Food and Agricultural Policy Research Institute
FAPRI
Decisive Marketing
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Acreage Battle or No-show Forfeit?

Is what was earlier expected to be a battle for acres between corn and soybeans becoming a non-event? No one seems to have shown up to bid for acres. Instead of markets bidding corn or soybean prices higher to attract planting, other factors such as production risks, input costs or whichever crop's prices decline the least may be what influences planted acreages.

The USDA's February supply/demand estimates appeared to support a bullish outlook for soybean prices. 2008-09 carryover supplies are expected to be below average. Exports remain solid in spite of poor foreign economies. Drought in South America is expected to reduce their soybean production. Other market factors, such as futures price spreads and cash basis also suggest demand strength that should support market prices. But soybean prices have been in a decline since early January and new crop (November 2009) futures prices have fallen more than one-dollar per bushel since the release of USDA's February estimates. In spite of what appears to be bullish fundamental factors, the soybean market does not seem to be bidding for acres!

There were no changes in the USDA's February US corn supply/demand estimates. However, these estimates remain somewhat discouraging for corn price outlook. The term "demand destruction" has been used by many to describe use expectations for the second largest corn crop ever. Reduced consumer meat demand and cost/price squeezes on livestock producers are resulting in reduced feed demand for corn. The slowed economy is impacting energy use, which is slowing ethanol expansion and the use of corn for ethanol. But it should be pointed out that some increased ethanol production is needed to continue meeting renewable fuels standards. Depressed foreign economies, increased world grain production and feeding of wheat are reducing corn export demand prospects. These factors are resulting in an above average 2008-09 corn ending stocks estimate of nearly 1.8 billion bushels. December 2009 (new crop) corn futures prices declined more than 30 cents per bushel following the USDA's February reports, which continued the price decline that began in early January. Although corn production levels need to be maintained in 2009, the "demand destruction" and increasing ending stocks have led some analysts to suggest that the corn market does not need to bid for acres!

Volatile input prices and production costs have been major concerns in most discussions about 2009 crop acreages. Although input prices have declined in recent months, corn is still expensive to produce. FAPRI's Missouri corn and soybean farm production budget estimates can be found at:
http://www.fapri.missouri.edu/farmers_corner/budgets/index.asp?current_page=farmers_corner
These budgets, updated January 30, 2009, suggest operating costs per acre for producing corn at nearly $315 and soybeans at about $186 per acre. These costs include fertilizer use based on nutrient removal. In many cases, farmers rely on nutrient carryover and do not apply fertilizer directly to soybeans. This would make the spread in cash outlay even wider between the two crops. Cash rent is not included in these cost estimates and would need to be added if the land is cash rented. These are only the operating costs and do not include fixed or overhead costs for machinery and land. This wide production cost difference has led many to believe soybeans will win acres from corn without having to bid up prices. They argue that in the face of declining

market prices, production risks and high input costs, farmers will choose the soybeans with lower production costs and reduced financial risk.

The soybean/corn futures price ratio (soybean price divided by corn price) is often used as a signal for which crop's prices are trying to attract acres. If the soybean/corn price ratio is 2.5:1 or higher it favors soybeans. A soybean/corn price ratio of less than 2.3:1 usually favors corn. Soybean/corn breakeven price ratios of about 2.3:1 to 2.5:1 represent rough estimates. The actual breakeven ratio varies, depending upon input costs, prices and the farm's (state's) soybean/corn yield relationships. Note: the current breakeven ratio for much of Missouri is likely less than 2.3:1. The new crop 2009 soybean/corn futures price ratio has been less than 2.15:1. This ratio favors corn and hints that, in spite of lower prices, corn might be bidding for acres. This is true, but the ratio favors corn because of the amount of corn price decline compared with greater soybean price declines and not because prices are being bid up.

There could be more acres available in 2009. Soft red winter wheat plantings declined 26% this year. While this could mean fewer double crop soybean acres, it offers the potential for more corn and/or higher first crop soybean yields and production. However, the prospect of lower prices and higher costs may mean some marginal acres may be taken out of production. In spite of some reduction in total crop acres, the reduced wheat acres with potential shifts from cotton or other crops could provide more acres for both corn and soybean production and less need to bid for acres.

Slumping national and world economies are overshadowing corn and soybean supply/demand factors. Losses in the stock markets have spilled over into commodities, including corn and soybean markets. Corn and soybean prices also react to energy prices, the value of the dollar, financial markets and governmental action to stimulate the economy. These factors are receiving much more attention, right now, than the potential for 2009 corn and soybean production. However, significant acreage changes (up or down) could result in supply changes that could eventually impact prices.

Summing up, market signals for whether to plant corn or soybeans are mixed. Declining prices have narrowed potential profit margins. Based on the Missouri estimated crop production budgets, profit margins may still exist. However, profit or loss potential varies considerably depending upon individual farm yields and production costs. Spring weather conditions and whether dealers can meet delivery demands for delayed fertilizer purchases may also impact corn and soybean acreages. Producers will have to consider these and other factors before making final planting decisions or changes to current plans for 2009. Managing financial and production risk will be critical and crop insurance purchases must be in place by March 15. Financial risk and narrow profit margins also makes marketing plans to capture profitable prices critical as well.

Market analysts will continue to be trying to estimate 2009 corn and soybean acreages in the weeks ahead. The March 31, 2009 USDA Prospective Plantings report is most likely to provide the first solid clues for what may be planted. Any large shift in planted acreage of corn or soybeans could have significant impacts (positive or negative) on supplies and prices. In recent weeks, instead of a bidding war with higher prices, acreage signals seem to be coming from which crop's prices decline the least. The markets appear to believe that corn acreage will not change much and that soybean acres will increase, so there is no reason to bid up prices to attract more acres. This is a discouraging price direction in a risky economy and not much help for those wanting to adjust crop acreage mixes based on market signals. It also increases marketing risks with the potential for market volatility resulting from any acreage or production surprises in the months ahead.

Marketing risk management plans should include flexible strategies to prepare for market price risks. In addition to using crop insurance to manage production and financial risks, financing to cover cash flow needs of futures account margins and option premium is likely to be needed as well.