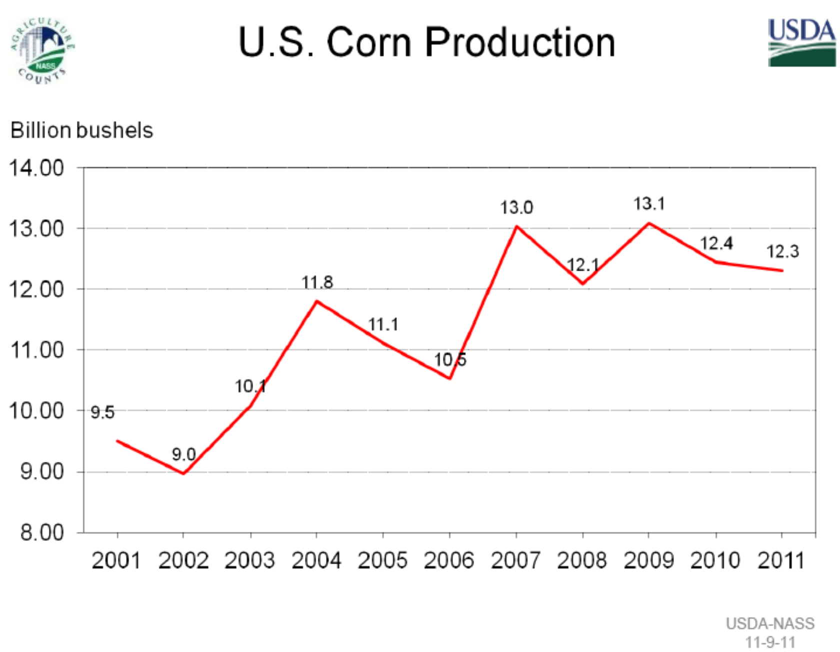
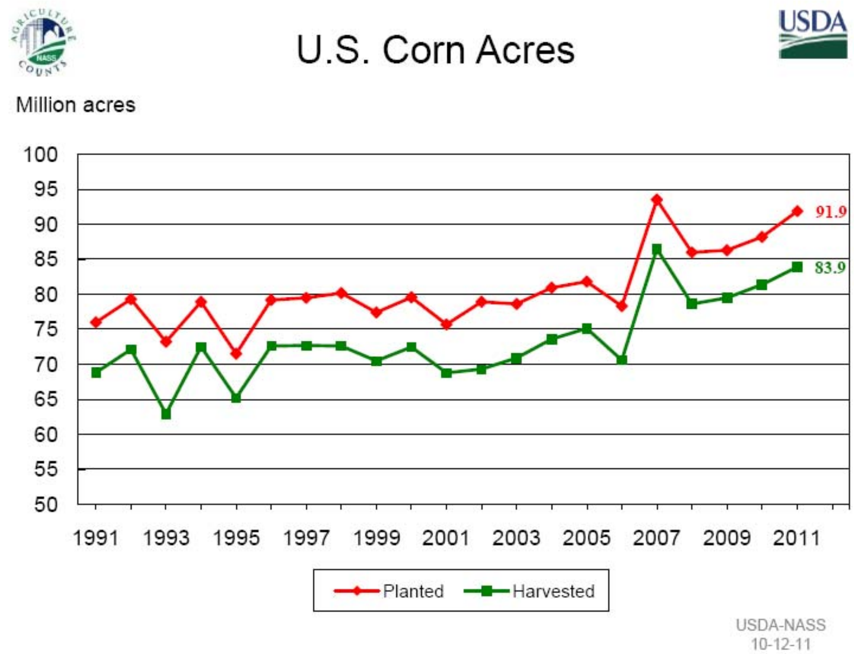
BACK-TO-BACK HIGH YIELDS AND PRICES: MARKETING IN 2012

David C. Moll [1/]

