



Seasonality

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New Crop

- Every year the mantra “marketing is important” will be repeated from different points of view:
 - Marketing services claim that pre-harvest marketing can help farmers increase their bottom line
 - Bank loan officers often imply that hedging can reduce price uncertainty
 - Agricultural Economists join in by suggesting that hedging is a best management practice

- Producers have smelled roses and felt thorns
 With some horror stories in between

- So much contradictory advice →→→→ confusing mystery

- Do not want to be wrong
 - If someone can prove me wrong..., I shall gladly change. I see the truth, which never harmed anyone: the harm is to persist in one's own self-deception and ignorance – Marcus Aurelius

- Primary question – can pre-harvest hedging improve long-run financial outcomes
 - Take a forward-looking view into the face of the unknown – take ownership
 - Use historical data as evidence of seasonality
 - Build an average farm price (pre-harvest hedging price, harvest price, storage)

Pre-harvest marketing

- Requires guiding principles
 - Which must reflect what you face
- The market
- Role of time
- Seasonality in commodity markets
 - Requires a long-term lens

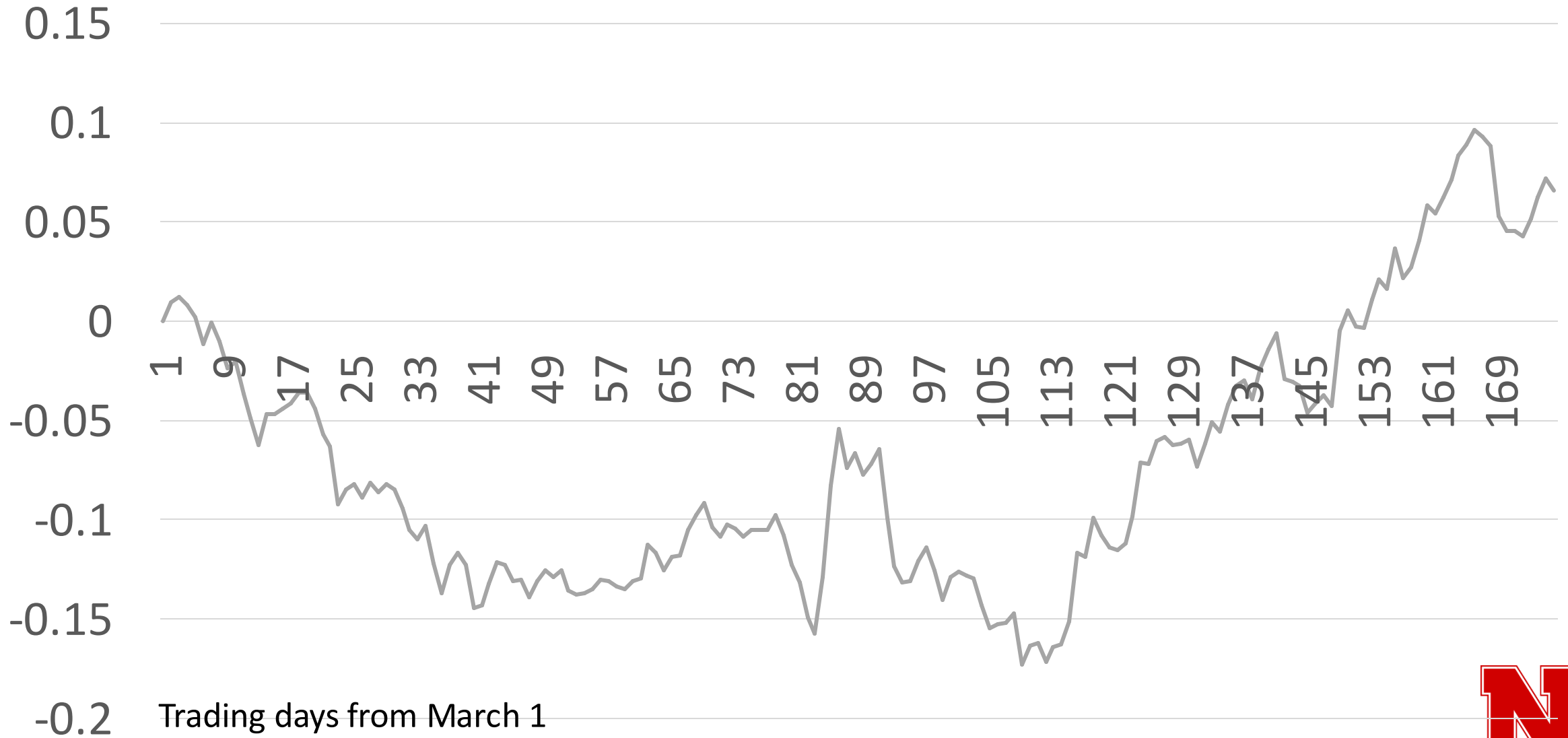
Extremistan vs. Mediocristan

- In mediocristan, if your local liquor shop closes, a few lose their jobs and possibly a new store opens up around the corner
- In extremistan, if a large bank closes (perhaps Lehman Bros), folks lose their jobs BUT it sends a sweeping signal taking down other venerable banking institutions
 - Russian wheat embargo of 1980, Covid
- Problem is we think we live in Mediocristan
- Prediction ability in extremistan = ZERO!!!!!!!!!!
- Prediction ability in mediocristan = good
- We live in extremistan

Time

- Suppose your worried about a 5% (1/20) risk event – low revenue (low yield/low price)
 - Happening in 2025
 - 5%!
 - Happening at least once in the next 4 years
 - 18%
 - Happening at least once in the next 20 years
 - 40%
 - Happening at least once in the next 20 years
 - 64%
 - Happening at least once in the next 30 years
 - 78%

