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A Lot of Hope Exists for Grain Prices

Many farm operators are patiently waiting for the corn and soybean markets to show a Spring price rally, which usually occurs between March and June.

Thus far, any rally in grain prices has been limited, with only a slight price improvement since May 1, due to some planting delays in portions of the Midwest. The large, anticipated 2016-2017 ending stocks for both corn and soybeans, along with a rather robust planting intentions report on March 31, has raised concerns about any significant grain market improvement this Spring.

May soybean futures on the Chicago Board of Trade (CBOT) had a closing price of \$9.63 per bushel on May 5, which compares to \$10.26 per bushel on May 6, 2016 and \$9.93 per bushel on May 5, 2015. The nearby CBOT soybean futures price improved slightly in the first week of May, posting the highest closing prices since late March of this year.

However, the soybean futures prices for early May are nearly \$1.00 per bushel lower than the closing prices in early February. CBOT November futures prices for the 2017 soybean crop closed at \$9.66 per bushel on May 5, which is about 50-60 cents per bushel lower than CBOT November futures prices in February.

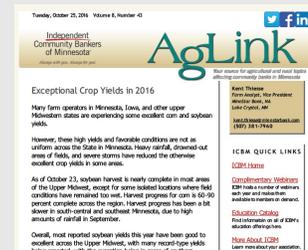
Cash prices at soybean processing plants in Mankato were close to \$9.25 per bushel during the first week of May, which again were the highest cash-soybean price levels since late March 2017. Soybean cash prices at local grain elevators in southern Minnesota have typically been in a range of \$8.50-\$8.90 per bushel since late March. There has been a wide difference in local-cash soybean prices across the Upper Midwest in recent months, depending on the local basis level.

CBOT corn futures have been trading steady in recent months, closing at \$3.61 per bushel on May 5. This compares to closing prices for nearby corn futures of \$3.58 per bushel on January 12, \$3.65 per bushel on February 3, and \$3.59 per bushel on both March 9 and April 7. Similarly, local cash-corn prices in southern Minnesota have generally been in the \$3.10 to \$3.25 per bushel range most of the time during 2017, with lower cash prices in

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areas with a wider basis level.

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 at most locations in the Upper Midwest. 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 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 about \$0.50 per bushel at soybean processing plants. It will be hard to achieve much basis improvement in the coming months, considering the large supply of U.S. corn and soybeans that has been projected for the 2016-2017 marketing year. About the only scenario that could tighten the basis would be development of a fairly major U.S. drought during the 2017 growing season.

The March 31 USDA Planting Intentions Report estimated 2017 U.S. planted-corn acreage at nearly 91 million acres, which is a decline of 4 percent from 94 million planted acres in 2016, but is still above the 88 million corn acres planted in 2015. Given the fairly large 2017 acreage total, along with projected 2016-2017 corn-ending stocks of over 2.3 billion bushels, a major corn price rally of any type seems unlikely unless there is some type of national weather event. The 2017 U.S. soybean acreage is projected at a record level of 89.5 million acres, which is 6 million acres above the previous soybean acreage record in 2016. Soybean-ending stocks for 2016-2017 are estimated at 445 million bushels, which is the highest level in over two decades, and will likely stymie any extended price rallies.

According to the March 31 USDA Grain Stocks Report, there were over 4.9 billion bushels of corn and just over 668 million bushels of soybeans stored on farms in the U.S. as of March 1, 2017-- representing about 56 percent of the total corn stocks and 40 percent of the total soybean stocks. There were 770 million bushels of corn and 93 million bushels of soybeans in on-farm storage in Minnesota on March 1, 2017, and an estimated one billion bushels of corn and 115 million bushels of soybeans still in on-farm storage in Iowa. Based on those figures, there is a considerable amount of 2016 corn remaining in on-farm storage, much of which likely still has to be priced in the coming months.

Farm operators need to pay attention in the next couple of months to any short-term improvements in the cash-grain prices to market any "old crop" corn and soybeans that remain in storage, either on the farm or in commercial storage. Historically, cash prices for old-crop corn and soybeans tend to decline after July 1 in a given year, unless there is a major drought or other national weather event that significantly affects U.S. corn and soybean production. The last time that this occurred was in 2012. Given the seasonal trend in the corn and soybean market, producers probably need to have a calendar target, as well as a price target, to sell remaining 2016 corn and soybeans.

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Based on farm business management records in southern Minnesota, the average 2016 corn yield on cash-rented land was nearly 205 bushels per acre, and the average breakeven market price was \$3.20 per bushel to cover cash input expenses and land rent, and about \$3.71 per bushel to cover direct and overhead expenses. For producers who experienced weather issues in 2016 and averaged closer to 190 bushels per acre, the breakeven corn price is about \$3.80 per bushel to cover cash expenses and land rent, and nearly \$4.30 per bushel to cover total costs of production.

Local cash prices below \$3.30 per bushel in southern Minnesota since January 1, 2017, have resulted in a very limited amount of old-crop corn being marketed. There was a brief opportunity to forward-price 2016 corn between \$3.50 and \$3.90 per bushel during the late Spring and early Summer of 2016.

Farm operators now face the prospect of marketing old-crop corn in storage at cash prices below their 2016 breakeven levels. It may be better to have a marketing plan in place to sell this grain in the next 2-3 months, even if it means taking a small profit loss, rather than holding non-priced grain into the Fall of 2017. According to grain marketing data from Iowa State University, for the past decade, 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 about 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 grain market changes during planting season. Farm operators need to watch the grain markets closely and take advantage of any cash-price rallies for old-crop corn and soybeans in storage. They also need to be aware of any opportunities to forward-price a portion of the 2017 corn and soybean crops, especially if prices reach profitable levels. There could be some possibility of further price enhancements this Summer, if drought conditions develop in the U.S. However, there is also the possibility of rather significant price declines, if 2017 crop prospects look favorable.

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