

Decisive Marketing

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Looking For Market Signals

Should farmers plant more corn or soybeans in 2009? Most Corn Belt farmers, of course, will plant both crops for a variety of reasons (to spread production risk, maintain crop rotations, fertilizer already applied, etc.). However, prices often provide market signals that encourage or discourage additional acres to be planted to one crop or the other. The past two years saw the markets “bid” for corn acres in 2007 with a January corn/soybean nearby futures price ratio near 1.9/1, which favored corn. The tables turned in 2008 with a January soybean/corn nearby futures price ratio of about 2.5/1 that favored soybean production. These signals, along with other factors, led to a large increase in corn acreage in 2007 and followed with a big switch from corn to soybeans in 2008.

The USDA's January 12, 2009 supply/demand estimates, along with winter wheat plantings, provided a lot of negative news, especially for corn prices. Besides increasing 2008 corn production, the estimates suggested that corn feed use will slip significantly due to the high prices of the past year. Lower poultry, hog and beef numbers suggest reduced feed demand that will take some time to rebuild. Although corn for ethanol use will increase in 2008-09, at 3.600 billion bushels it is now 400 million bushels lower than earlier estimates. Increased grain production worldwide is providing substitutes for US corn exports. The current corn export estimate of 1.750 billion bushels is nearly 700 million bushels less than last year's exports. The current export pace suggests that even this level of exports may be difficult to reach. The combination of increasing production estimates and lower forecasts for use results in increased 2008-09 corn ending stocks at 1.790 billion bushels. This carryover estimate was above trade pre-report expectations and exceeds the average corn ending stocks for the past 10 years. It also appears to be a more than adequate corn carryover and some analysts have suggested that maybe corn doesn't need to “bid” for any more acres.

The soybean supply/use projections also contained some negative price news. The USDA increased 2008 soybean production when most of the trade was expecting a reduction. Slow feed demand for soybean meal led to a reduction in domestic soybean crush, but strong export progress caused a larger increase in export projections. However, the increased production estimates more than offset the net increase in expected use and soybean 2008-09 ending stocks are expected to rise from 205 million bushels to 225 million bushels. This carryover estimate was above trade pre-report expectations. But it is below the average carryover for the past 10 years and still represents a tighter supply situation than for corn. Do soybeans need to “bid for acres?”

The USDA's Winter Wheat Seedings report indicated that soft red winter wheat acreage is down 26 percent from last year. This adds more than two million acres that could be planted to corn or soybeans. The lower winter wheat acreage may result in more price strength for spring wheat prices, attempting to bid some acres away from other crops in

spring wheat production areas. But slower corn demand, increasing corn and soybean carryovers and the potential for more acres may reduce the need for an acreage bidding war between corn and soybeans.

Weather is always a factor to consider and it impacts market price signals. US spring and summer weather forecasts will become more important as the planting season approaches. Right now, it is weather in South America that is beginning to get more attention. It has been dry in many areas of the southern hemisphere, especially in Argentina. Argentina is the world's second largest corn exporter and the third largest exporter of soybeans. Reduced production in Argentina, and maybe Brazil, would change the supply/demand outlook and support prices.

Many other factors will also drive corn and soybean prices. The domestic and international economies, value of the dollar, energy prices, fund trading activity and other economic factors will likely continue to be important to corn and soybean price direction.

High input costs, especially for fertilizer, seed and fuel, have been worrisome and will likely impact planting decisions. Fuel prices have declined in recent months. Whether fertilizer has already been booked or is yet to be purchased may impact costs and planting decisions. Wholesale fertilizer prices have declined, but many dealers have been caught with high priced inventory and are reluctant to take losses by reducing prices. In general, corn production requires the use of more expensive fertilizer inputs and more fuel to produce than what is needed for soybean production. Producers who have waited to buy fertilizer may get lower prices, but waiting too long may result in fertilizer delivery problems as industry infrastructure may not be able to keep up with the delayed demand. Seed cost may also be higher using corn hybrids with improved genetic traits. It will be essential to manage production costs. This will require careful budgeting to determine breakeven prices and potential for profits.

So what are the current market signals suggesting for corn or soybean production in 2009? Is "bidding for acres" occurring in the corn and soybean markets? Looking at March 2009 futures prices (corn \$3.65 and soybeans \$9.95 on 1-15-09) the soybean/corn price ratio is near 2.7/1. When compared with the last two years, this appears to heavily favor soybeans. However, nearby (March '09) corn futures are discounted when compared with new crop (December '09) futures prices. This "carry in the market" suggests weak nearby demand and a market that is willing to pay more for corn next year. In contrast, the soybean market is inverted with nearby futures prices about thirty-five cents higher than new crop (November '09) futures prices. This signals stronger nearby demand for soybeans with less concern about next year's crop supplies. Comparing new crop corn futures price (\$4.11) and soybean prices (\$9.61) on January 15, 2009 the soybean/corn price ratio is about 2.3/1. For much of the Corn Belt, this price ratio is probably a neutral signal, unless corn production costs are especially high.

For Missouri producers, the current new crop prices may favor soybean production. Depending upon production costs and assuming a corn harvest time basis of minus fifty cents, the new crop prices may only be offering marginal returns on 155 bpa corn production. Assuming a minus eighty cents soybean harvest time basis, the current soybean prices are offering some profit possibilities on 50 bpa soybean production. For either crop, profits are likely to be harder to come by in 2009 than they were in 2008 and wishful thinking should be avoided in setting price goals. While current price ratios may favor soybean production, market carry signals suggest the markets believe that increasing soybean supplies will lead to lower soybean prices. If corn acres are cut significantly, lower corn production may eventually strengthen corn fundamentals and prices. During an uncertain economic climate, capturing potential profits when they are offered may be important.