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Pay Attention to Crop Prices

Soybean prices have been a pleasant surprise during the early weeks of 2017, with both Chicago Board of Trade (CBOT) futures prices and local cash soybean prices at considerably higher levels than a year ago.

Many farm operators have already sold their 2016 soybean production. However, for producers who still have 2016 soybeans in storage, this may be a good time to price some of the remaining inventory. The current price levels also suggest that it may time to consider pricing a portion of the expected 2017 soybean production.

Current CBOT soybean futures closed at \$10.48 per bushel on January 27, which compares to nearly \$8.80 per bushel in late January 2016 and nearly \$9.60 per bushel in late January 2015. Similarly, CBOT November soybean futures ended trading at \$10.24 per bushel on January 27. This puts CBOT soybean futures prices at about \$1.70 per bushel higher for current contract and over \$1.30 per bushel higher for new crop prices, compared to a year ago.

Local-cash soybean prices in southern Minnesota are in a similar scenario, with current soybean prices near \$9.50-\$9.80 per bushel, which compares to \$8.00-\$8.35 per bushel at this time in 2016, and \$8.80-\$9.20 per bushel in 2015. Current "new crop" prices in southern Minnesota for the 2017 crop have been near \$9.30-\$9.60 per bushel, compared to late January "new crop" soybean prices of nearly \$8.25 per bushel in 2016, and \$8.90 per bushel in 2015. In 2014, local, new crop soybean prices were near \$10.40 per bushel in late January and dropped to approximately \$8.50 per bushel by late September.

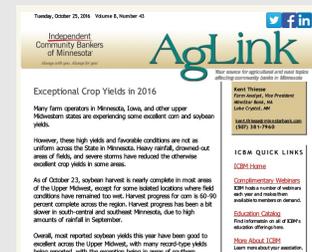
The latest USDA report, released in January 2017, estimated the U.S. national market-year average (MYA) on-farm-cash soybean price for 2016-2017 to be in a range of \$9.00-\$10.00 per bushel, resulting in an average soybean price of \$9.50 per bushel. The 2015-2016 USDA price estimates are the expected average prices from September 1, 2016 to August 31, 2017, for the 2016 crop year, and are not the estimated prices for the 2017 crop year. By comparison, the final, national MYA soybean prices were \$8.95 per

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bushel for 2015-2016 and \$10.10 per bushel for 2014-2015.

The current strength in the soybean market has been driven by increasing demand for soybeans, both in the U.S. and globally. The levels of domestic soybean processing and the amount of soybean exports are estimated to increase, compared to the previous two years. The caution flags with maintaining the current strength in the soybean markets are the projected high level of soybean-ending stocks, the final 2017 South American soybean production level, reductions in future soybean export levels, and the planted soybean acres in the U.S. for 2017.

The latest USDA report listed estimated, 2016-2017 soybean-ending stocks at 420 million bushels, which is more than double the ending stocks of the previous two years. Future U.S. trade policy with China and Mexico are very important, as they are two of the major export markets for U.S. soybeans.

The biggest wild card in the current soybean market, especially for new crop soybeans, will likely be the level of 2017 planted soybean acres in the U.S. The first USDA estimates will be released in the March 31 Planting Intentions Report. Many private analysts are estimating 2017 U.S. soybean acreage to be in the range of 88-90 million acres, which compares to U.S. soybean acreages of 82.7 million acres in 2016 and 81.8 million acres in 2015.

If the U.S. soybean acreage ends up at 88 million acres with a trend-line yield of 47 bushels per acre, the total U.S. soybean production level for 2017 would be estimated at just over 4.1 billion bushels, which is similar to the estimated total soybean demand for the 2016-2017 marketing year. If either the estimated 2017 U.S. planted soybean acres, or the expected 2017 national yield, increases from those levels, it will likely put pressure on both current cash-soybean prices and new crop prices for 2017. Conversely, lower-than-expected soybean acreage levels or significant weather issues during the 2017 growing season could help maintain strong soybean prices throughout the year.

Local-cash-corn prices in southern Minnesota have not been nearly as encouraging as current soybean prices. Current cash-corn prices were near \$3.10-\$3.25 per bushel on January 27, which compares to \$3.25-\$3.40 per bushel in both 2016 and 2015. Current new crop, local corn prices for the 2017 crop have been near \$3.30-\$3.40 per bushel at many locations in southern Minnesota, with lower levels in other areas, which is similar to new crop corn prices a year ago at this time. The USDA is currently estimating the MYA corn price for 2016-2017 to be in a range from \$3.10-\$3.70 per bushel, or an average of \$3.40 per bushel, which compares to \$3.61 per bushel for 2015-2016 and \$3.70 per bushel for 2014-2015.

In 2016, the local cash-corn price in southern Minnesota increased about \$0.40 per bushel from late January to early June, peaking at about \$3.75 per bushel, before dropping significantly to near \$3.00

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per bushel by late July. There was a similar pattern in 2015, with local cash-corn prices rising nearly \$0.50 per bushel from late January to early July, and then dropping to nearly \$3.25 per bushel by mid-August.

Many farm operators have a significant amount of unpriced 2016 corn stored in grain bins and need to pay close attention to any potential late Winter and Spring rallies in the cash-corn market. The fairly large level of USDA-estimated, 2016-2017 corn-ending stocks at 2.35 billion bushels, will likely limit any sustained rallies in the cash-corn market beyond early Summer, unless there are growing season issues with the 2017 corn crop.

Similar to the 2016 corn crop in storage, producers need to look at opportunities to forward-price some of their 2017 corn crop, either through CBOT futures contracts or with forward-cash contracts. From mid-May to mid-June 2016, CBOT December corn futures were \$4.00-\$4.30 per bushel, compared to the current corn futures price near \$3.60 per bushel. At that same time in 2016, the new crop forward-cash-corn price was \$3.65-\$3.75 per bushel, compared to current cash-corn prices below \$3.25 per bushel. In 2014, 2015, and 2016, the highest corn prices have been offered in late Spring and early Summer in the year that the corn was produced and post-harvest corn prices have never topped that level the following year. The last time we saw corn prices rise post-harvest was in 2013, following the major U.S. drought and reduced corn production in 2012.

It is important for farm operators to develop a good grain marketing plan for both the unpriced 2016 grain that is still in storage, as well as the expected 2017 corn and soybean production. Grain price targets should be based on realistic price expectations, as well as calculated crop production breakeven levels. Producers are also encouraged to have target dates that are linked to grain marketing decisions and prices, especially with the unpriced 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 drop by a fairly significant level after July 1. The price targets need to be continually reviewed and adjusted, as grain market situations change.

For more information, contact Kent Thiesse, Farm Management Analyst and Vice President, MinnStar Bank, Lake Crystal at: 507-381-7960 or kent.thiesse@minnstarbank.com.

Ag Symposium

An ag symposium will be held at South Central College in North Mankato on February 14.

The "New Tools for New Rules" symposium will feature excellent presenters who will focus on the latest issues surrounding agriculture.

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