

Friday, November 8, 2019

No Major Surprises from USDA

There weren't many surprises from USDA in the production or WASDE reports this month, other than the release being delayed due to a network outage in Kansas City. (True story!) Even more disturbing is that the corn market bumped higher immediately after 11 am, yet the report didn't actually come out for another 10 minutes. So who knew what? I guess that's for another day.

USDA.GOV sites are temporarily down for maintenance.

We are performing scheduled maintenance. We should be back online shortly.

The report with the most action was **corn**, though the changes weren't overly surprising. USDA did not make any adjustments to corn or soybean acreage in Minnesota or North Dakota from the resurvey. USDA did lower the national yield 1.4 bu to 167.0 bpa, which was just slightly above the average trade estimate. The December report will not include production; the final US and state yields will be released in the January report. But as I said before the report, the most important numbers for corn were on the demand side. USDA cut exports (50 mln), feed (25 mln), & ethanol (25 mln). So that 100 million bushel reduction basically offset the lower production, keeping ending stocks above 1.9 billion bushels. On the table above/right I've also included **Informa Commodities'** 2020/21 balance sheet estimates. Assuming producers will plant 5+ million more acres to corn next year, it's difficult to be bullish corn without a sharp weather issue somewhere. Futures bounced following the report, though, as managed funds were short over 100k contracts going into the report. From a producer marketing perspective, if this market bounces a little more, minimum price or min-max type contracts make sense to set floors while keeping some upside.

The only change USDA made to the **soybean** balance sheet was a 15 million bushel reduction to the crush, with a subsequent

US Corn

	USDA	USDA	USDA	USDA	USDA Nov	Informa Nov
Marketing Year	15/16	16/17	17/18	18/19	19/20	20/21
Planted Acres	88.0	94.0	90.2	89.1	89.9	95.3
Harvested Acres	80.7	86.7	82.7	81.7	81.8	87.7
Yield	168.4	174.6	176.6	176.4	167.0	178.5
Production	13,601	15,148	14,604	14,420	13,661	15,651
Beg. Stocks	1,731	1,737	2,293	2,140	2,114	1,858
Imports	67	57	36	28	50	30
TOTAL SUPPLY	15,400	16,942	16,934	16,588	15,825	17,539
Feed & Residual	5,192	5,439	5,302	5,618	5,275	5,800
Food, Seed, & Ind	6,573	6,889	7,054	6,791	6,790	6,994
Ethanol for Fuel	5,206	5,439	5,601	5,376	5,375	5,548
Total Domestic	11,764	12,356	12,355	12,409	12,065	12,794
Exports	1,898	2,293	2,438	2,065	1,850	2,000
TOTAL DEMAND	13,662	14,649	14,793	14,474	13,915	14,794
ENDING STOCKS	1,738	2,293	2,140	2,114	1,910	2,745
STOCKS/USE %	12.7%	15.7%	14.5%	14.6%	13.7%	18.6%
Avg Farm Price (\$/Bu)	\$3.61	\$3.36	\$3.36	\$3.61	\$3.85	\$3.35

US Soybeans

	USDA	USDA	USDA	USDA	USDA Nov	Informa Nov
Marketing Year	15/16	16/17	17/18	18/19	19/20	20/21
Planted Acres	82.7	83.4	90.1	89.2	76.5	85.3
Harvested Acres	81.8	82.7	89.5	87.6	75.6	84.5
Yield	48.0	52.1	49.3	50.6	46.9	51.3
Production	3,929	4,307	4,411	4,428	3,550	4,334
Beg. Stocks	191	197	302	438	913	494
Imports	30	25	22	14	20	20
TOTAL SUPPLY	4,150	4,528	4,734	4,880	4,483	4,848
Crush	1,890	1,895	2,055	2,092	2,105	2,145
Seed	95	104	104	89	96	98
Residual	34	14	8	39	32	34
Total Domestic	2,019	2,013	2,167	2,220	2,233	2,277
Exports	1,760	2,170	2,129	1,748	1,775	1,900
TOTAL DEMAND	3,685	4,183	4,296	3,967	4,018	4,177
ENDING STOCKS	197	301	438	913	475	671
STOCKS/USE %	5.3%	7.2%	10.2%	23.0%	11.8%	16.1%
Avg Farm Price (\$/Bu)	\$8.95	\$9.47	\$9.33	\$8.48	\$9.00	\$8.50

increase in ending stocks. While old crop stocks are nearly as overwhelming as last year, they are still adequate. Managed funds have built up a long position in anticipation of a China trade deal, which I think provides a selling opportunity for soybeans. Informa is projecting a 9+ million acre increase next year, which would almost certainly raise carryout and lower price in 2020.

