

The Agricultural Outlook

Team Marketing Alliance
Seasonal Update Meeting
July 11th and 12th, 2012

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KANSAS STATE
UNIVERSITY

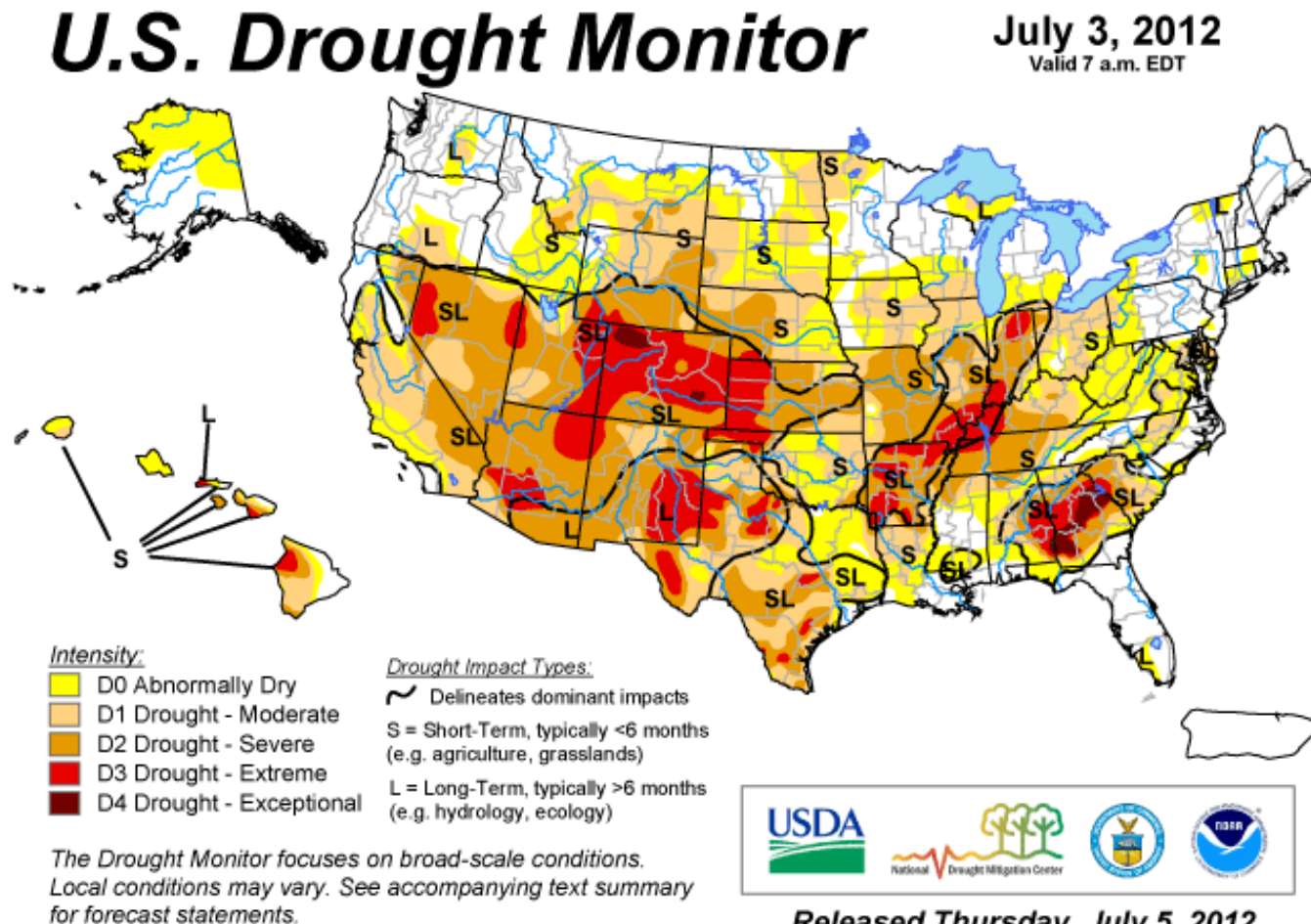
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Many issues are facing agriculture

- Today, my comments will focus on crop prices
- Crop prices have spiked again
 - Dec 2012 Corn Futures is above \$7 / bushel
 - Nov 2012 Soybean Futures is near \$15.50 / bushel
 - July 2013 Wheat Futures is just above \$8.50 / bushel
- So, what's **driving** these prices? Why are markets so **volatile**? What are the **outcomes** for producers?
- In the end, risk management is KEY

Crop prices are shaped by supply and demand

- Today, there are supply concerns in the U.S.



<http://droughtmonitor.unl.edu/>



Released Thursday, July 5, 2012
Author: Rich Tinker, NOAA/NWS/NCEP/CPC

U.S. supply concerns are driven by drought conditions

U.S. Drought Monitor

July 3, 2012

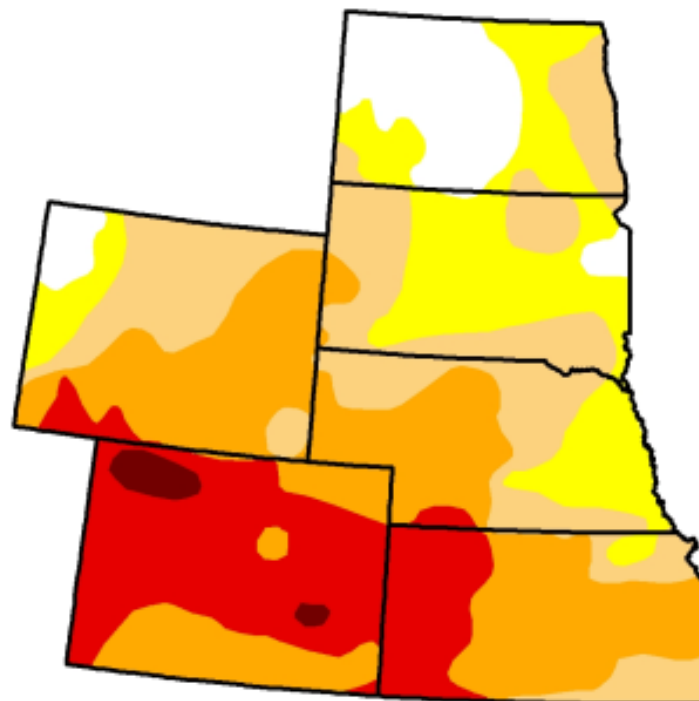
Valid 7 a.m. EST

High Plains

Drought Conditions (Percent Area)

	None	D0-D4	D1-D4	D2-D4	D3-D4	D4
Current	8.72	91.28	73.87	49.96	20.25	1.13
Last Week (06/26/2012 map)	16.07	83.93	66.51	46.80	13.10	0.00
3 Months Ago (04/03/2012 map)	33.45	66.55	23.17	5.92	0.09	0.00
Start of Calendar Year (12/27/2011 map)	61.66	38.34	18.12	7.22	2.07	0.04
Start of Water Year (09/27/2011 map)	70.09	29.91	17.44	11.97	6.22	2.96
One Year Ago (06/28/2011 map)	77.12	22.88	15.47	11.38	5.63	0.50

Intensity:



The Drought Monitor focuses on broad-scale conditions. Local conditions may vary. See accompanying text summary for forecast statements.



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Rich Tinker, Climate Prediction Center/NOAA

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U.S. supply concerns are driven by drought conditions

U.S. Drought Monitor

Midwest

July 3, 2012

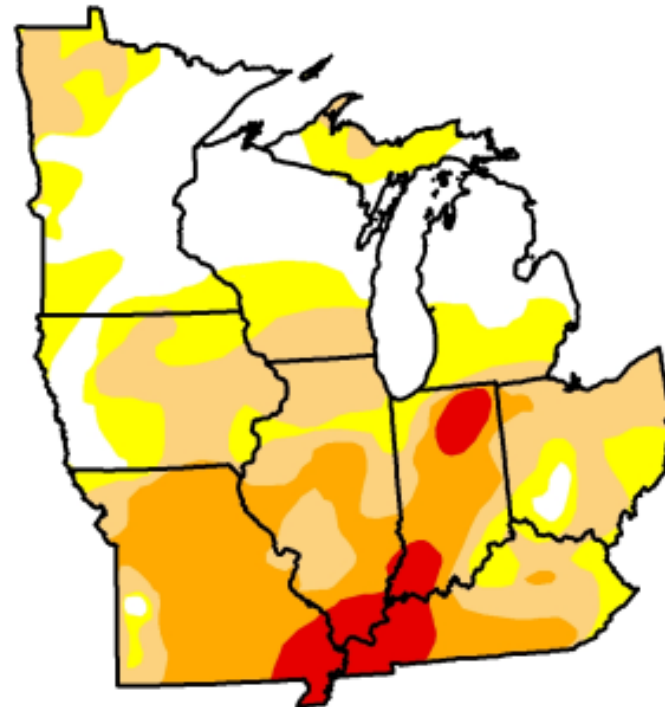
Valid 7 a.m. EST

Drought Conditions (Percent Area)

	None	D0-D4	D1-D4	D2-D4	D3-D4	D4
Current	25.55	74.45	52.56	24.76	5.60	0.00
Last Week (06/26/2012 map)	28.87	71.13	45.76	15.27	5.28	0.00
3 Months Ago (04/03/2012 map)	64.51	35.49	19.68	6.32	0.00	0.00
Start of Calendar Year (12/27/2011 map)	71.84	28.16	13.42	6.80	0.00	0.00
Start of Water Year (09/27/2011 map)	58.85	41.15	14.01	5.03	0.00	0.00
One Year Ago (06/28/2011 map)	97.20	2.80	0.00	0.00	0.00	0.00

Intensity:

- D0 Abnormally Dry
- D1 Drought - Moderate
- D2 Drought - Severe
- D3 Drought - Extreme
- D4 Drought - Exceptional