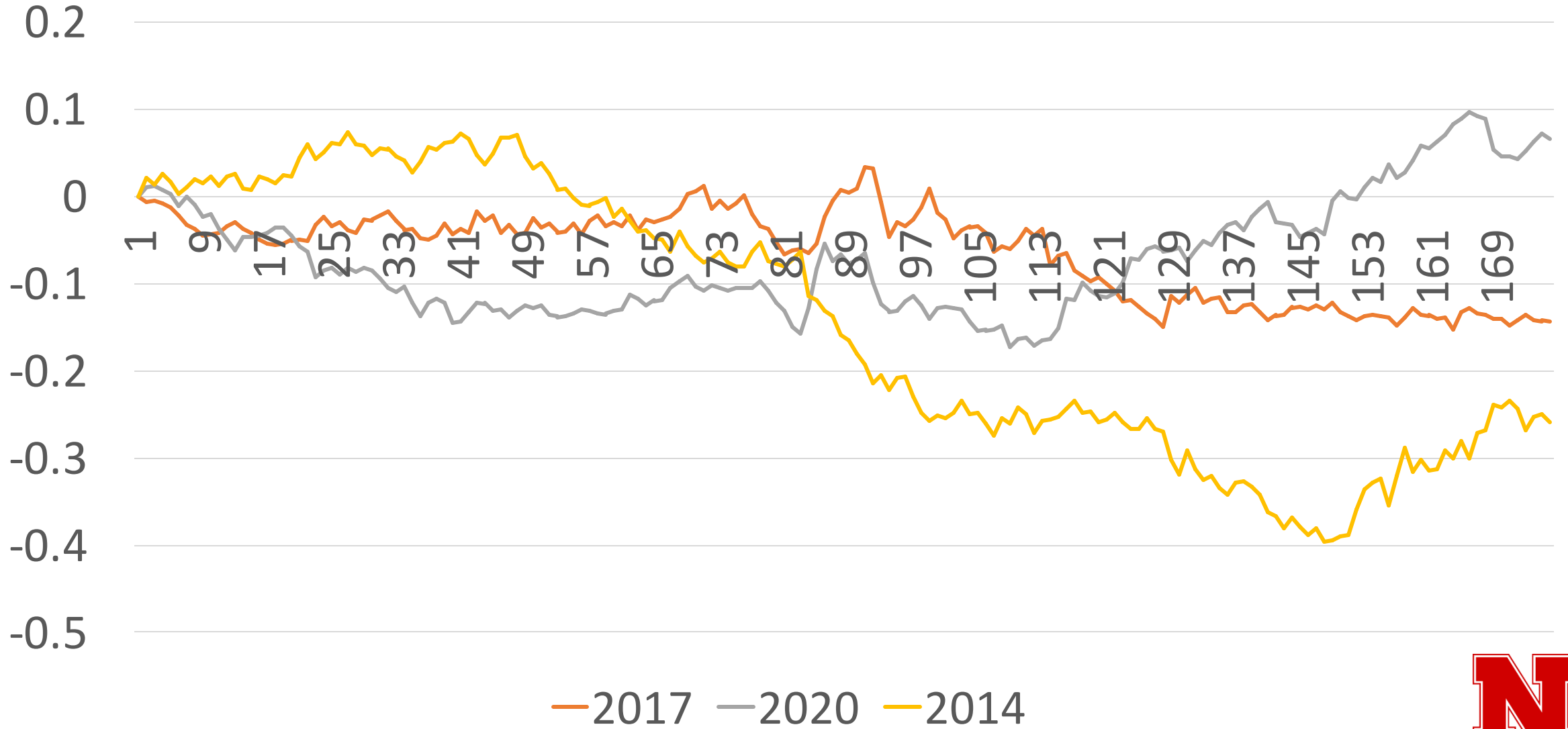
Corn Futures Prices, One Year



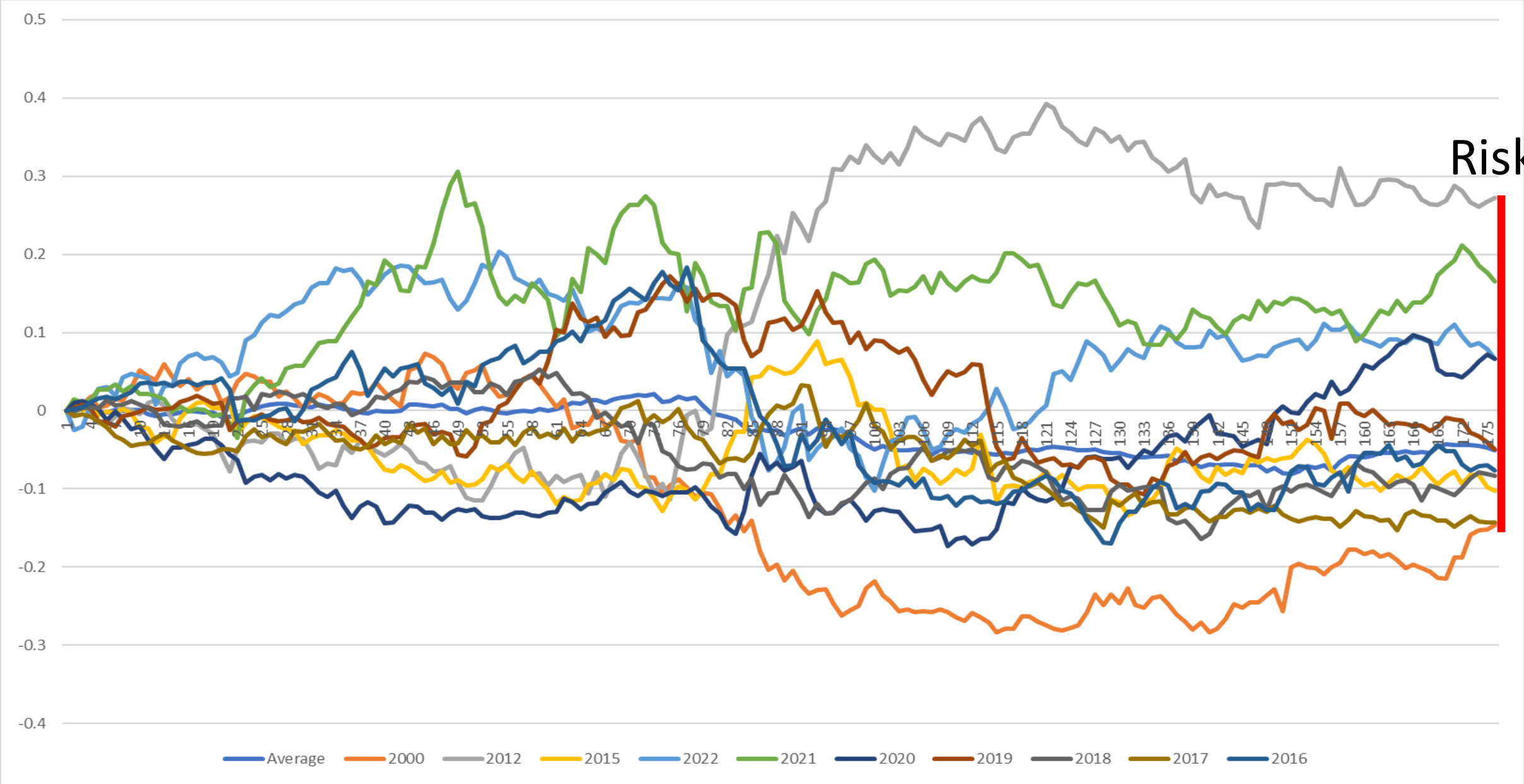
Trading days from March 1



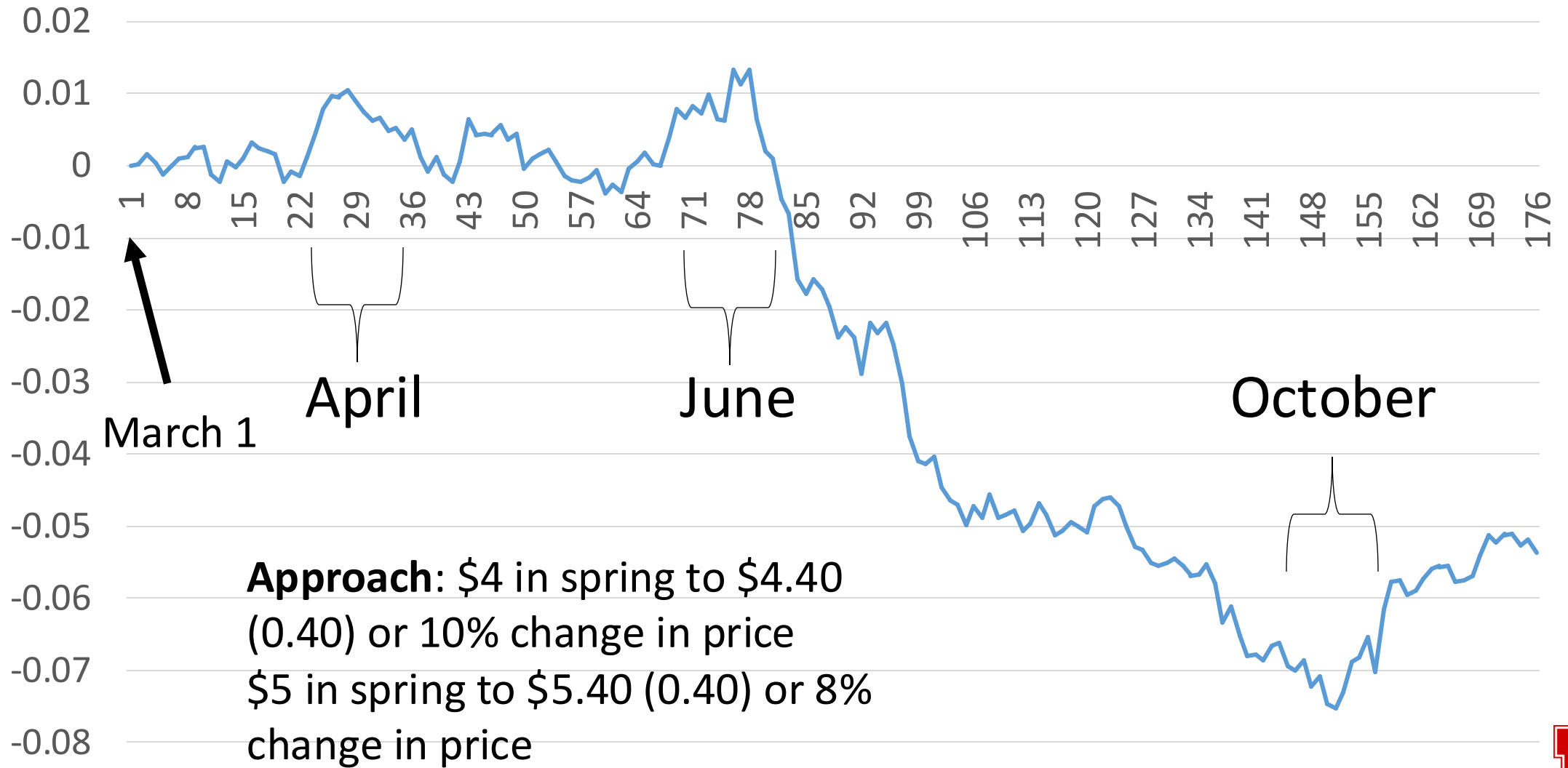
Corn Futures Prices, Three Years



Corn Futures Prices, Ten Years



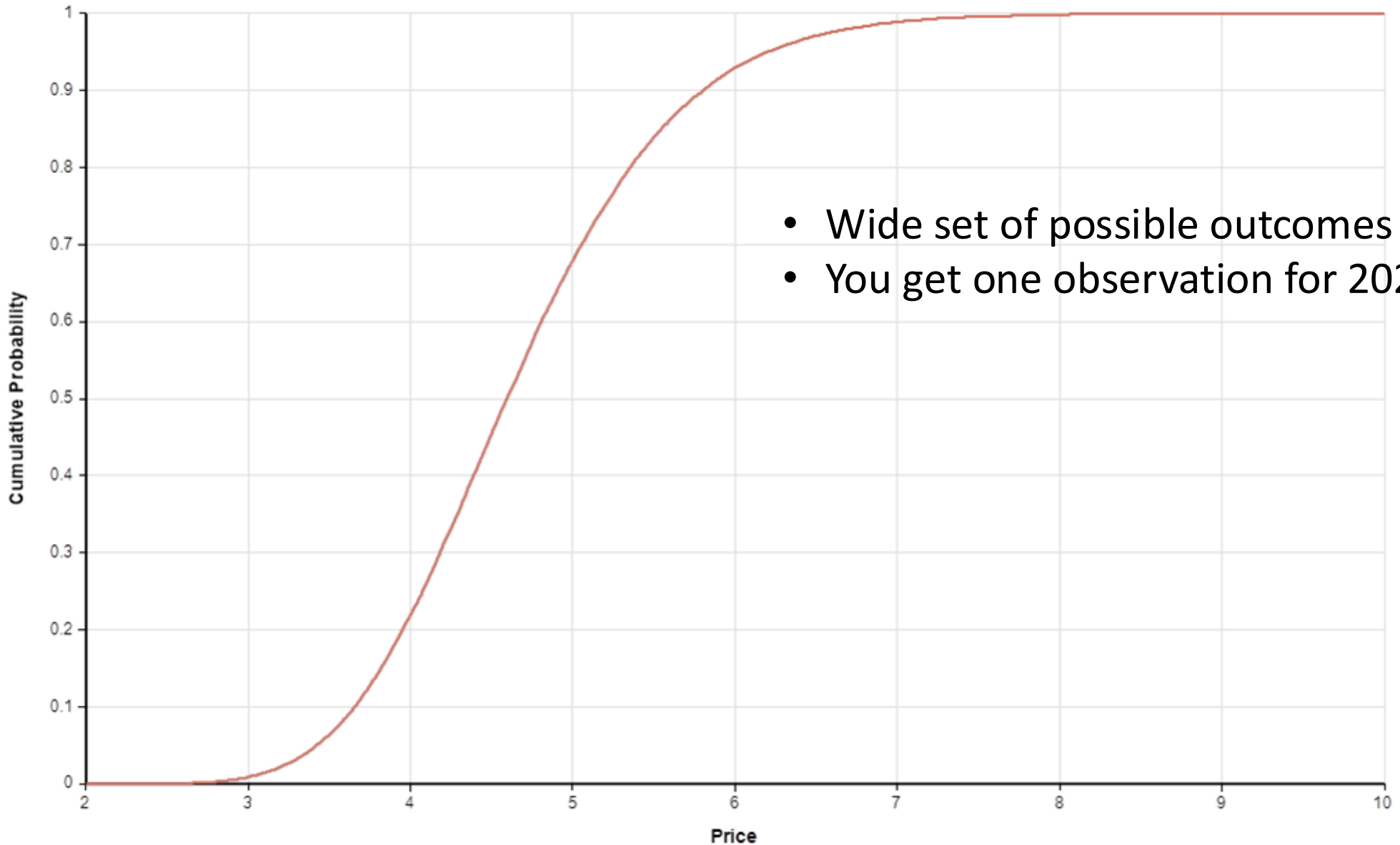
Corn Seasonality



