Ag Outlook

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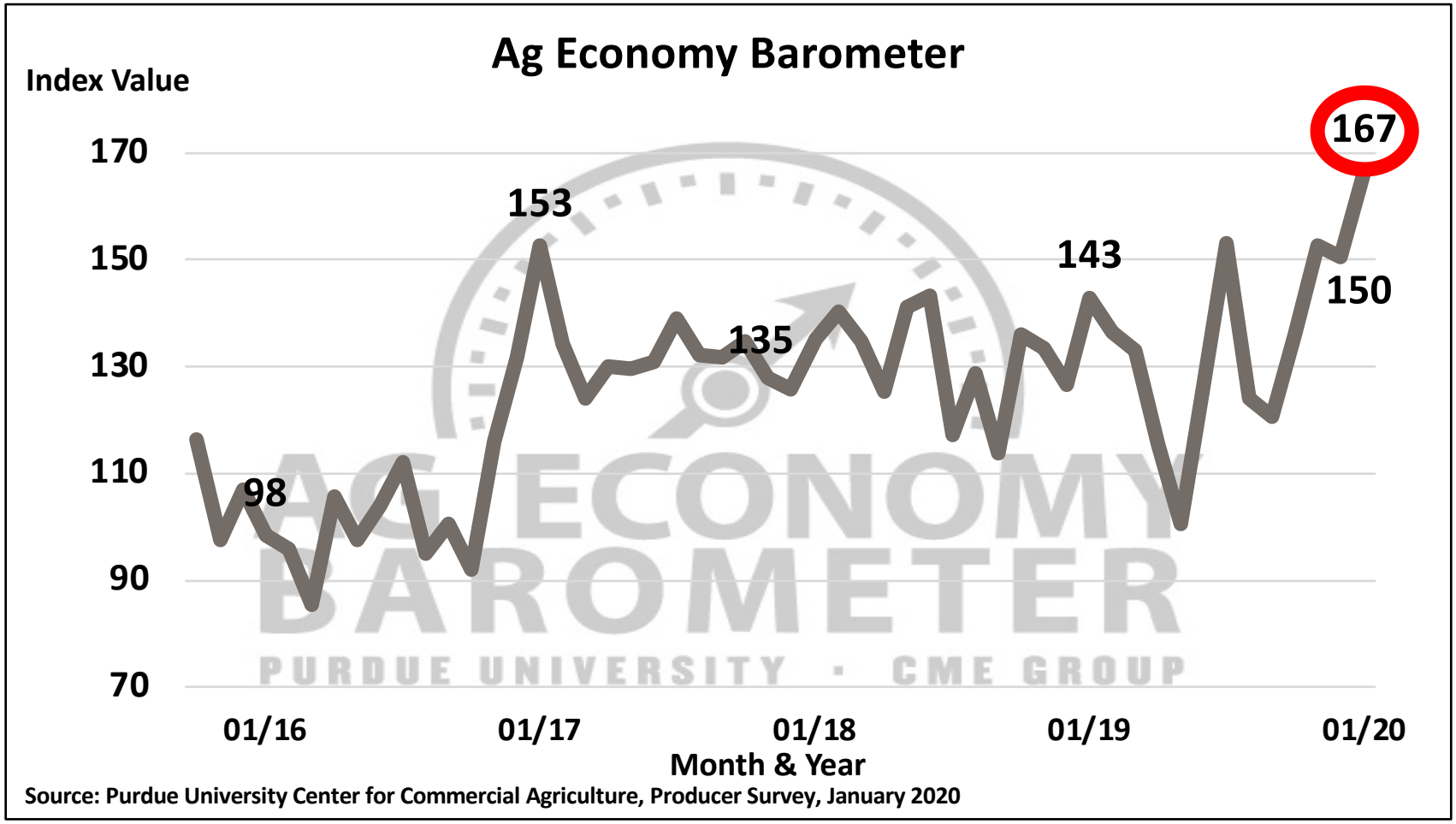