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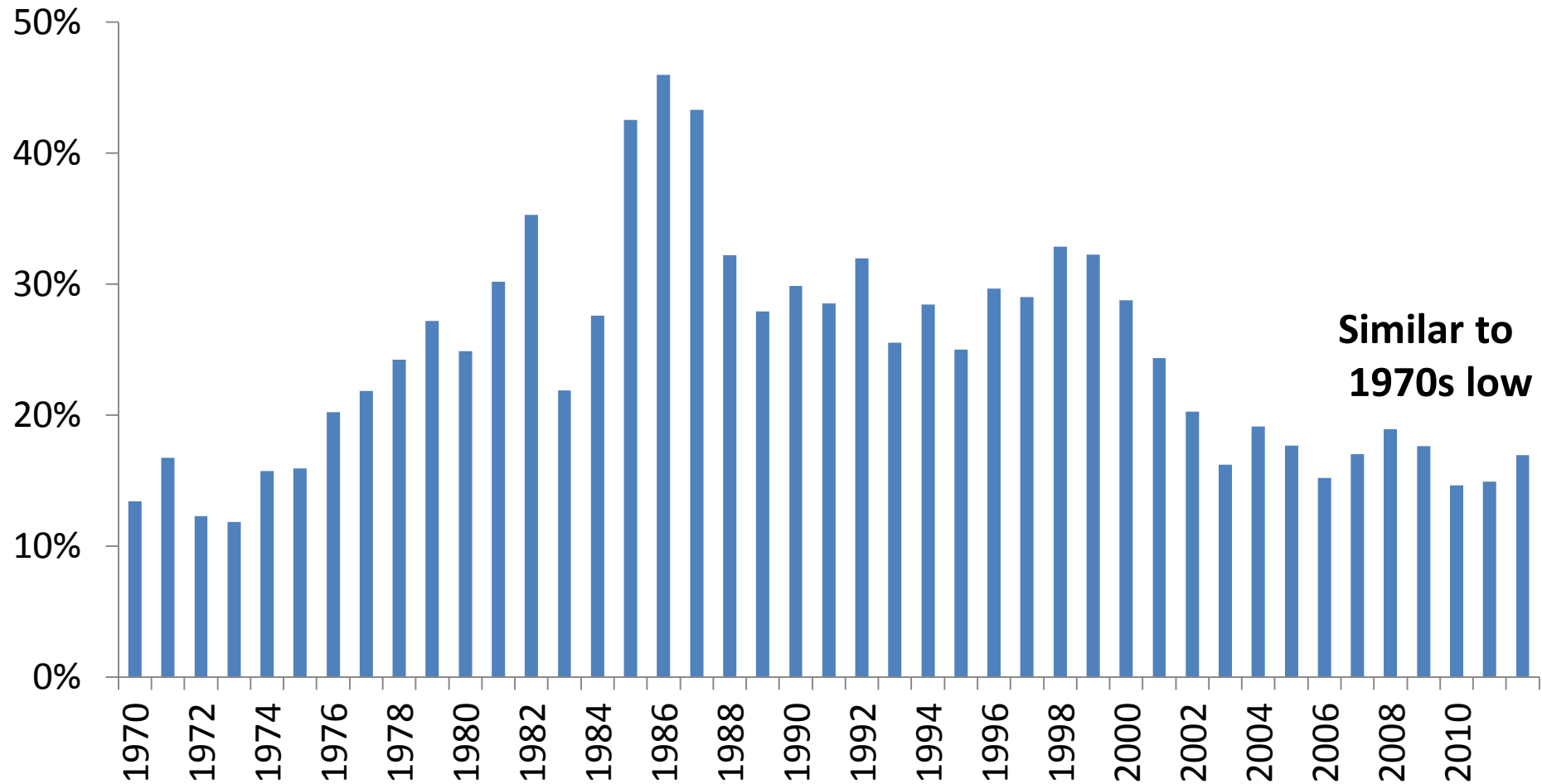
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World crop supplies are tight

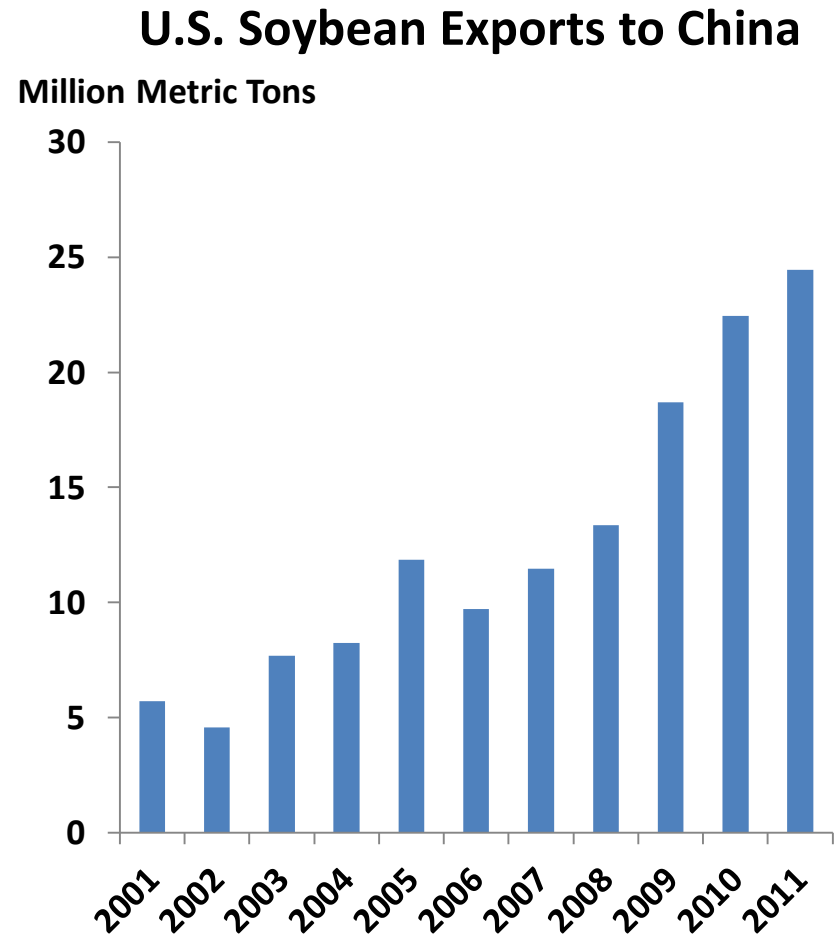
Ending Stocks-to-Use Ratio (Corn)



Source: USDA

Demand for agricultural products has remained strong, especially international demand

- Demand is shaped by:
 - Population
 - Income
 - Tastes and Preferences
 - Substitutes
 - Prices
- While U.S. demand remains sluggish with high unemployment, international demand remains strong.



Source: USDA, Foreign Agricultural Service

Another factor playing a role in today's commodity market is the sizable amount of liquidity

CBOT Corn Futures Open Interest Chart

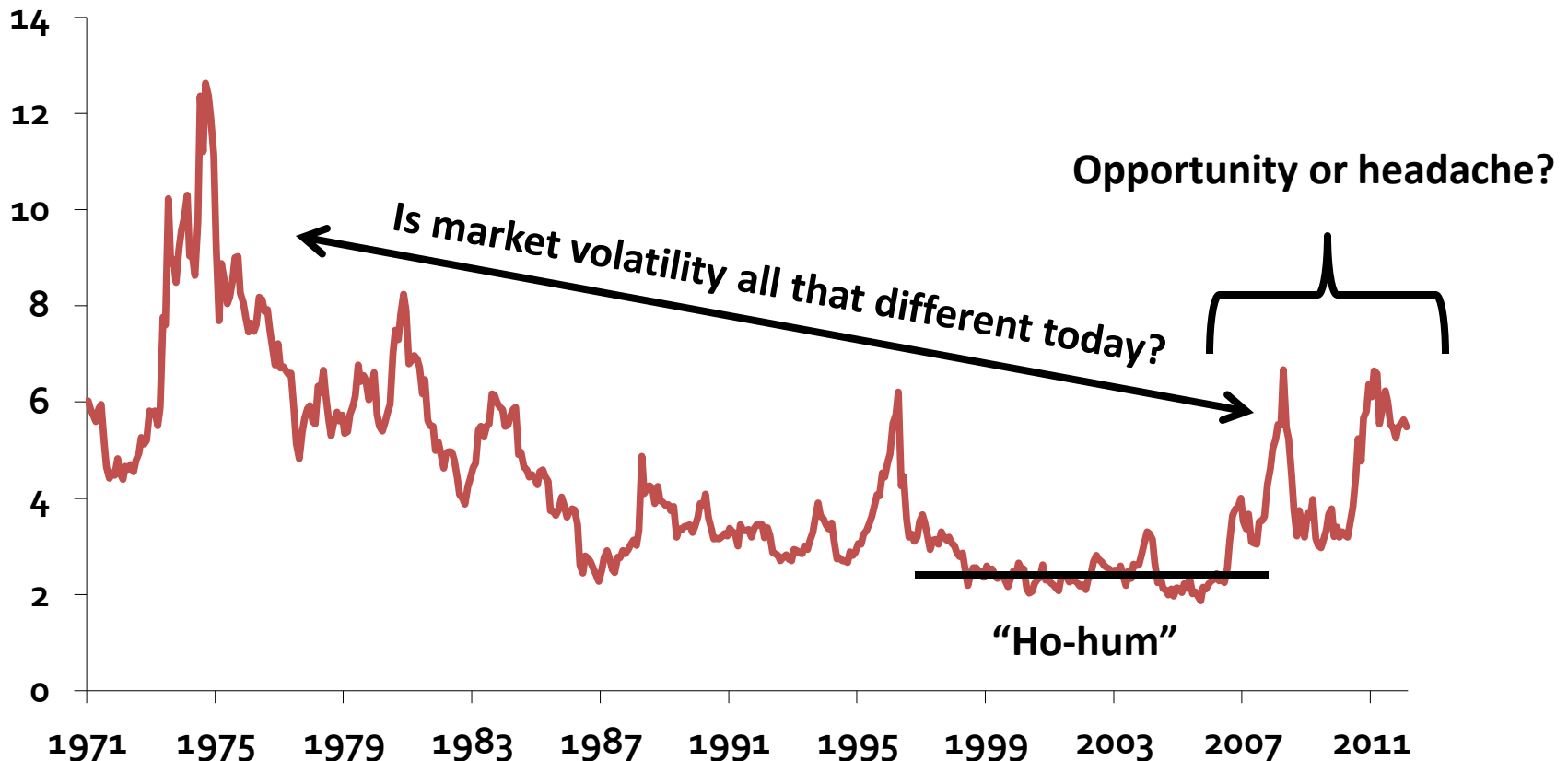


Source: www.ycharts.com

Market volatility is shaped by today's supply and demand conditions, sizable liquidity and readily available information

