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The highs and lows of crop marketing
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The month of October provided a bounce back for the 2014 crop outlook. While supplies are still more than ample, the trade has shifted its focus to demand. And that shift has put prices on an upward march. The price recovery has come just as the bulk of the Iowa crop production exits the field.

The slow pace of harvest has assisted the price recovery. Both the corn and soybean harvests are running behind schedule. As of October 26, 36% of the Iowa corn crop and 46% of the national corn crop had been harvested. Typically, 65% of the Iowa and the national corn crop by then. So the massive 14.5 billion bushel crop is slowly making its way into the marketing chain. The soybean harvest is closer to typical, but still behind. The 5-year average harvest pace by this time is 85% of the Iowa crop and 76% of the national crop. Instead, we’re at 81% of the Iowa soybean crop and 70% of the national crop. With harvest running behind, the pressure at local elevators and delivery points has been slightly less than expected.

At the same time, demand for corn and soybean is about as strong as it has ever been. USDA’s current demand projections show sizable growth in feed and residual usage for corn, near record usage for ethanol production, and a small increase in food and seed demand. For soybeans, domestic crush is approaching 1.8 billion bushels, based on expansions of the pork and poultry industries. But a key to any continuation of the price rebound will be international demand.

Figure 1 shows the active international buyers of U.S. corn so far this marketing year. Corn export pace is roughly the same as last year. But there has been a definite change in the markets U.S. corn is entering. Last year, China was a significant buyer of corn, representing roughly 10 percent of the international market. This year, China has retreated from the corn market as a dispute over genetically modified corn continues. But those lost sales have been replaced in other markets. The development of trade agreements with South American countries has been boosting prospects for increased sales. Colombia and Peru have stepped forward as major markets for the 2014 corn crop. Sales to Japan are also on the rise. Overall, USDA projects corn exports to dip slightly during the current marketing year. However, given the still relatively low prices and the emerging markets for corn, the potential is there for corn export demand to fall in line with the other demand lines and grow as we move into 2015.

Figure 1. Corn export sales. Source: USDA-FAS.
For soybeans, the export demand picture continues to rely on China. As Figure 2 shows, China continues to be the majority buyer for U.S. soybeans. But the growth in soybean exports is more broadly based than that. The European Union, Mexico, Indonesia, and Taiwan have also increased their purchases of soybeans. Overall, soybean export sales are running approximately 5% ahead of last year’s pace. And that would put soybean exports are record pace once again. The soybean market has enjoyed strong international demand for the past several years and that pattern pushes through to today.

Figure 2. Soybean export sales. Source: USDA-FAS.

Over the course of the month, the trade has internalized the record crop supplies and has refocused on the record usage projected for the crops. Both the corn and soybean markets found their bottom near the 1st of October. And as we celebrated Halloween, crop prices had risen to levels we hadn’t seen since late August. Soybean futures have returned to double digits. Some corn futures have returned to the $4 range. The futures markets are providing some incentive to store both crops in the hopes of capturing higher prices this coming spring.

Figure 3 displays the change in projected crop margins, given futures prices and Iowa State University Extension production cost estimates. The price rebound has added roughly $50 per acre back to soybeans and $75 per acre for corn. Both crops are still showing negative returns, but at least the gap is shrinking. And given that a sizable portion of the crop is marketed right at harvest, this rebound couldn’t have come at a better time. USDA data from the last three years shows that nearly 14% of the corn crop and 25% of the soybean crop is marketed during October.
The prospects for the 2015 crops are also improving with the price recovery. And again, while the numbers aren’t showing profitability, the hole is not nearly as deep as it was a month ago. Given the futures price structure at the end of October, projected margins were in the -$50 per acre for soybeans and -$100 per acre for corn. The losses have been cut by nearly half. Continued price improvement and some possible cost reduction for the coming crop year could extend that trend.
While futures prices have risen, cash prices have improved more modestly. Basis levels have been widening as the crops are rolling in. In eastern Iowa, basis on the nearby corn futures contract (December) has moved from 8 cents under at the beginning of the month to 25 cents under at the end. For western Iowa, the decline has been a little larger, shifting from 5 cents under to 34 cents under. The statewide average soybean basis has floated in the 30-40 cents under range through October, but some markets are starting to push the soybean basis to the 50-60 cents under range. Given the large crops, this is not surprising. The question over the next month is whether the futures markets can continue to rise enough to offset the weakening basis.