

Surprising Rally in Grain Prices

The corn and soybean markets have both shown a strong Spring rally this year.

Even though Spring rallies in grain prices are fairly typical, the strength of Spring market enhancement this year is somewhat surprising. The large, anticipated 2015-2016 ending stocks for both corn and soybeans, along with a robust planting intentions report on March 31, raised concerns about grain-market improvement this year. However, the combination of crop production concerns in South America, along with a potential Summer drought in the U.S., and some strength in the export market, have resulted in the recent market enhancement.

The Chicago Board of Trade (CBOT) May soybean futures had a closing price of \$9.56 per bushel on April 15, which was the highest nearby futures closing price in over seven months. Since early February, the futures price has improved by nearly \$1.00 per bushel.

Cash prices at soybean processing plants in Mankato topped \$9.00 per bushel during the week of April 11-15, which was the first time those price levels have been achieved since August 2015. Prices at local grain elevators also saw considerable improvement, with local cash prices in a range of \$8.60-\$8.80 per bushel across southern Minnesota. This type of rally in the soybean market was not expected, considering that the USDA estimate for soybean-ending stocks for 2015-2016 is at the largest amount in over a decade.

The rise in corn prices in recent weeks has not been as dramatic as the soybean price increase. CBOT corn futures closed at \$3.78 per bushel on April 15, which was the highest closing price for

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nearby futures for 2016 thus far. The March 31 planting intentions report estimated U.S. planted corn acreage at 93.6 million acres, which would be the third highest in history.

Given the expected, large 2016 acreage total, along with projected 2015-2016 corn-ending stocks of 1.86 billion bushels in the April 12 USDA report, a corn price rally of any type seemed unlikely. Nearby CBOT corn futures dropped to \$3.51 per bushel following the large USDA planting intentions report on March 31, but have increased by 17 cents per bushel in the two weeks since that report. Local cash-corn prices across southern Minnesota were \$3.25-\$3.40 per bushel in most areas, which is still not a very attractive price to most producers.

According to the March 31 USDA Grain Stocks Report, there were over 4.33 billion bushels of corn and just over 727 million bushels of soybeans stored on farms in the U.S., which represents about 56 percent of total corn stock and 47 percent of total soybean stock. There were 670 million bushels of corn and 99 million bushels of soybeans in on-farm storage in Minnesota on March 1 and an estimated 930 million bushels of corn and 155 million bushels of soybeans in on-farm storage in Iowa. Based on those figures, there is a considerable amount of 2015 corn and soybeans remaining in on-farm storage, much of which still has to be priced in the coming months.

Farm operators need to pay attention to the current, grain-market price rally to market any "old crop" soybeans that remain in storage (either on the farm or in commercial storage). This is the best soybean price opportunity that we have seen for the 2015 soybean crop since Summer 2015. Given the strong soybean yields last year, a local soybean market price near or above \$9.00 per bushel is probably at or above the 2015 breakeven price for soybean production in most areas. Unfortunately, a local corn price near \$3.40 per bushel is probably still well below the 2015 breakeven price for most farmers in the Midwest. However, producers need to evaluate the current corn price offering against the risk of potential price declines for "old crop" corn in the coming months.

The local price basis (which is the difference between the CBOT futures price and the local cash price), has remained quite wide for both corn and soybeans. The local basis for corn prices has been \$0.40-\$0.50 per bushel at most locations across southern Minnesota and northern Iowa, except at grain terminals, with even

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wider basis levels in western Minnesota and the Dakotas.

Similarly soybean basis levels in the same region have been at \$0.70-\$0.90 per bushel and at approximately \$0.50 per bushel at soybean processing plants. It will be hard to achieve basis improvement in the coming months, considering the projected, high supply of corn and soybeans for 2015-2016. About the only scenario that could tighten the basis would be a major drought during this year's growing season.

Another reason to pay attention to marketing "old crop" corn and soybeans that are in storage, is that cash-grain prices tend to decline as Summer progresses, especially in years with large U.S. grain supplies. About the only exception to this over the last two decades is when we have a major drought or some other event that causes a sudden price fluctuation. According to grain marketing data from Iowa State University, local corn and soybean prices have increased or decreased about 50 percent of the time during May and June. However, during the months of July and August, the percentage of declining corn and soybean prices increases to 60-80 percent of the time, with an average decline of around 7-10 percent.

During the Spring planting season, many crop producers tend to put grain marketing decisions on the back burner. However, this may be the year to pay close attention to market changes during planting season. The soybean market appears to be offering some very favorable pricing opportunities for any remaining, 2015 soybean inventory, and the anticipated, 2016 soybean crop. While cash-corn prices for 2015 stored corn may not be as favorable at this point, producers need to watch the market closely to take advantage of price rallies, even if it means taking a slight loss on the 2015 crop. There could be a possibility of further price enhancements this Summer for "old crop" grain if drought conditions develop in the U.S. However, there is also the possibility of significant price declines if 2016 crop prospects look favorable.

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