February 2013 – Crop Market Update

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- Crop Update: Todd Davis, Senior Economist

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Crop Update: *The Market is Bidding for Acreage – Which Crop Will be the Winner?*

February is when the bidding for acres heats up in the commodity markets. The bidding process is through the futures market price which sends a profitability signal to producers and also sets the base prices used in many crop insurance products. The projected revenue protection crop insurance price for the Midwest states are determined in February and the revenue protection base guarantee will be an important factor in manager's decision-making for 2013 crop-mix as this is the farm safety-net protecting against price and yield risk.

The February *WASDE,* released February 8, didn't make drastic changes to the domestic balance sheets as the markets remain focused on South American production potential. The crop balance sheets will not be reproduced here as only minor changes were made to each crop. Corn ending stocks increased by 30 million bushels due to further reductions in projected exports (now down to 900 million bushels) with a slight increase in non-ethanol industrial use. The pre-report estimates for corn stocks were projecting a slight increase in stocks to 618 million so this report was slightly bearish. However, the stocks-use ratio for corn remains tight at 5.6 percent and uncertainty remains if feed demand is being curtailed by the current level of corn prices. The next glimpse at feed demand comes with the March 28 *Grain Stocks* report.

Due to an increase in crushing demand, soybean stocks declined by 10 million bushels to 125 million. Surprisingly, exports were not increased even though exports are at a brisk pace compared to last year or the previous five years (see graph). Export demand will eventually shift to South America, but that historically occurs in late March to mid-April. To meet current USDA projections, exports will have to drop quickly as illustrated by the black line in the graph. Soybean stocks are at a drastically tight stocks-use level of 4.1 percent which is about 15 days of stocks. The pre-report estimates were for ending stocks at 129 million bushels so the February report was bullish.

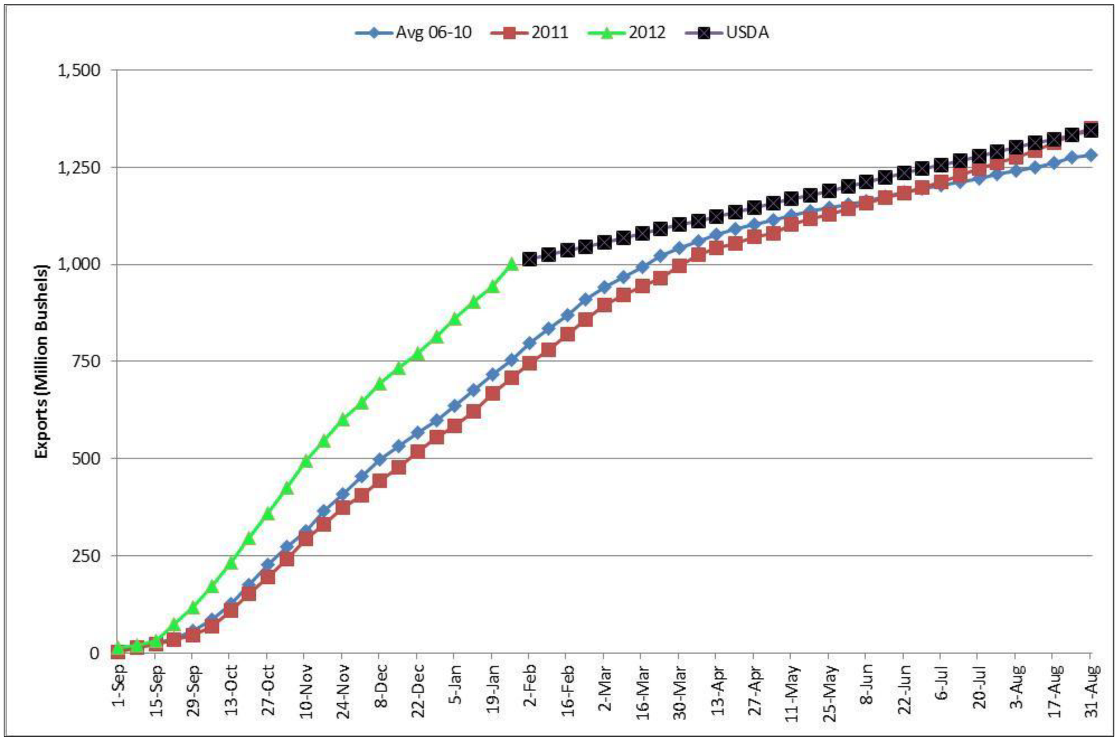

Figure 1. Soybean Exports for 2006-10 (Average), 2011, and 2012 (Projected)
Source: USDA-FAS

