Grain Marketing in an Era of Low Prices

Agricultural Policy & Outlook Meetings
Dean’s Preview
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Chinese Meat Consumption 90-13

Graph showing the consumption of beef, swine, and broiler meats from 1990 to 2013.
Chinese Oilseed Consumption Growing by 9.8%/yr since 1990
Chinese Grain Consumption Climbing by 4%/year since 2006.
The real currency of agriculture is land.

- Chinese soybean imports in 2011 are about 1.9bn bushels, or 45m acres.
  - In 2001, about 600m bu, or 15m acres.
- US Ethanol usage is 5bn bu, net of DGS is about 3.4bn bu, or 22m acres
  - In 2002, about 500m bu, or 2m acres.
- Plus Chinese feed grains, Indian demand, etc.,
The real currency of agriculture is land.

- **Global Soybean Production Has Increased by 90mmt since 2001:**
  - That is 3.3bn bushels—more than US annual production!
- **Global Corn Production Has Increased by 280mmt (11bn bushels!) since 2001.**
- **Global Wheat Production Has Increased by 110mmt (4.3bn bushels!) since 2001.**
US Motor Fuel Usage Peaked in ‘07
## Energy Independence and Security Act of 2007

### Renewable Fuels Standards

<table>
<thead>
<tr>
<th>Calendar Year</th>
<th>Total</th>
<th>Convent’l Biofuel (min 20% GHG reduc after 2010)</th>
<th>Advanced Biofuel (min 50% GHG reduction)</th>
<th>Cellulosic Biofuel (min 60% GHG reduction)</th>
<th>Biobased Diesel</th>
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<td>9.00</td>
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<td>2009</td>
<td>11.10</td>
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<tr>
<td>2010</td>
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<td>12.00</td>
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<td>2011</td>
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<td>2012</td>
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<td>2013</td>
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<td>2015</td>
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<td>15.00</td>
<td>5.50</td>
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</table>

Matthew C. Roberts, AED Economics
JANUARY 1 TOTAL CATTLE INVENTORY
U.S., Annual

Mil. Head

2013 = 89.3 Million Head
-1.6 Percent

Livestock Marketing Information Center
Data Source: USDA-NASS
MARCH 1 ALL HOGS AND PIGS
U.S. Inventory (Prior to 1988 Estimated)

Livestock Marketing Information Center
Data Source: USDA-NASS
Including DDGs, current feed forecasts are back at ’07 levels.
High Prices Rationed Corn Exports, Look to Rebound in ‘13/14
2013 Is 4th Consecutive Year of Below Trend Corn Yields
Corn Inventories Are Increasing

Production 13.99
Use 12.95
Stocks-to-Use Ratio (%)

Billion Bushels
Global Corn Production and Consumption Rising

Production 963
Use 933
Stocks-to-Use Ratio (%)
Still Lots of Uncertainty for Soybean Yields
Domestic Crushing Demand Remains Weak.
Soy exports very strong.
Global Soybean Production Much Higher in ‘13/14

Stocks-to-Use Ratio (%)

Production 282
Use 269

Million Metric Tons
Sept Estimates Leave Bean Markets Very Tight

Production 3.15
Use 3.14

Stocks-to-Use Ratio (%)
What is Driving Land Value?

• Crop Net Income has been/projected to be good
• Farmers balance sheets continue to strengthen U.S. Farm Sector Debt to Asset Ratio – 10.2%
  – (D/A Ratio in 2002 was 14.1%)
  – $’s to invest => machinery or land
• Outside Investors still seeking investment alternatives
• Local land supply – low
• Low interest rates
Land Situation & Outlook

• Interest rates have already begun to rise
• Ethanol expansion has stopped
  – Add’l 2m acres/year of demand now flat or negative
• Strong balance sheets
• Prices likely to stagnate or weaken
  We are not going to see the 80s.
  But there will probably be some opportunities.
Lower Prices Will Clearly Have a Big Impact on Crop Profitability

• How to handle lower prices & profits?
  – Short-term: Insurance
  – Intermediate-term: ACRE
  – Long term: balance sheet
$4 Corn: It’s a matter of when not if.
$9 Beans: Sooner or later?
What can all producers do?

• Build capital:
  – Working capital should be at least one years’ land payment above normal working capital needs.
  – 1.5 years if you want to keep it in stocks and bonds.
  – (Near) Cash is the only way to ultimately manage risk.
But in the long term...

• Risk management and insurance are merely armor for a balance sheet.
• Producers of all stripes must be working to continually improve their balance sheets.
  – How much has it improved over the past five years?
    • Asset Base
    • Equity
  – How does that compare to other producers?
Questions?

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