Real Corn Prices

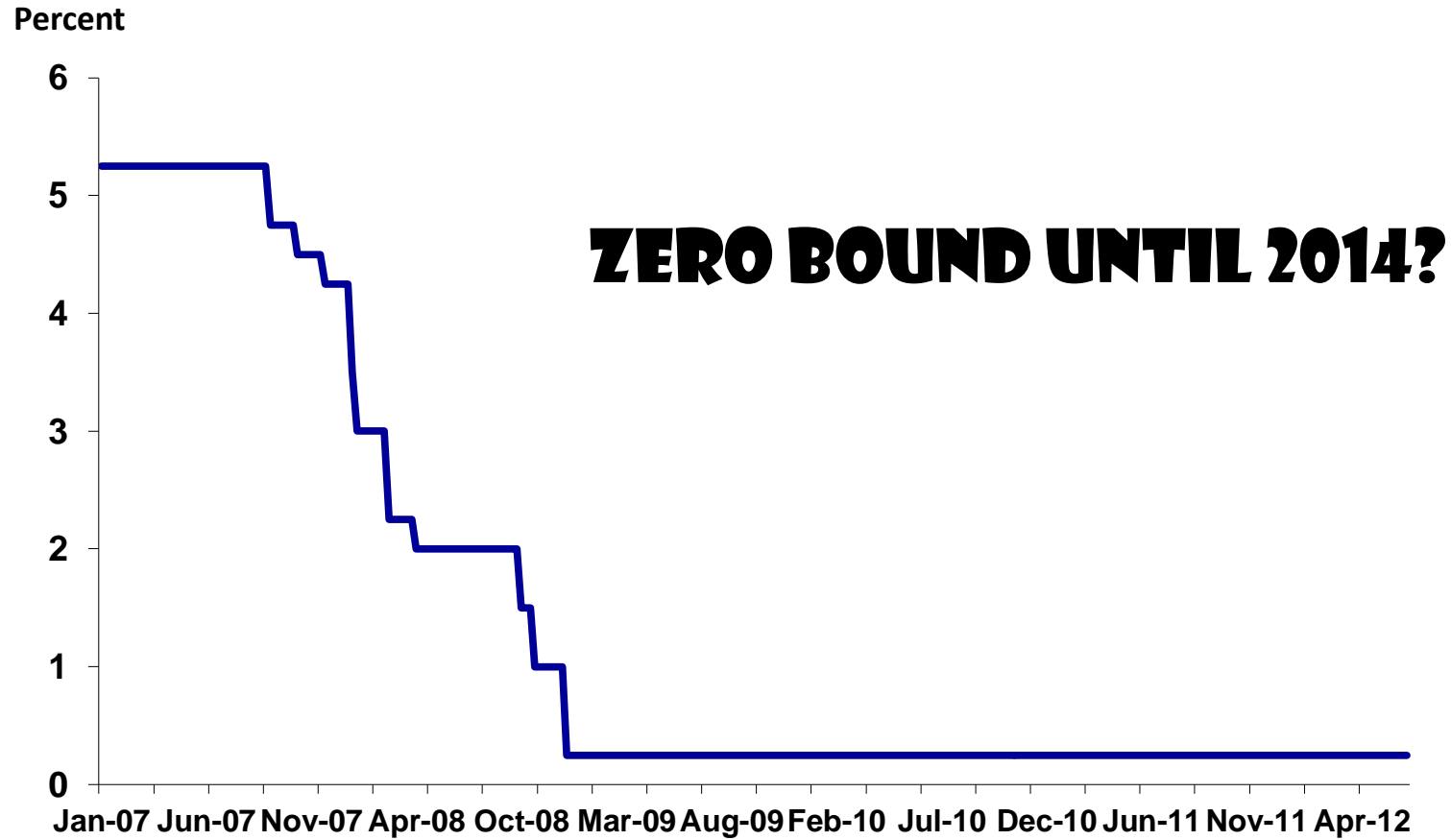
Constant 2005 Dollars per Bushel



Source: Chicago Board of Trade; deflated by PCE

Commodity market volatility is also influenced by accommodative monetary policy

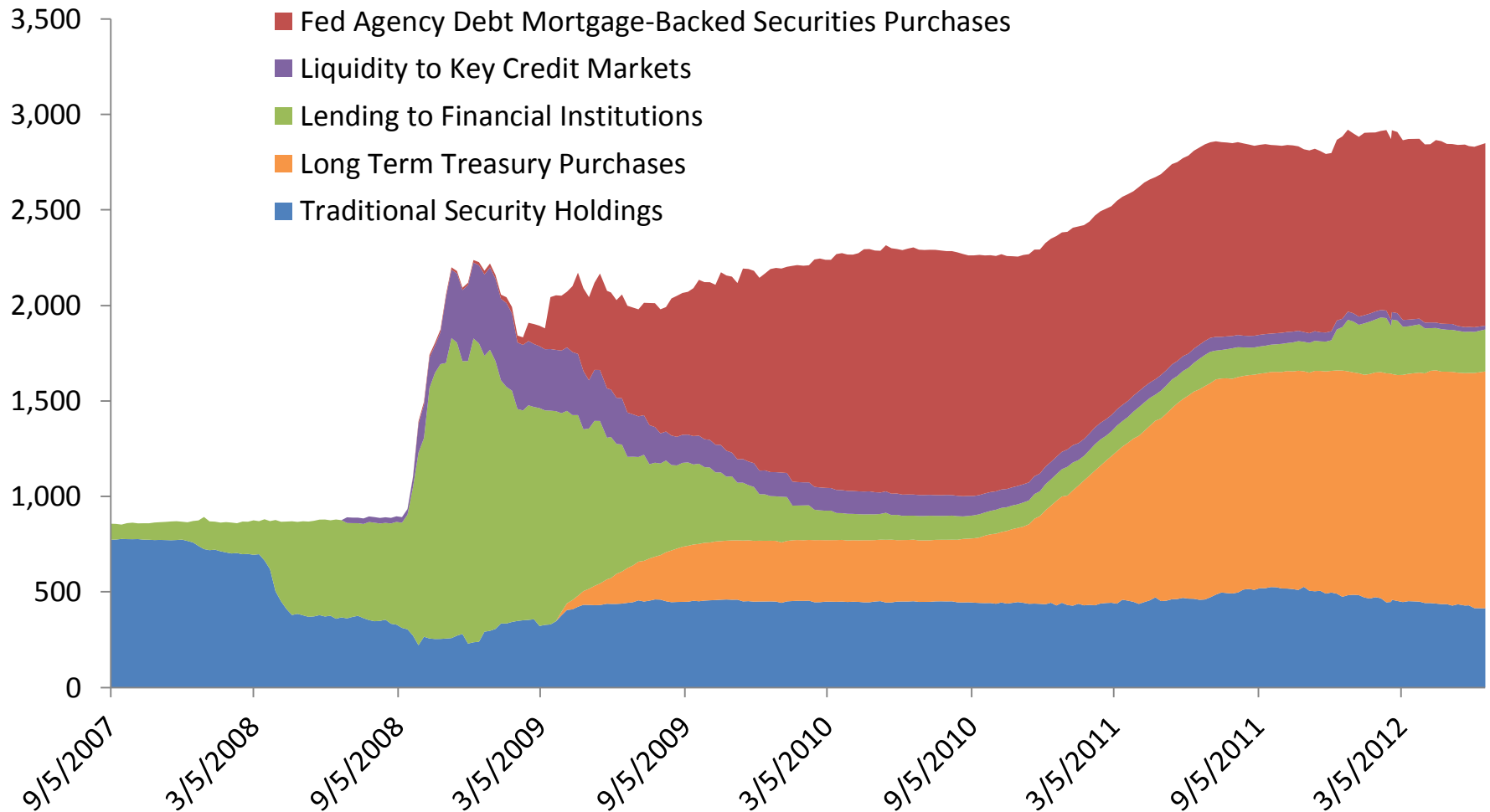
Fed Funds Rate (Upper Bound)



Source: Federal Reserve Board of Governors

In an attempt to stimulate the economy, the Fed has flooded the market with liquidity