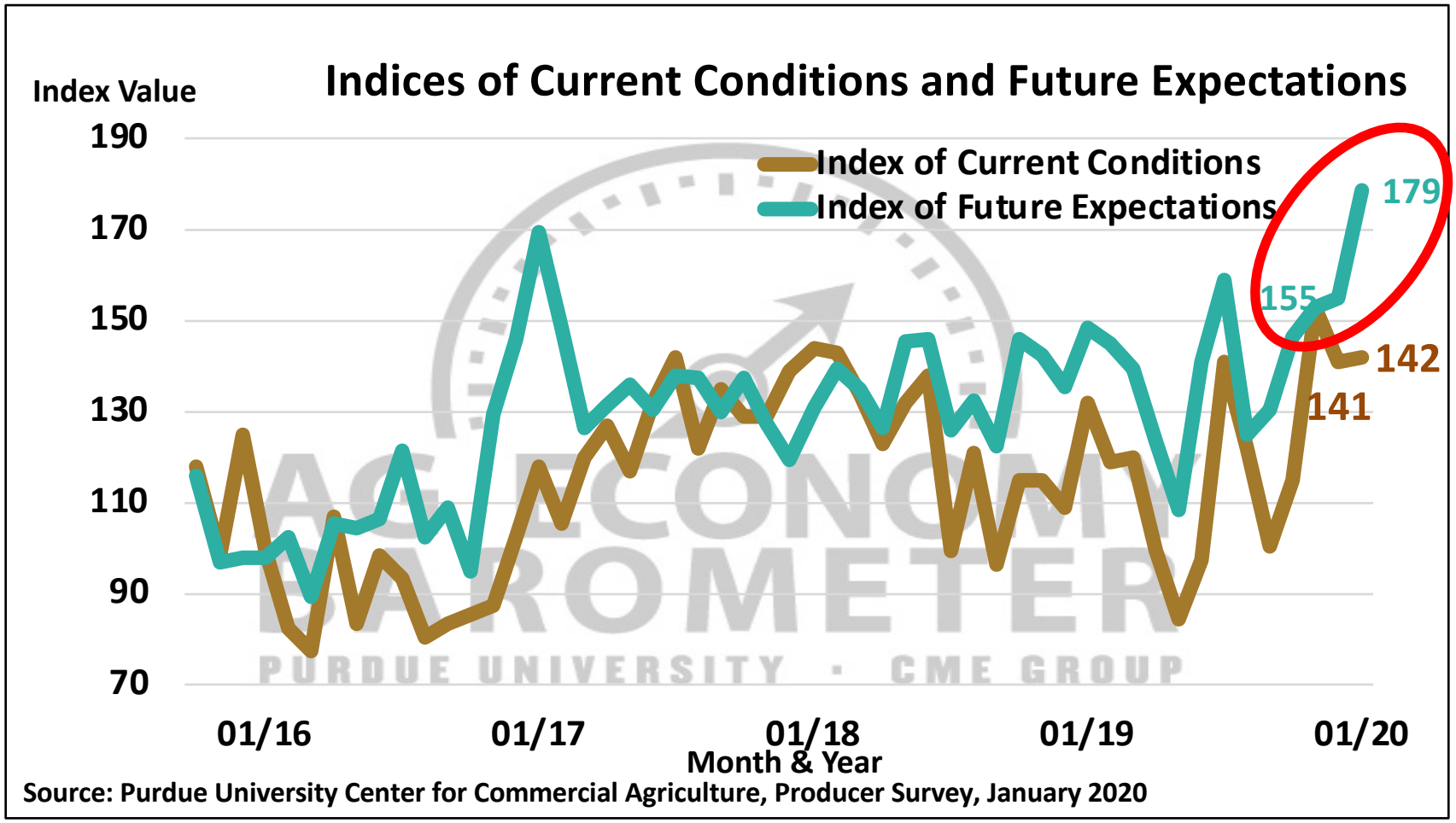
PURDUE UNIVERSITY | Center for Commercial Agriculture

