Marketing update for 2013 and beyond

Chat Hart

Iowa State University, chart@iastate.edu

Follow this and additional works at: https://lib.dr.iastate.edu/icm

Part of the Agricultural and Resource Economics Commons, Agricultural Economics Commons, and the Economics Commons


https://lib.dr.iastate.edu/icm/2013/proceedings/5
Marketing update for 2013 and beyond
Chad Hart, associate professor and Extension economist, Economics, Iowa State University

With the government shutdown in October, there were a lot of questions about how the agricultural markets would react. Would the lack of data from USDA have a significant impact on the day-to-day variation in the markets? Would market volume diminish given the lack of information? Well, the general answer turned out to be that the crop markets continued on as normal. Farmers and traders fell back onto private source data and continued to market and move crop. Combines rolled and the harvest proceeded as usual. And for the second straight year, the most common refrain, at least in central Iowa, was that the crops were “better than expected.”

The markets have been preparing for large crops for several months now. And crop users have been waiting for the new crops to arrive. With their arrival, crop demands have rebounded quite quickly. Figure 1 shows the response of the ethanol industry. When the drought of 2012 hit the Midwest and crop prices moved higher in the early summer of 2012, the ethanol industry went through a quick, but substantial, pullback. The industry shrank by over 10% during the course of a month and remained at those reduced production levels until this past spring. Ethanol plants did increase production this summer, but the industry as a whole remained below usual production. As the summer dragged on, ethanol plants once again reduced production, waiting for the new crops and lower feedstock prices. And as the graph shows, within the last 4 weeks, the ethanol industry has raced back up to levels we haven't seen since before the drought. With gasoline prices in the $3 range and corn in the $4 range, ethanol margins are good and the industry is producing a lot of fuel.

![Figure 1. Corn grind to ethanol (Source: DOE-EIA, converted to bushels).](image)

And the ethanol industry wasn’t the only demand sector that was ramping up while the government was in its shutdown. The export markets were also reacting strongly to the availability of the new crops and the lower prices that came with them. As Figure 2 shows, the export market for corn leaped right back to where it was for the 2011 crop. The drought of 2012 had cut this market in half. The lower prices this fall brought the market back. The big surges in the corn market have come from Mexico and China as both countries made significant purchases during the government shutdown.
Figure 2. Exports (Source: USDA-FAS).

The export market for soybeans has also taken a healthy leap. While the drought and higher prices from last year did not cause a significant pullback (in fact, soybean export pace was very strong in the first half of the last marketing year), lower prices this year have enticed additional export sales. Based on the latest numbers from USDA, nearly 1.2 billion bushels of the 2013 soybean crop had already been booked for export before November started. China leads the way again, but we are also seeing growth from the European Union, Mexico, Indonesia, and Taiwan. Overall, the soybean export market is up 25% from last year.

Figure 3. Projected season-average prices.

Thus, demand is rebounding and helping stabilize prices as we move through harvest. The corn market had dropped into the $4.10-4.30 range before the government shutdown started. And basically, it has remained in that range ever since. For each bit of information indicating the corn crop is bigger than expected, there's another bit of information showing corn demand is improving as well. And while the soybean market has displayed a little variability, it has found a comfortable range over the past month, settling in around $12 per bushel. Looking further out, the futures markets are showing prices that would point to cash prices hovering around $4.50 per bushel for corn in the 2014 and 2015 marketing years. Soybean futures point to cash prices around $11 per bushel for the same years.

One of the questions I had going into harvest was how quickly could crop demand recover. The answer thus far has been fairly quickly. Given a record corn crop and a very strong soybean crop this year, the recovery in demand is crucially to maintaining prices around the level of production costs. As the markets currently stand, corn prices are running slightly below production costs, but the futures market is offering some carry into the winter and spring. That should provide producers opportunities to catch prices that cover costs. The soybean market is still
maintaining prices above production costs. Based on the ISU extension production costs, there is roughly a buck per bushel margin currently. But with the inversion in the futures market, the margin is expected to disappear as the marketing year progresses. So the outlook for this marketing year is around breakeven for corn and a little better than that for soybeans. With margins tightening, marketing plans become even more important, risk management is crucial, and cost savings suddenly matter again. Remember what crop marketing was like before 2007 because the next few years may be very similar to that.