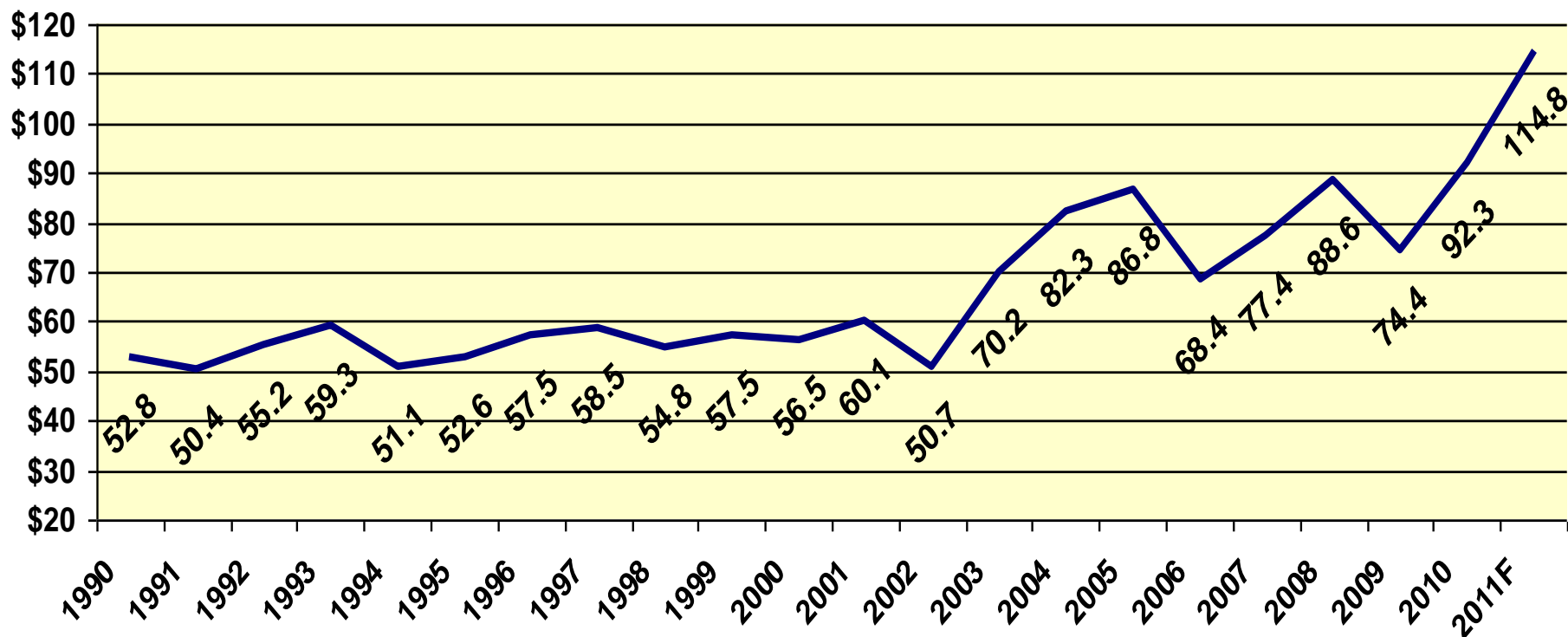
Billion Dollars



Source: Federal Reserve Bank of Cleveland

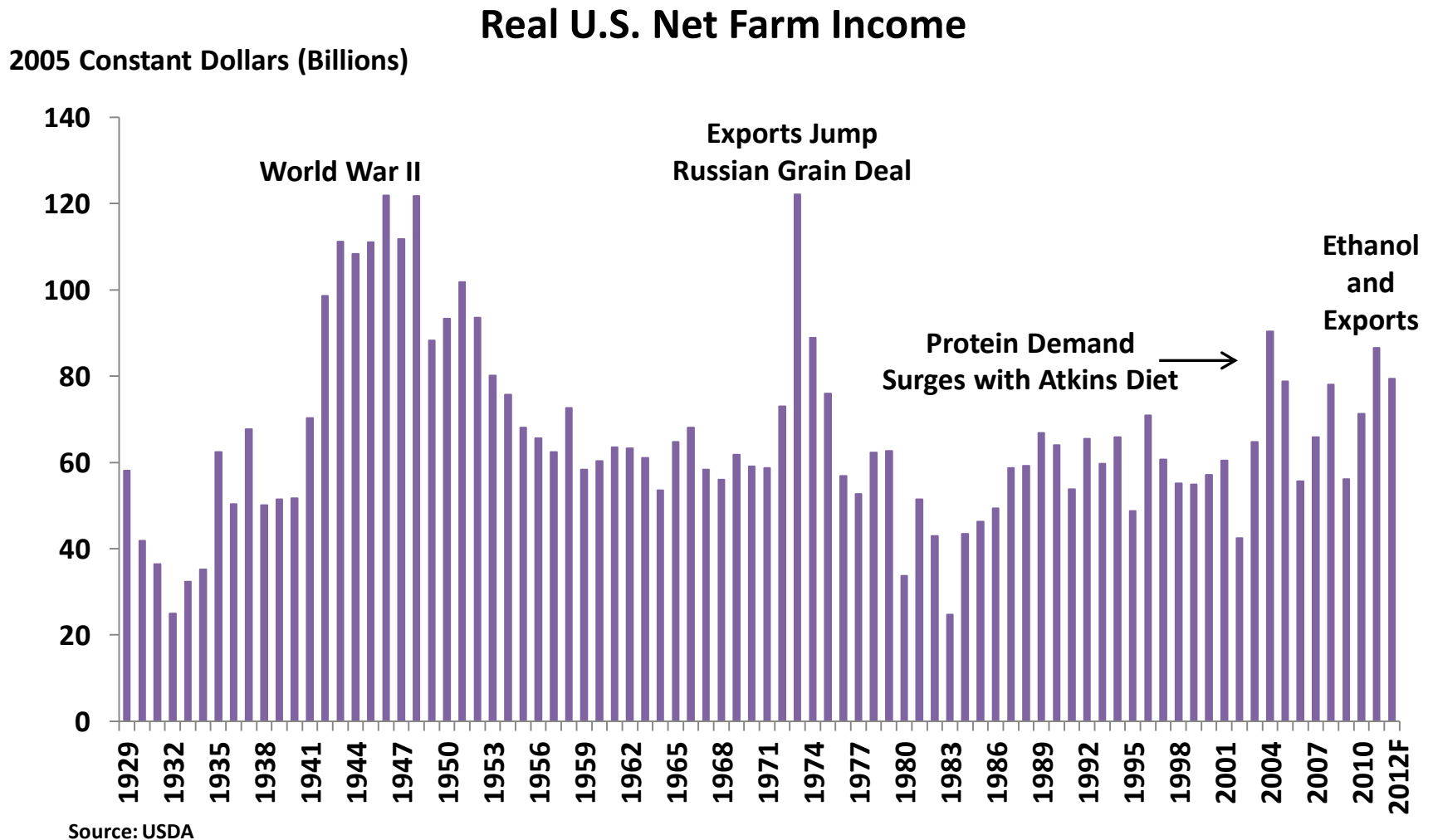
With elevated crop prices,
U.S. net cash farm income has surged

U.S. Net Cash Farm Income (\$ billion)



Source: USDA

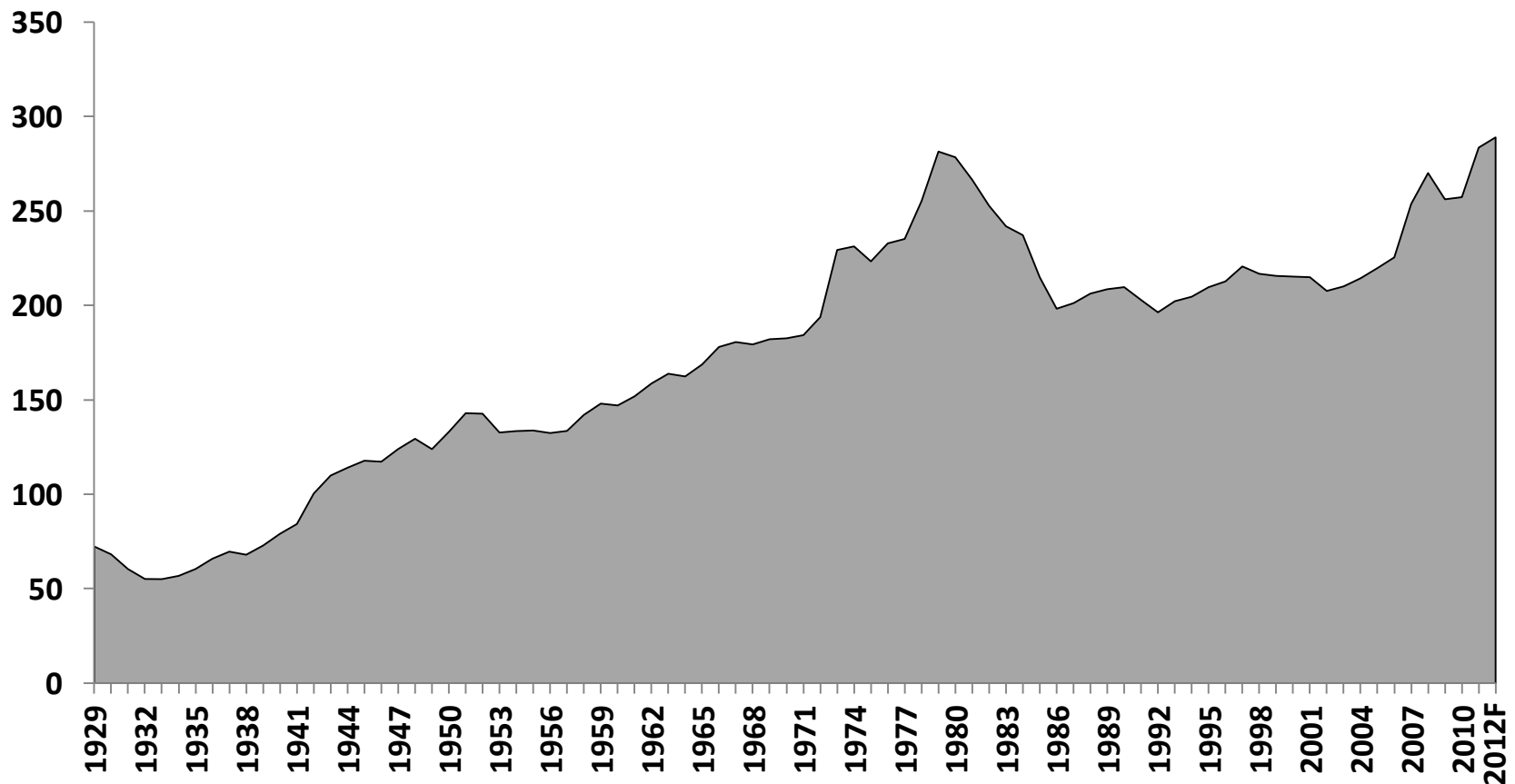
On a “real” basis, net farm income remains below historical highs



What could bring down net farm incomes? Rising production expenses could continue to squeeze net farm income

Real Total Production Expenses

2005 Constant Dollars (Billions)



Source: USDA

Iowa: Bidders Vie for Bragging Rights at Cash Rent Auctions

AgFax.Com - Your Online Ag News Source

By Elizabeth Williams, DTN/Telvent

Nearly 300 people crammed into a motel meeting room to attend the first cash rent public auction in the Mason City, Iowa, area last Saturday, Feb. 4. About 25 active bidders raised hands or nodded heads as two-year leases for more than 2,250 tillable corn/soybean acres in 14 tracts went up for grabs. After the final “going once, twice, sold,” the tillable-acre winning bids ranged from a low of \$325 for 78 acres (62 tillable, subject to flooding) to \$520 for 108 acres (all tillable).

Most of the winning bids ranged from \$425 an acre to \$490 per tillable acre, rates that left onlookers somewhat stunned. After all, farmers in Iowa’s most expensive cash rent county only paid an average of \$235 an acre in 2011, according to USDA. The excessive rent also means growers will be shouldering sizable risk should commodity prices plunge to more normal levels between now and 2014 and probably dictates that corn will be the crop of choice to pay the bills on that land.

The Mason City event was the fourth cash land lease auction in three days for the owners, Charles E. Lakin Enterprises out of Omaha, a family business enterprise that had expiring leases on 3,336 tillable acres in Iowa. The Lakins’ farms are scattered over eight counties in western, central and north central Iowa.

“We weren’t sure what the cash rent market was and we didn’t know how to set a fair price, so we thought we’d try an auction,” said Chuck Lakin, son of Charles E. Lakin. “It worked out pretty well.”