Average of December Corn Futures

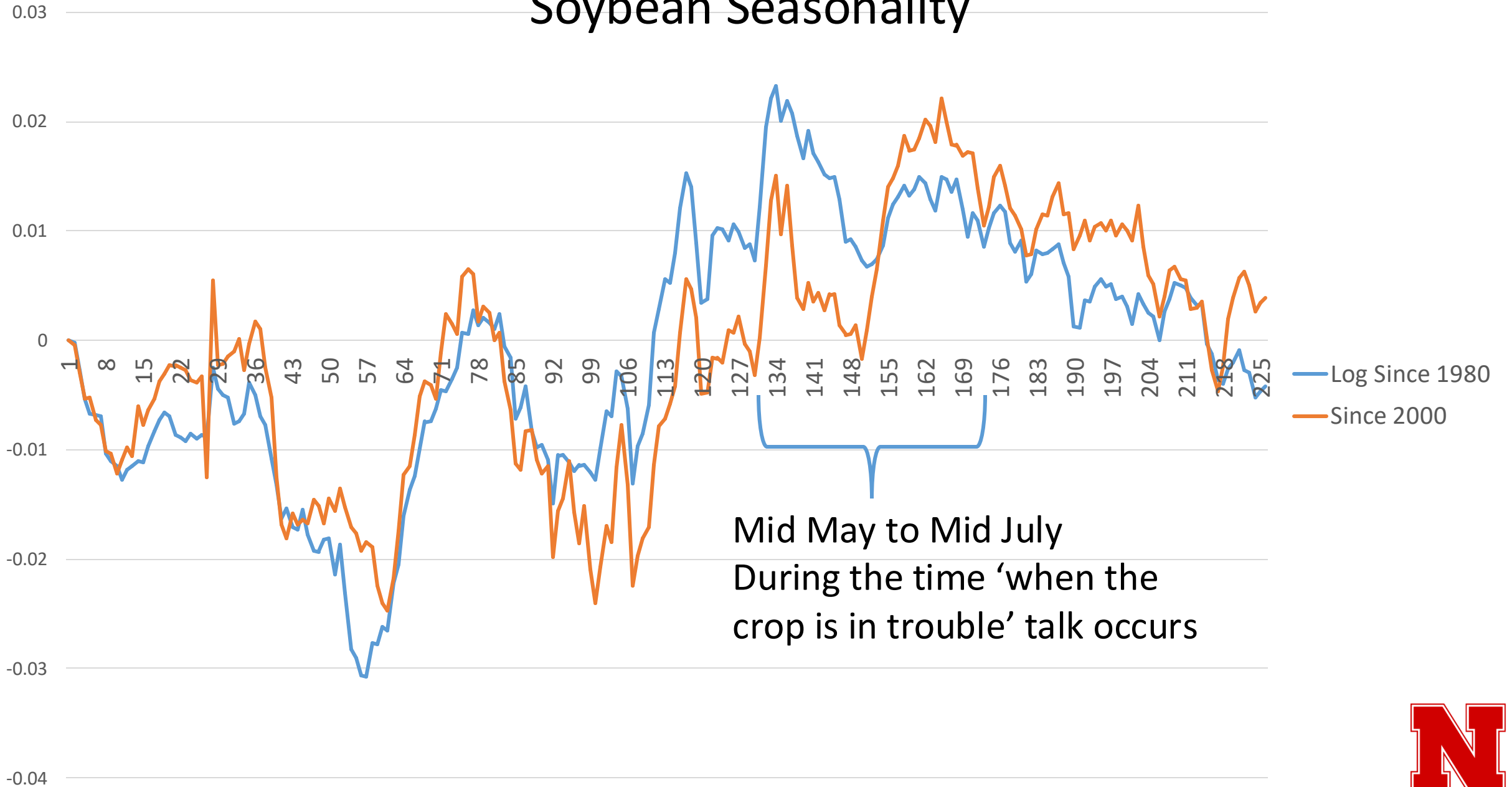
<u>Year\Month</u>	<u>February</u>	<u>October</u>	<u>% Change</u>
2006	\$2.59	\$3.03	1.17
2007	\$4.06	\$3.58	0.88
2008	\$5.40	\$4.13	0.76
2009	\$4.04	\$3.72	0.92
2010	\$3.99	\$5.46	1.37
2011	\$6.01	\$6.32	1.05
2012	\$5.68	\$7.50	1.32
2013	\$5.65	\$4.39	0.78
2014	\$4.62	\$3.49	0.76
2015	\$4.15	\$3.83	0.92
2016	\$3.86	\$3.49	0.90
2017	\$3.96	\$3.49	0.88
2018	\$3.96	\$3.68	0.93
2019	\$4.00	\$3.90	0.98
2020	\$3.88	\$3.99	1.03
2021	\$4.58	\$5.37	1.17
2022	\$5.90	\$6.86	1.16
2023	\$5.91	\$4.88	0.83
2024	\$4.66	\$4.16	0.89

December Futures Price Distribution



- Wide set of possible outcomes
- You get one observation for 2025

Soybean Seasonality



What is the most successful risk management strategy?

Those that survive **TIME**

Time is not 'last year'

Remarks

- Engage in hedging knowing the price path is unknown
 - Use crop insurance to your advantage
 - With RP you have price protection
- Use seasonality to your advantage (i.e., think long-run)
 - Consider devoting at % of production to this strategy. Evaluate outcomes way into the future
- Build an average farm price (not win/lose between strategies)
 - Pre-harvest
 - harvest
 - storage