Cotton had one important change – a 34 lb drop in yield to 799 lbs. That equates to an 890,000 lb drop in production & in ending stocks. While a 6.10 million bale carryout is still the largest in many years, at least it's moving in the right direction. And if we're able to get China back in the market, cotton futures would have some room to improve. Maybe not back to 80 cents, but 70-75 cents wouldn't be a stretch for this market, with lower planted acres expected in 2020.



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Revenue Management Update

ARC/PLC Decision 2020 Update

Many producers are contemplating the upcoming decision to choose a commodity program for the next two years. The choice is between ARC – Agriculture Risk Coverage – and PLC – Price Risk Coverage. ARC is an area-based revenue protection, while PLC is just price loss protection. The deadline to make this farm by farm decision is March 15, and I am encouraging producers to use as much time as possible before deciding so that you can get as much price and yield information as possible.

Contrary to the last program signup in 2014, the ARC program isn't nearly as strong due to the 5-year Olympic average prices being significantly lower. In fact, many crops have had MYA prices below the PLC Reference Prices, and thus have used that Reference Price to figure the ARC Benchmark Price. Then, when you multiply the Benchmark by 86%, you get a very low 'ARC effective price' to figure the crop's revenue trigger – see prices in red in the table below.

The PLC program, on the other hand, offers producers a price floor. Those floor prices are unchanged from the prior years, and can be seen in blue in the table below. For the marketing year which we're already 1/3 of the way through, the current MYA prices highlighted in gold would trigger a PLC payment, and corn would be close. And some of these would be very large payments, when multiplied by the farm's payment yield and by 85% of base acres, some crops would see very large payments. So for most folks, I definitely see the crops in gold favoring PLC. As for corn & soybeans, neither plan is likely to trigger a payment for the 2019 crop year, unless your county yield is substantially below the 5-year Olympic average. But if planted acreage for corn and soybeans jumps as much as we think it might in 2020, PLC could provide a good price floor that ARC would not. Thus, for most folks, I would still favor PLC for those crops.

	2019 PLC Reference Price	USDA Final & Projected MYA Farm Prices (\$ per bushel, cents per pound, \$ per cwt)						2019 ARC Benchmark Price	2019 ARC EFFECTIVE Price
		Final 2014-15	Final 2015-16	Final 2016-17	Final 2017-18	Est. 2018-19	Est. 2019-20		
Corn	\$3.70	\$3.70	\$3.61	\$3.36	\$3.36	\$3.61	\$3.85	\$3.70	\$3.18
Soybeans	\$8.40	\$10.10	\$8.95	\$9.47	\$9.33	\$8.48	\$9.00	\$9.25	\$7.96
Wheat	\$5.50	\$5.99	\$4.89	\$3.89	\$4.72	\$5.16	\$4.60	\$5.50	\$4.73
Cottonseed	\$0.3670					0.3453	0.3027	\$0.3670	\$0.3156
Sorghum	\$3.95	\$4.03	\$3.31	\$2.79	\$3.22	\$3.25	\$3.40	\$3.95	\$3.40
Barley	\$4.95	\$5.50	\$5.52	\$4.96	\$4.47	\$4.62	\$4.70	\$5.14	\$4.42
LG Rice	\$14.00	\$11.90	\$11.10	\$9.62	\$11.50	\$10.80	\$11.80	\$14.00	\$12.04
Peanuts	\$0.2675	\$0.2200	\$0.1930	\$0.1970	\$0.2125	\$0.2150	\$0.2090	\$0.2675	\$0.2301

If you're in question about which program would provide you the most benefit, I encourage you and your DCIS agent to visit our Farm Bill tools in the DCIS **Ag Profit Oracle**. You can make assumptions and estimate what potential payments might look like with either program. And I'll be talking more about these programs this winter as well.

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