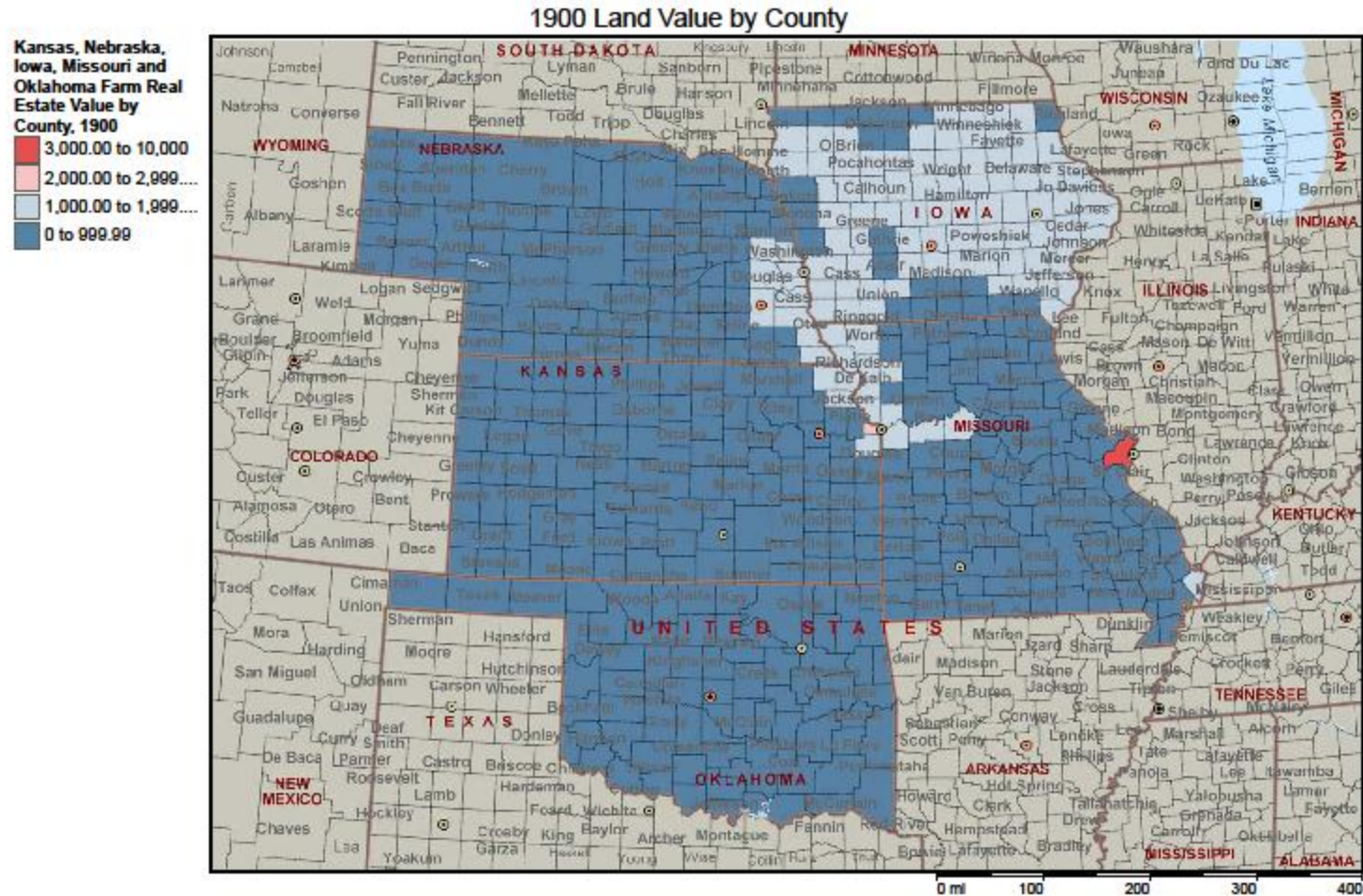
Farmland tenants generally dislike public lease auctions for two reasons: 1) They remove the traditional, personal relationship bond between the owner/tenant and reduce it to a numbers game; and 2) It publicizes actual cash rents so all the landlords in the area can compare how their leases stack up. Even if you are the highest bidder and get the ground, you may not want your other landlords to know you are willing to pay that much for land. In fact, one of the current tenants (who won the highest bid on ground he had been farming) had a proxy at the Lakin farm lease auction and came in after the auction to sign the papers and write the check.

For the landowner, an auction “takes away the stress of negotiating with the tenant and gives the land the potential to reach its fair market value,” said Allan Hughes who conducted the Lakins’ lease auction.

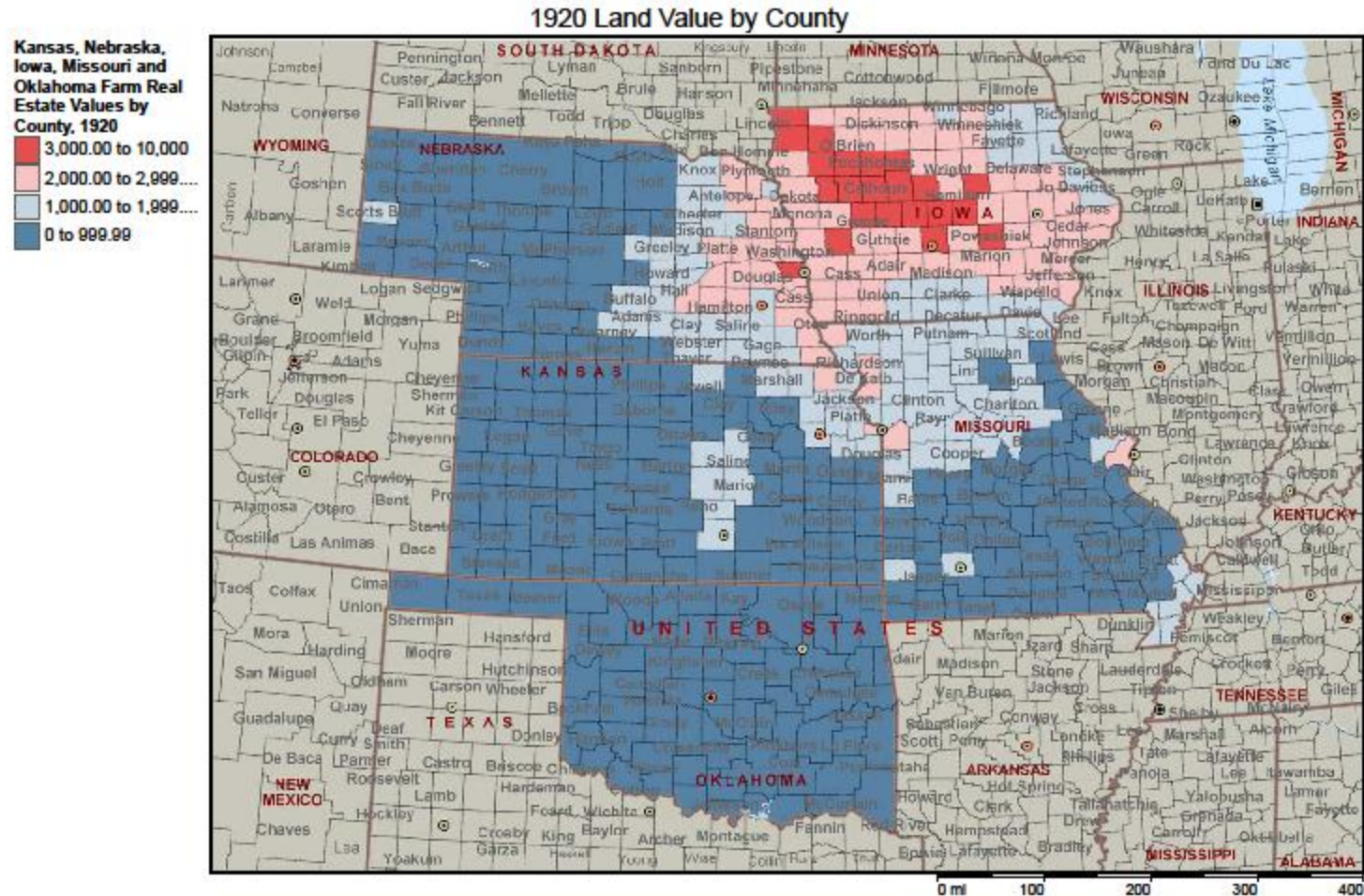
“These leases are structured so good husbandry is required,” explained Hughes. A five-page lease requires the tenant to keep the ditches free and clear and to provide soil tests, fertility input records, yield information on each farm.

Low winning auction bid, \$325/acre (subject to flooding)
High winning auction bid, \$520/acre

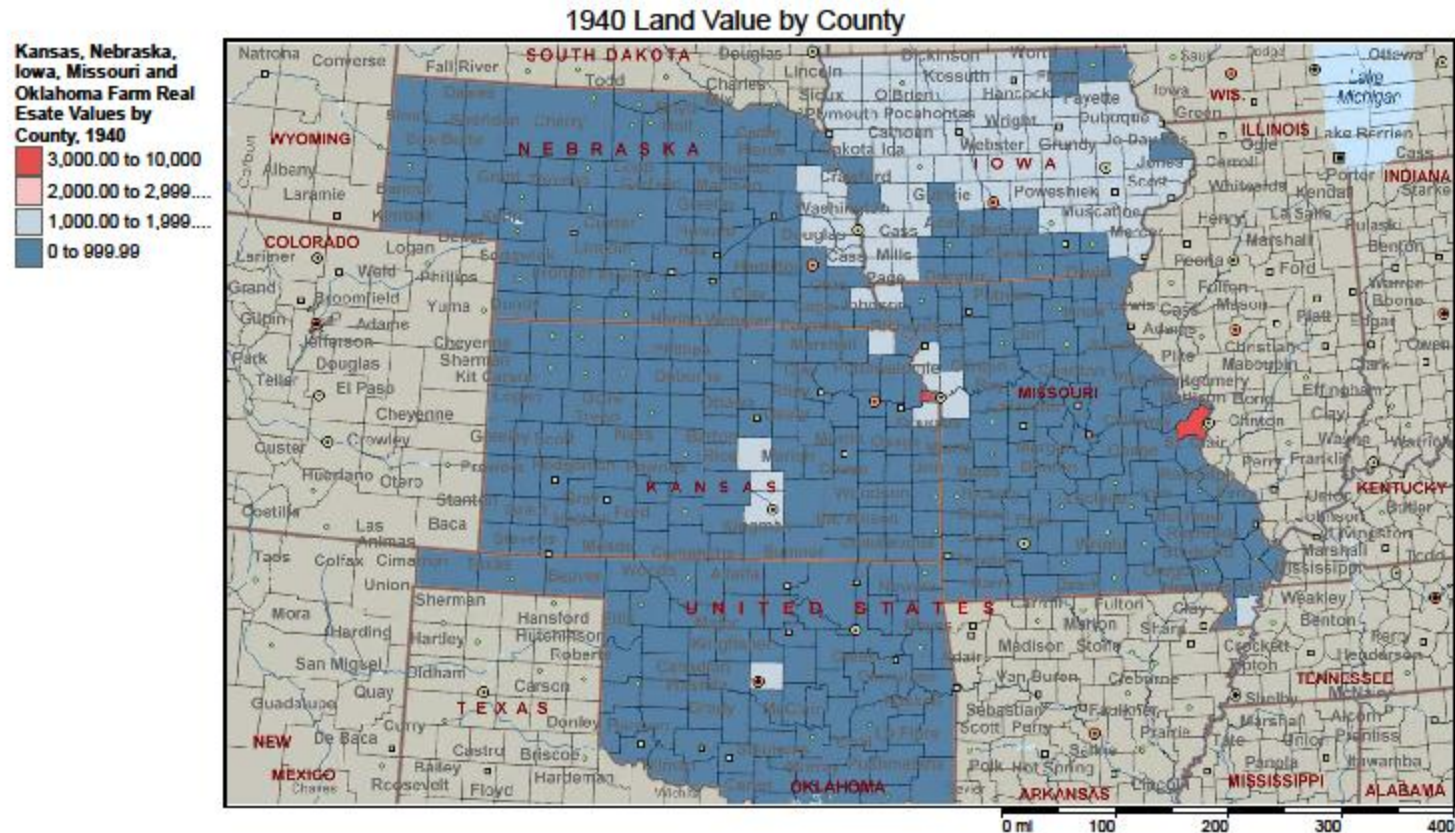
With the start of the 20th century, farmland values began to heat up.



