Dec 1st, 12:00 AM

Sounding like a broken record

Chad 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/2015/proceedings/5
Sounding like a broken record

Chad Hart, associate professor and Extension Economist, Economics, Iowa State University

While the weather and growing season crop circumstances were different, the 2015 marketing year has some strong parallels with the 2013 and 2014 marketing years. Production is strong enough to meet or exceed demand. Stock levels are holding. And prices remain lower than most producers hoped when they planted the crops. Hence, a good deal of my discussion follows from the outlooks for the 2013 and 2014 crops. So, yes, I sound like a broken record. But there are good reasons why.

U.S. crop producers continue to churn out large crops. The U.S. corn crop will be the 3rd largest ever, following up on the record corn crops grown in the previous two years. While corn planted area declined for the 4th straight year, corn yields have more than offset the acreage loss. The U.S. soybean crop has a chance to be the largest ever, possibly passing last year's record. Much of the area corn lost, soybeans gained, providing the base for the large soybean crops. Crop supplies have not been a limiting factor for a while now.

Crop demand has been good, but not good enough to spur prices higher. Corn demand reached record levels last year. And the projections are for corn demand to roughly hold steady for the 2015/16 marketing year. Livestock feed demand has rebounded back above 5.2 billion bushels. Corn usage for ethanol has also topped that figure. Corn sweetener demand has held steady for the past three years. Meanwhile, domestic soybean demand has increased with the growth in the livestock industries over the past 12 months.

However, there is some weakness in demand, coming from the export markets. Much like in the U.S., the rest of the world has grown large corn and soybean crops over the past couple of years. That growth in world supplies, combined with the strengthening of the U.S. dollar and global economic concerns, has limited potential exports for corn and soybeans.

Figure 1 shows the changes in U.S. corn sales this marketing year. Overall, the corn export market is off by more than a third. And all of the major corn markets are down. The Mexican market has held up the best, as sales are off only slightly. But there have been sizable reductions in the Asian and South American markets.
Figure 1. Corn export sales changes, as of Oct. 27. Source: USDA-FAS.

Figure 2 shows the soybean export sales changes. As has been the case for the past few years, the soybean market moves with China. And while there have been some high profile soybean sales to China this fall, the market is still looking at a reduction in Chinese soybean demand. Looking beyond the Chinese market, soybean exports to the rest of the world are roughly steady with last year.

Figure 2. Soybean export sales changes, as of Oct. 27. Source: USDA-FAS.
With the good harvest conditions through most of the fall, the crops have entered the market at a good clip. Corn and soybean prices hit their low points around Labor Day and there has been slight improvement since then. Figure 3 displays the change in projected crop margins, given futures prices and Iowa State University Extension production cost estimates. At this time last year, the projected margins for the 2015 corn and soybean crops were holding between -$50 to -$150 per acre. Given futures prices at the end of October, margins remain near the lower end of that range. The return picture really hasn’t changed much over the past year.

And while the outlook for the 2016 crops is a bit better, projected margins remain below breakeven for both crops. Unlike the past couple of years, corn has a slight edge in projected returns over soybeans. The combination of the reductions in corn plantings in the U.S. and the continuing growth of soybean production in South America and the Black Sea region have given corn prices a little more room for improvement.
And as harvest wraps up, some carry has built in the corn market. At the end of October, March corn futures are running 10 cents above December. May adds another 6 cents. And that slow price growth continues as we look the December 2016 and 2017 corn futures, which are both holding above $4 per bushel. However, the soybean market has not been able to build that carry. Soybean futures are basically flat through the 2017 contracts. So the markets are providing some incentive to hold corn, but not soybeans. And the key to improving financial prospects will more likely come from controlling costs in the 2016 crop year, than from significant price strength, unless Mother Nature limits the crop size.