Wheat stocks declined to 691 million bushels due to increased feed demands. The pre-report expectations were for stocks at 727 million so the February report was bullish. The wheat market is still waiting for Hard Red Winter wheat conditions as the crop breaks dormancy in a few weeks. Unfortunately, USDA does not resume the weekly *Crop Progress* reports until April 1 where the crop condition is reported. Similarly, the first projections of the 2013 wheat crop won't be released until the May *WASDE.*

Cotton stocks were reduced slightly to 4.5 million bales which was less than the pre-report estimates of 4.8 million bales. Cotton still has adequate stocks domestically and in the World market which weighs heavily on price. However, China now holds approximately 52 percent of the World's cotton stocks; this cotton will not be seen in the World market again which means that stocks are tighter than they appear at first blush. Regardless, the cotton market needs lower prices to chew through the mountain of stocks and eventually provide the fundamentals for higher prices.

2013 Acreage Battle

The following Table shows how producers have responded to profitability opportunities by changing their crop-mix since 2005. The U.S. has increased corn planted acreage by 15.3 million acres since 2005 and increased soybean acreage by 5.2 million acres (Table). Several states are listed to show how corn and soybean production has expanded beyond the traditional core of the Corn Belt states of Iowa, Illinois, and Indiana. Note the increase in corn and soybean production in Kansas, North Dakota, South Dakota, and Minnesota. Also notice how producers in the Delta

(Arkansas, Louisiana, and Mississippi) abandoned cotton and embraced corn, soybeans, and wheat. Cotton production, with the use of very expensive specialty equipment, requires large acreage to achieve economies of scale. Corn and soybean production uses the same equipment which makes for more efficient use of machinery resources.

Planted Acreage Change from 2005-2012 (Thousand Acres)				
	Corn	Soybeans	Wheat	Cotton
U.S.	+15,376	+5,166	-1,478	-1,930
IA	+1,400	-700	-2	
IL	+700	-450	+30	
IN	+350	-250	-10	
KS	+1,050	+1,100	-500	-18
SD	+1,700	+850	-910	
ND	+2,190	+1,800	-1,250	
MN	+1,450	+150	-430	
AR	+470	+170	+330	-455
LA	+200	+250	+175	-380
MS	+440	+360	+300	-735
TX	-200	-135	+200	+583
GA	+75	+40	+10	+70
SC	+30	-50	+65	+33
NC	+110	+100	+270	-230
TN	+390	+130	+180	-260

Source: USDA: NASS

Studying University Extension Crop Enterprise Budgets show that there is a one-sided battle for acreage with corn being the dominant crop. Corn, both in a rotation or in continuous production, offers the greatest return over variable costs and cash rent. I believe that the RP crop insurance product will provide a better safety-net for corn than for soybeans (although the safety-net for soybeans will be quite good) and that corn will win the acreage battle again this year. A larger South American soybean crop is being projected which relieves the need for a large increase in soybean acres.

As mentioned earlier, the only safety-net available to producers is crop insurance and it is very important that our members make their insurance decisions before their deadline date. The harvest price option that allows producers to protect the crop at a potentially higher harvest-time price is an important component to risk management as it allows producers to forward price some of the expected production with confidence.

	Return over Variable Costs and Cash Rent ($/acre)					
State	Rot. Corn	Con. Corn	Soybeans	Cotton	Spring Wheat	Peanuts
-------------------- Non-Irrigated Production --------------------						
Iowa	$327	$194	$134			
Indiana	$269	$187	$217			
SE North Dakota	$258		$184		$148	
SE Kansas	$252		$149	-$92		
Arkansas	$443		$175	$134		
-------------------- Irrigated Production --------------------						
South Georgia	$494		$377	$354		$219
Mississippi Delta	$483		$387	$234		
Arkansas	$624		$513	$330		
Western Kansas	$525		$229			

Source: Various Land Grant University Extension Budgets for 2013.