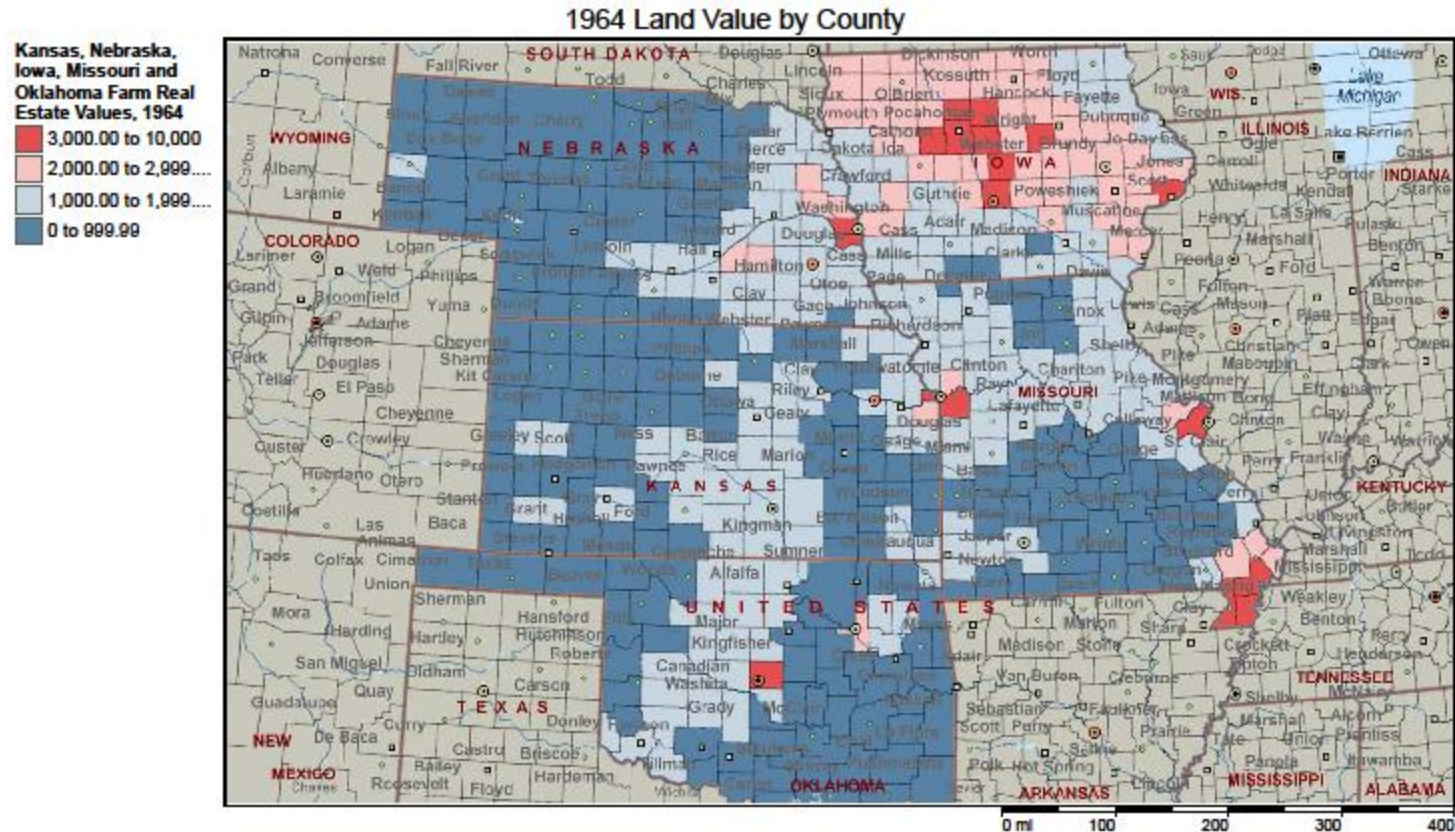
After World War I, farmland values caught “fire” with surging ag exports and excessively leveraged farms.



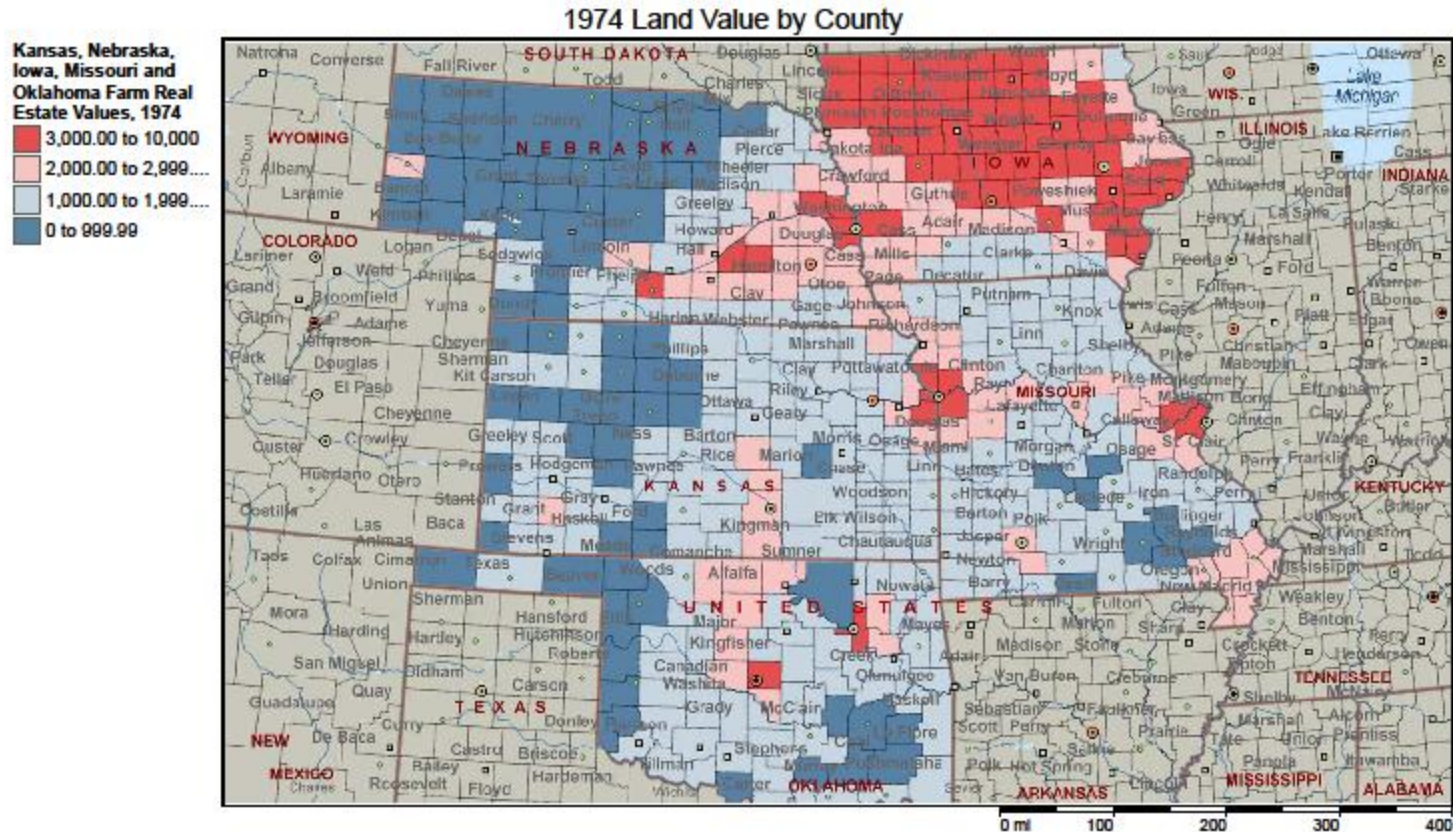
After a surge in bankruptcies and the Great Depression, the “fire” was out.



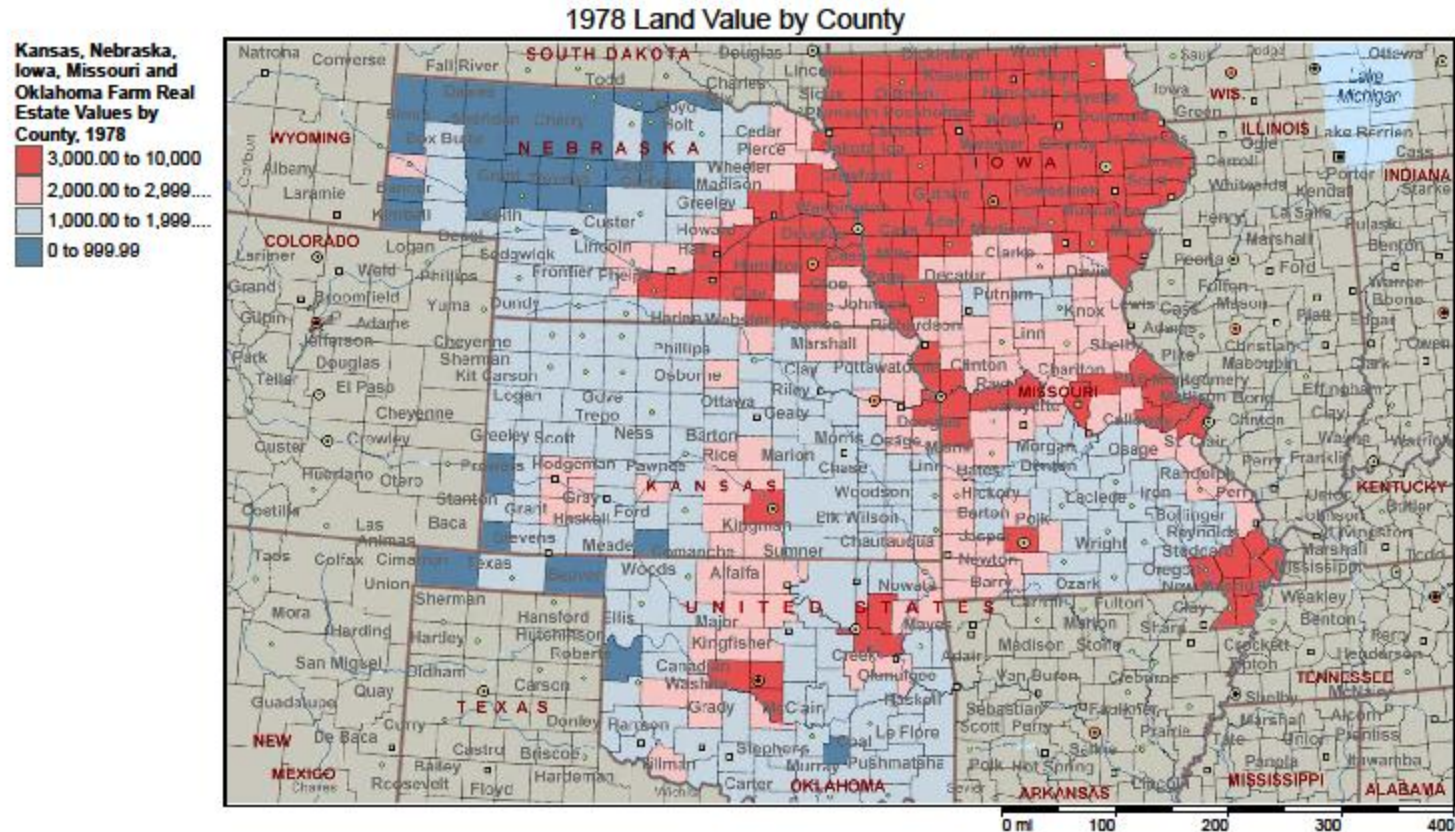
After World War II, farmland values started to heat up again as new technology was adopted.



