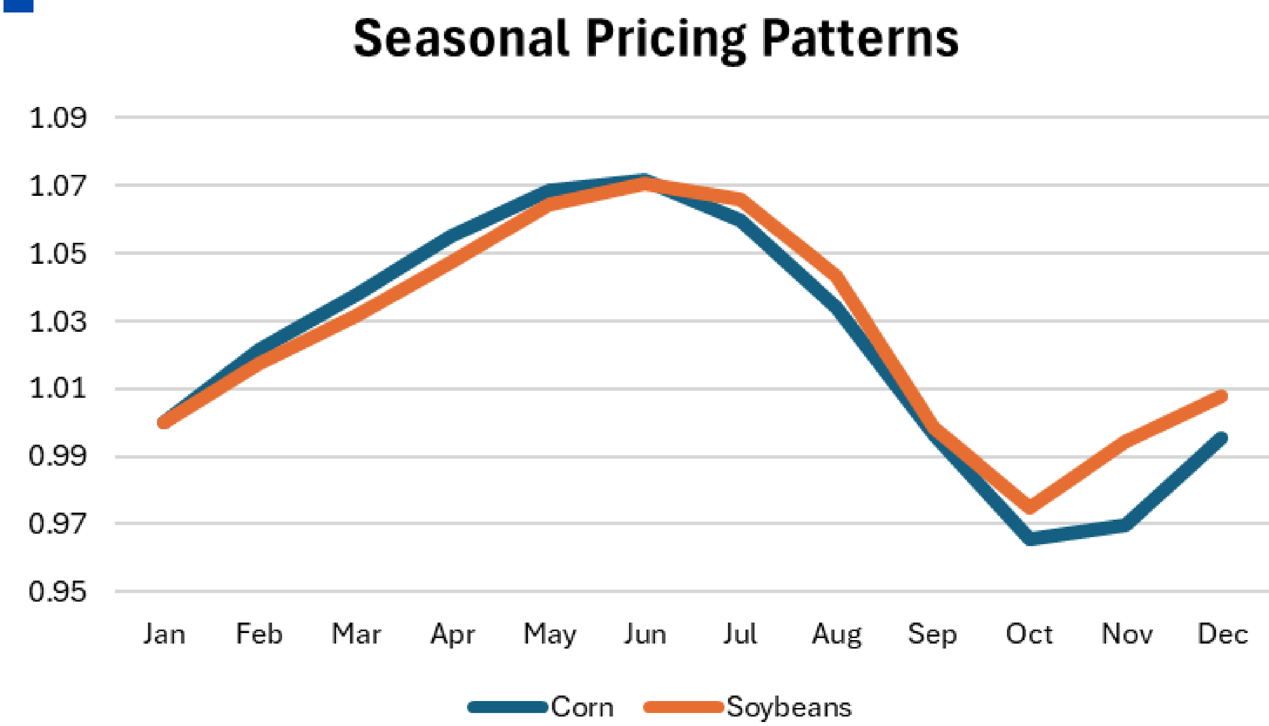
TABLE OF CONTENTS

INTRODUCTION

As we know, farming comes with many risks, and different things, such as weather, can increase those risks when it comes to growing crops. It is no wonder why weather can have such a profound effect on grain markets when it comes to make or break time for the growing season.

Because of those risks, there is a definitive pattern that develops seasonality in the market.

SEASONALITY



Seasonality is an important concept when understanding price patterns for grains and oilseeds. Those patterns are driven by supply and demand during certain times of the year, which should be considered when making marketing decisions.

The chart above depicts seasonal pricing patterns for corn and soybeans, indexing the highs and lows based on prices from 1980 through 2023. Grain prices reflect the seasonal patterns for planting, harvesting, and marketing the underlying crop. Seasonality is also indicative of the source of supply at a particular time.

Since corn and soybean planting takes place from about April to July, those months contain the most risk for supplies as the crop is developing. During May and June, we generally see the highest prices due to the weather or risk premium built up in the market.

WHAT IS RISK PREMIUM?

The premium is the difference between the expected spot price at some specific future date and the futures price of a contract maturing at that same date.

Another way to think of risk premium is the market rewarding the producer to hold onto their grain because there is uncertainty about future supplies. Weather is the largest driver of risk premium in grain and oilseed markets. After corn and soybeans are planted in the spring, an extended dry period in the Midwest exposes crops to potential yield losses. The expectation of lower supplies tends to drive prices higher due to the uncertainty of final production.

As uncertainty declines, so does risk premium. That is why corn and soybean prices are typically at their lows when crops are being harvested. Potential losses have become more known to producers and market participants.

Additional Considerations: Price patterns for soybeans have changed since the late 1900s due to Brazil's larger global influence in the soybean market. Since Brazilian farmers harvest soybeans in February and March, prices tend to decline during that period as more supplies enter the global market.

SUMMARY

Understanding price seasonality is important for grain marketing and developing a marketing strategy. Seasonality is affected by fundamentals, typically related to weather and production. Those cycles are a direct result of uncertainty of future supplies, and prices tend to fall as supply outlooks become less uncertain.

Trader PhD
AG MARKETING

CONTACT US

(515) 999-5522

www.traderphd.com
info@traderphd.com

4800 Westown Parkway, Suite 320
West Des Moines, IA 50266