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Adjusting to Lower Crop Prices in 2016

In the years prior to 2015, the agriculture community was drawn into the mentality that corn prices of \$4.00-\$6.00 to per bushel were the new normal, rather than a temporary upswing.

That type of thinking has changed quite dramatically in the past couple years as cash-corn prices dropped below \$3.50 per bushel during 2014 and 2015, and remain at those levels in early 2016. The projected cash-corn price for the 2015 crop (which is now in storage) is expected to remain at fairly modest levels until next Summer. Prices for the 2016 corn crop are expected to be in a similar range. These price projections suggest that farm operators may need to adjust grain-marketing plans and risk-management strategies for 2016 and beyond.

The latest USDA Report, released in January 2016, estimated the U.S. national, market-year average (MYA) on-farm, cash-corn price for 2015-2016 to be in a range of \$3.30-\$3.90 per bushel, or an average of \$3.60 per bushel, which has changed very little in recent months. The USDA is now projecting the U.S. average soybean price for 2015-2016 to be in a range of \$8.05-\$9.55 per bushel, resulting in an average soybean price of \$8.80 per bushel. The 2015-2016 USDA price estimates are the expected average prices from September 1, 2015 to August 31, 2016 for the 2015 crop year, and are not estimated prices for the 2016 crop year. Most projections suggest average on-farm grain prices near \$3.30-\$3.80 per bushel for corn and \$8.00-\$9.00 per bushel for soybeans over the course of the next few years.

Local cash-corn prices in southern Minnesota are currently around \$3.25-\$3.50 per bushel, which compares to \$3.40-\$3.60 per bushel in 2015; \$4.25-\$4.50 per bushel in 2014; and over \$7.00 per bushel in early 2013.

Kent Thiesse

Farm Analyst, Vice President

MinnStar Bank, NA

Lake Crystal, MN

kent.thiesse@minnstarbank.com

(507) 381-7960

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Current "new crop" local corn prices for the 2016 crop have been near \$3.50 per bushel in some locations in southern Minnesota, with lower levels in other areas. This is just below the "new crop" corn price a year ago at this time, and compares to late January "new crop" corn prices of over \$4.00 per bushel in 2014, and near \$5.50 per bushel in 2013.

Cash soybean prices in southern Minnesota are witnessing a similar scenario, with prices near \$8.25-\$8.50 per bushel, which compares to \$9.25-\$9.50 per bushel in 2015; over \$12.50 per bushel in 2014; and over \$14.00 per bushel in early 2013. Current "new crop" soybean prices in southern Minnesota for the 2016 crop have been near \$8.50 per bushel or slightly lower. This compares to late January "new crop" corn prices of near \$9.00 per bushel a year ago in 2015; over \$10.50 per bushel in 2014; and over \$12.50 per bushel in 2013.

Local cash-corn prices in Lake Crystal, Minnesota were in a range of \$3.60-\$3.90 per bushel during most of the first six months of 2015, before dropping off in July. In 2014, local corn prices were well above \$4.00 per bushel in the first six months, before dropping below \$3.50 per bushel after August 1. Even in 2013, local corn prices in Lake Crystal were \$6.50-7.00 per bushel prior to July 1, and then dropped rapidly by harvest time that year. The last time that prices held steady or increased after July 1 was in 2012, when price rallies were driven by crop shortages that resulted from the national drought that year.

Given the current large levels of projected grain stocks in the U.S., it is unlikely that we will see any significant increases in corn and soybean prices for the 2015 crop that is currently in storage. In the most recent USDA Supply and Demand Report, corn-ending stocks were estimated at over 1.8 billion bushels, and soybean-ending stocks were at 440 million bushels, both of which are at the highest levels in recent years. Any "weather markets" are likely to have greater impact on 2016 "new crop" prices.

The breakeven cost of producing corn at "trend line" yields was probably near \$4.00 per bushel for many producers in 2015 and will likely be similar in 2016. The breakeven level for soybeans may have dropped to near \$9.00 per bushel or lower for many producers in 2015, due to the excellent yields in many areas. However, the soybean breakeven level for 2016 is likely to be back

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above \$9.50 per bushel, if yields return to more typical levels. There can be a large variation in breakeven price levels among farm operators depending on yield potential, production expenses, overhead costs, and land costs. Farm operators need to calculate their own costs of production and breakeven levels, in order to have a workable grain marketing plan for 2015 grain in storage, as well as for the 2016 crop.

Producers need to be ready to sell some of their existing, unpriced 2015 grain inventories and lock in some market prices on anticipated 2016 production, if pricing opportunities exist. Grain price targets should be based on realistic price expectations, and the calculated crop production breakeven levels referenced earlier. It is best to have targets set to forward price a portion of the expected crop when profit margins exist. However, it is also critical to have a strategy to reduce loss, if grain prices stay below the breakeven levels.

As part of a good grain marketing plan, it is crucial to have target dates that are linked to grain marketing decisions and prices, especially with non-priced corn and soybeans that are in storage. Historically, in most years with large grain supplies, cash grain prices for "old crop" corn and soybeans usually decline significantly after July 1. The price targets need to be continually reviewed and adjusted, as grain market situations change.

Upcoming Event

- [South Central College Ag Symposium](#) on Tuesday, Feb. 9 in North Mankato.

For more information, contact Kent Thiesse, Farm Management Analyst at: kent.thiesse@minnstarbank.com or 507-726-2137.

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