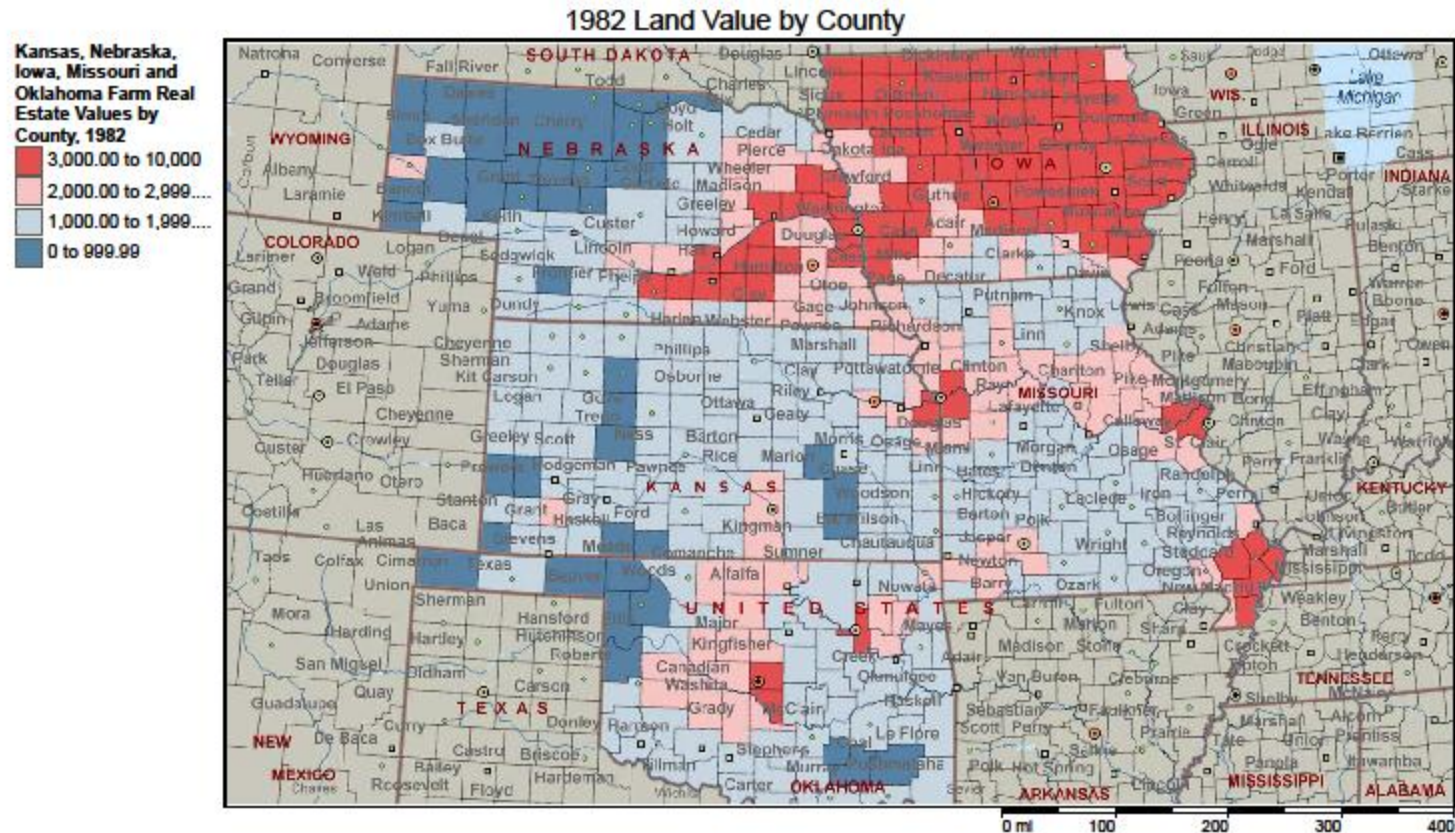
New export markets and easy credit set farmland values ablaze, especially in the corn belt.



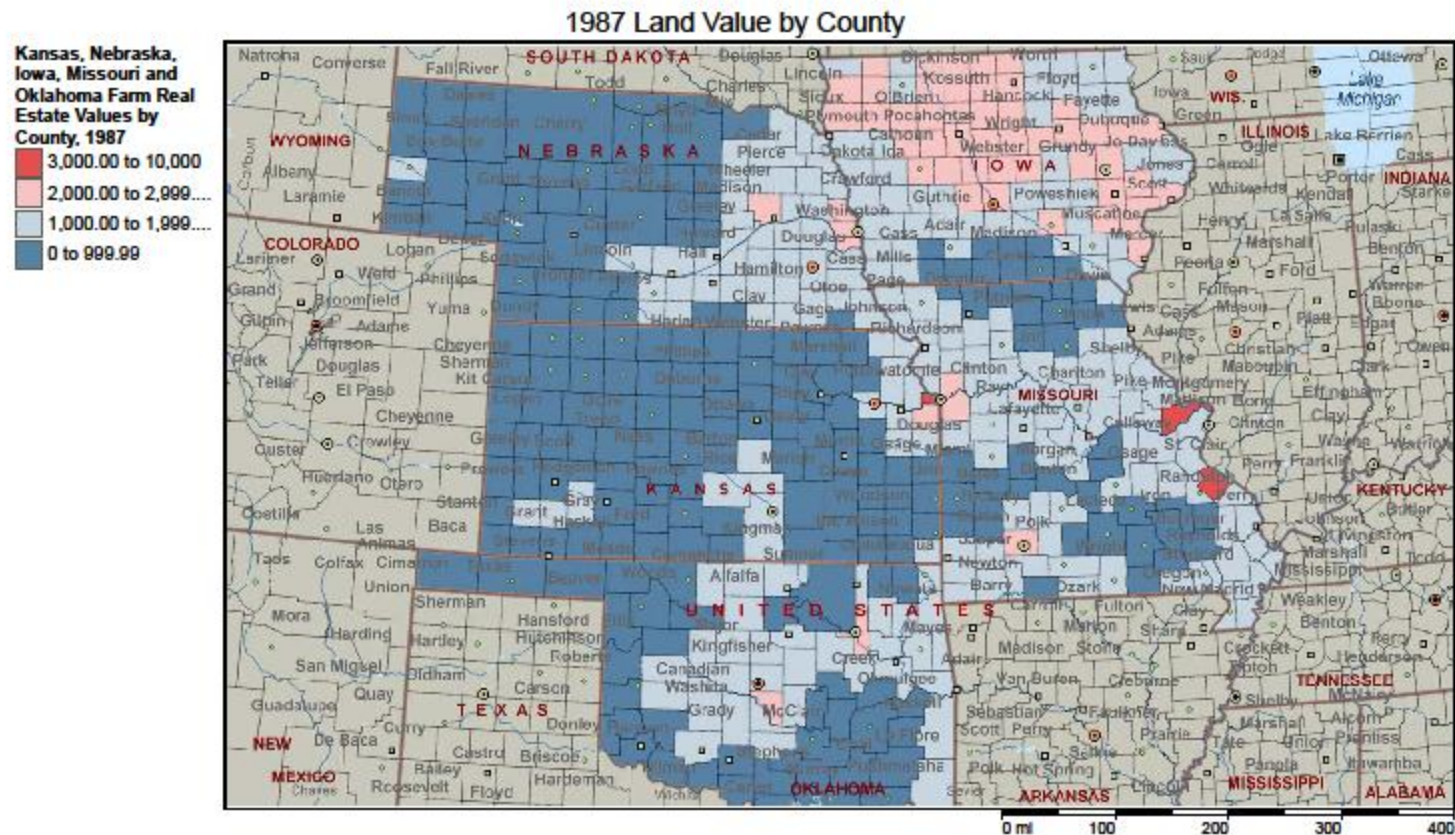
By 1978, Iowa farmland values were “red hot” and it was spreading throughout the region.