Last year a strong bull market run continued in grain prices, new all-time highs in corn futures prices were set. Does 2012 have the same momentum behind it? Let's take a look at some of the factors that allowed the bull market to stay in place. Ultimately when the bull market started during July 2010, demand driven markets propelled prices higher. Demand from both domestic and foreign markets was picking up following for wheat, corn and soybeans. World wheat supplies stumbled with the drought that the Black Sea region faced. As the fall of 2010 unfolded US corn production failed to meet expectations and producers harvested a 12.4 billion bushel crop. The strong demand ate away the crop to a tight 840 million bushels, resulting in a very tight 6.6% ending stocks to total use. For 2011 crop prospects, there was the possibility to pick up more corn acres during the spring but wet growing conditions in the eastern Corn Belt and some delays in planting throughout the Midwest meant plantings were about 92 million acres. That is the 2nd largest US acreage. If more acres were planted though it could have softened the market as extra acreage would make ample supply less risky. That could be a huge factor in 2012, if returns per acre remain where they are, at much higher returns from corn than the competing crop (typically soybeans) then there could be another big shift in acreage this spring. Time will tell if the US surpasses the record 93 million planted corn acres of 2007. If demand is held constant and 94 or 95 million acres of corn were planted how much less risk is there in 2012 production meeting demand needs?



[1/] Grain Marketing Outreach Specialist, UW Extension.



Marketing grain in 2012 will likely come with a very uncertain future. Strong demand with large supplies will likely keep prices elevated. The pricing environment will remain volatile though as small changes to fundamentals cause large prices changes in a tight ending stocks environment. As input prices continue to rise, protecting one's downside risk while leaving room for upside revenue potential will be a difficult piece to balance. If demand weakened and supplies were ample it would result in a very different price direction. It was not too long ago when (a mere 19 months) when corn prices were barely above $3.00 a bushel and the bottom did not look like there was any support. This was after the bull market rally reaching above $7.00 a bushel. The probability of a $3.00 in 2012 is not likely but if there were a dramatic change in fundamentals it could happen. Ending stocks have been this tight in two other time periods over the last 40 years, in the mid-1970s and in 1996. In the mid-1970s ending stocks were tight for two consecutive marketing years but in the third year the demand shattered. Ending stocks in 1996 were just as tight but an increase in acreage the following year rebuilt ending stocks. What will happen this time around?

The drought in Texas continues to make many leery about the potential for devastating 2012 production in the south and if the drought conditions persisted and spread into the Midwest then surely all bets are off on how high prices would go. There would likely be new all-time highs in commodity futures prices. How likely is this to occur though and how much would demand weaken from livestock production along the way?

With tight ending stocks it is relatively easy to point to news stories that show the sky being the limit on corn and soybean prices again in 2012 and if weather puts supply in question then it will likely bring prices higher as supplies are already tight, but how much downside risk are you willing to accept with increasing input prices.

Historically during marketing years when yields fall below trend-line then the highest prices are seen during August through January of the year to ration demand and then after leading into the spring prices move much lower as enough rationing occurred. Will that happen in 2012? This is still yet to be seen.

In Wisconsin producers had high yields for the second year in a row and with the high prices had high revenue per acre. Wisconsin corn yield was 160 bushels per acre for corn and 47 for soybeans. Nationally, corn production was 12.3 billion bushels and soybean production was 3.03 billion bushels. 2011 corn production is the 4th largest in history and soybeans remained in the average over the last 7 years. Even with the large productions nationally and in Wisconsin, basis levels were strong during harvest at nearly 50 cents better per bushel than in 2010.

When marketing the rest of the 2011 crop and making contracts for the 2012 crop consider your financial position and how much downside price risk you can take. Even though the outlook remains for bullish prices, history says that bulls die and when fundamentals change it is typically heavily in the other direction as supplies pass demand. Will that happen in 2012 or in the teen years?

One thing is expected, though, margins will likely be tight in 2012 and be even tighter in the teen years. Even if prices remained high, input prices will be rising at a faster rate to catch up or if prices lagged input prices would likely be reduced at a slower rate. The back-to-back high yields and prices seen of the last two years have been really good times.