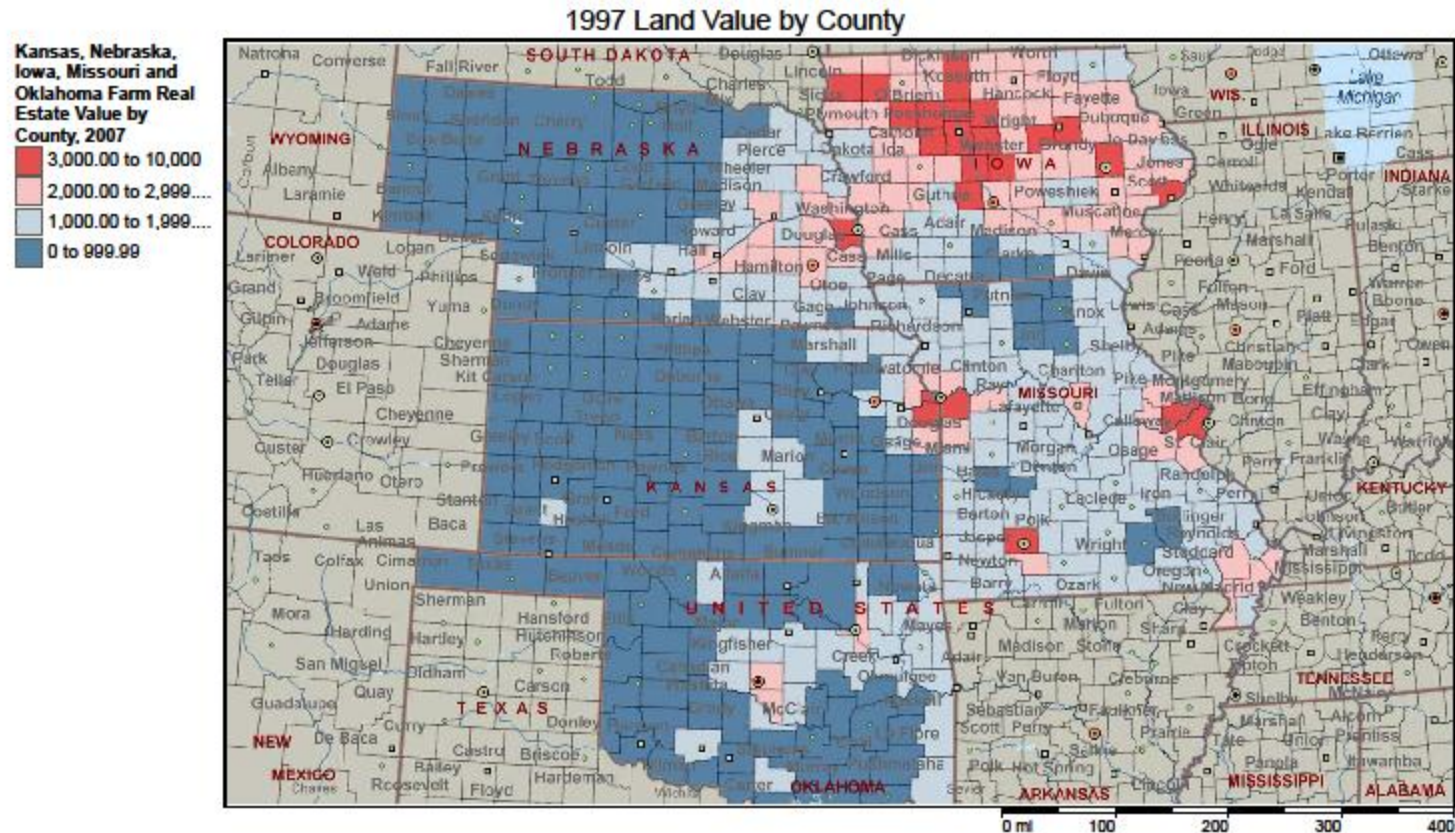
The start of the 1980s farm debt crisis began to cool the flame surrounding farmland values.



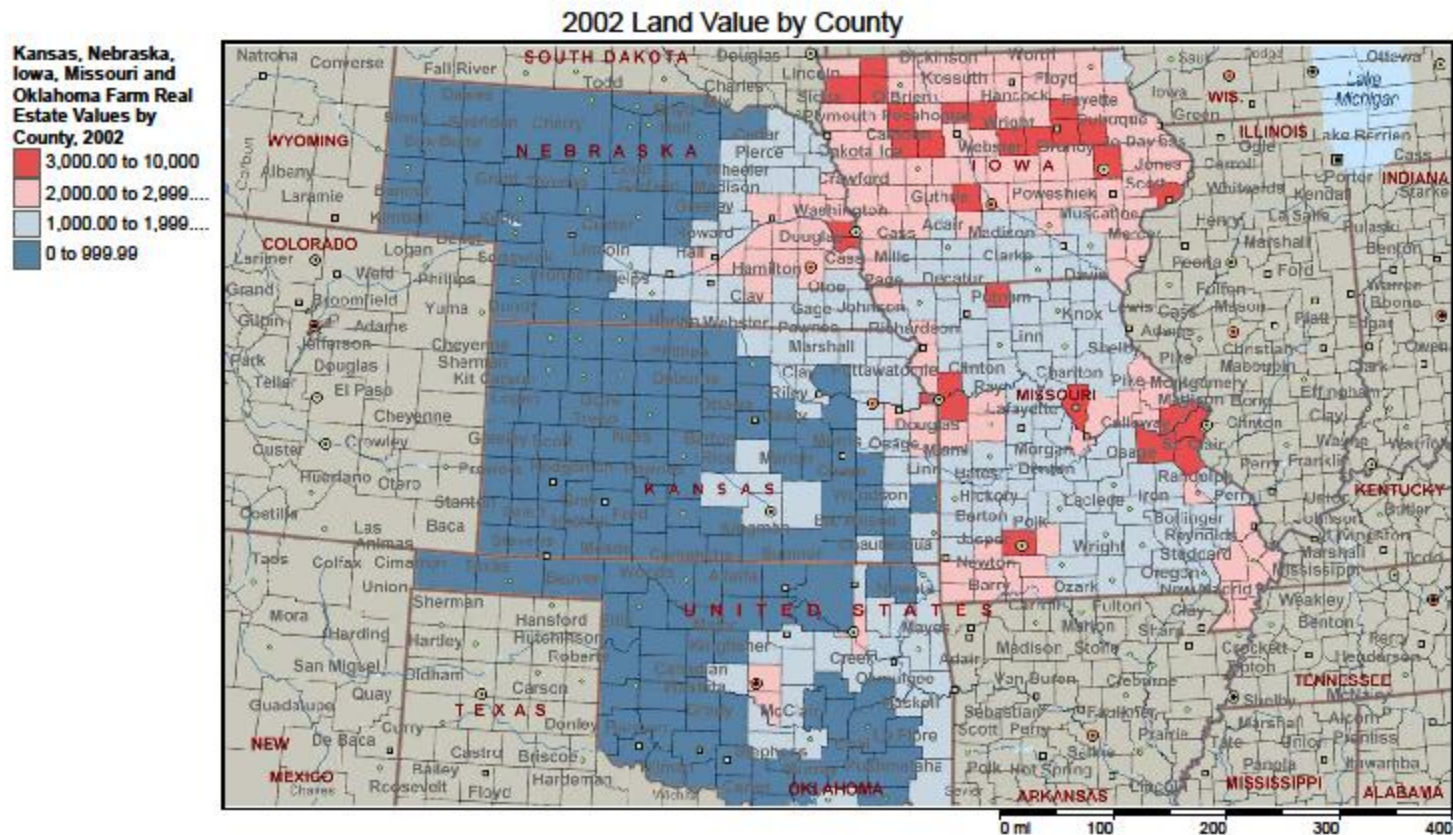
By 1987, forced land sales and a collapse in farm income put the “fire” out.



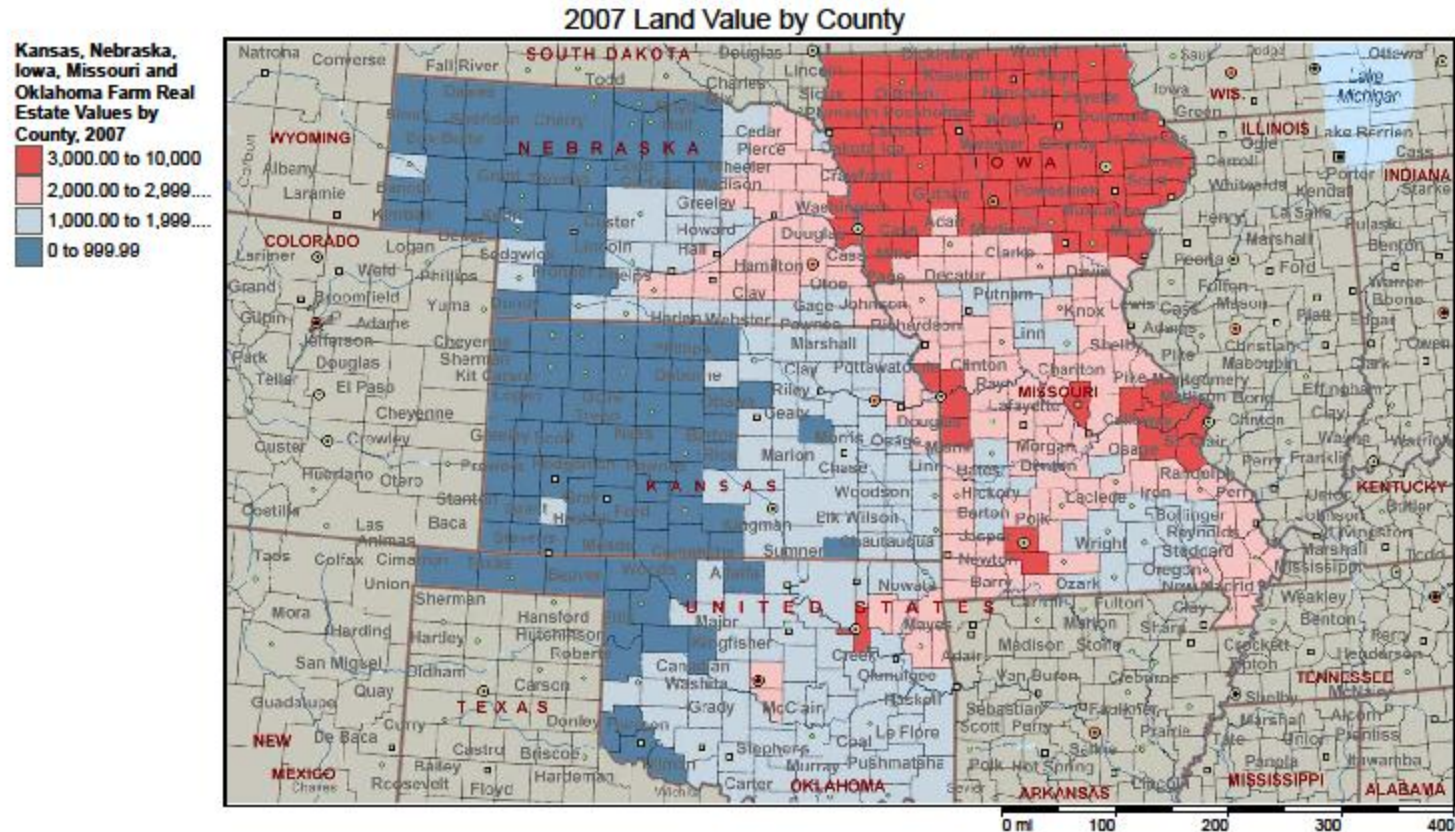
After the 1980s, a slow, steady recovery helped farmland values recover.



At the turn of the century, farmland values held steady until...



...a booming U.S. housing market as well as surging ag exports lit another “fire” under land values.



Conclusions

- Crop prices have spiked on supply concerns
- Markets remain volatile
- Rising production expenses have squeezed net farm income
 - Input costs as well as cash rents
- While farmland values have risen, questions remain as to whether or not it is a “bubble”
 - Is this the right risk to focus on?
- Today, a sound risk management strategy is KEY!

Thank you.

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