February 2020

What's On Farmer's Minds
Ag Economy Barometer: January 2020



Source: Purdue University Center for Commercial Agriculture, Producer Survey, January 2020



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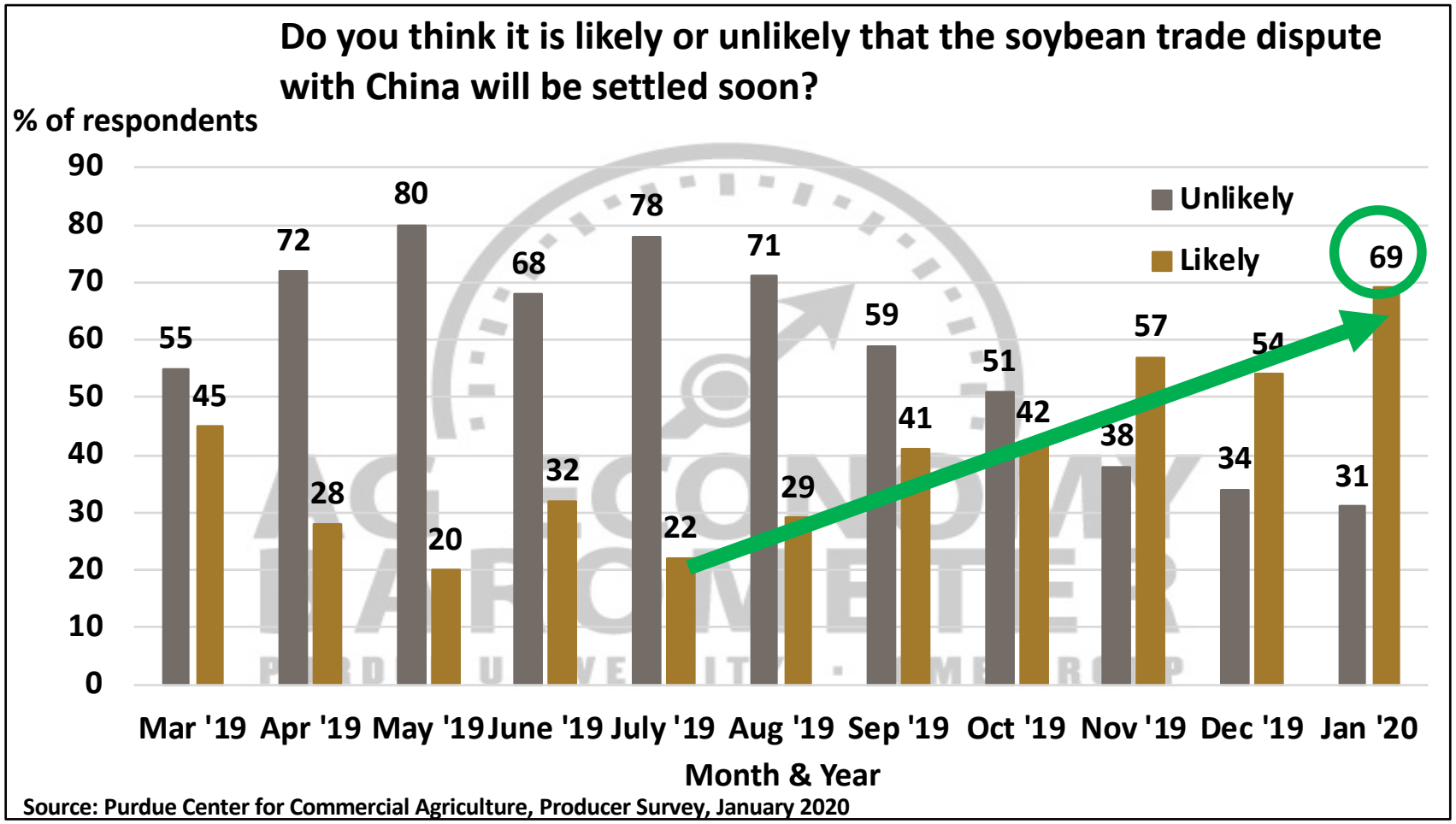

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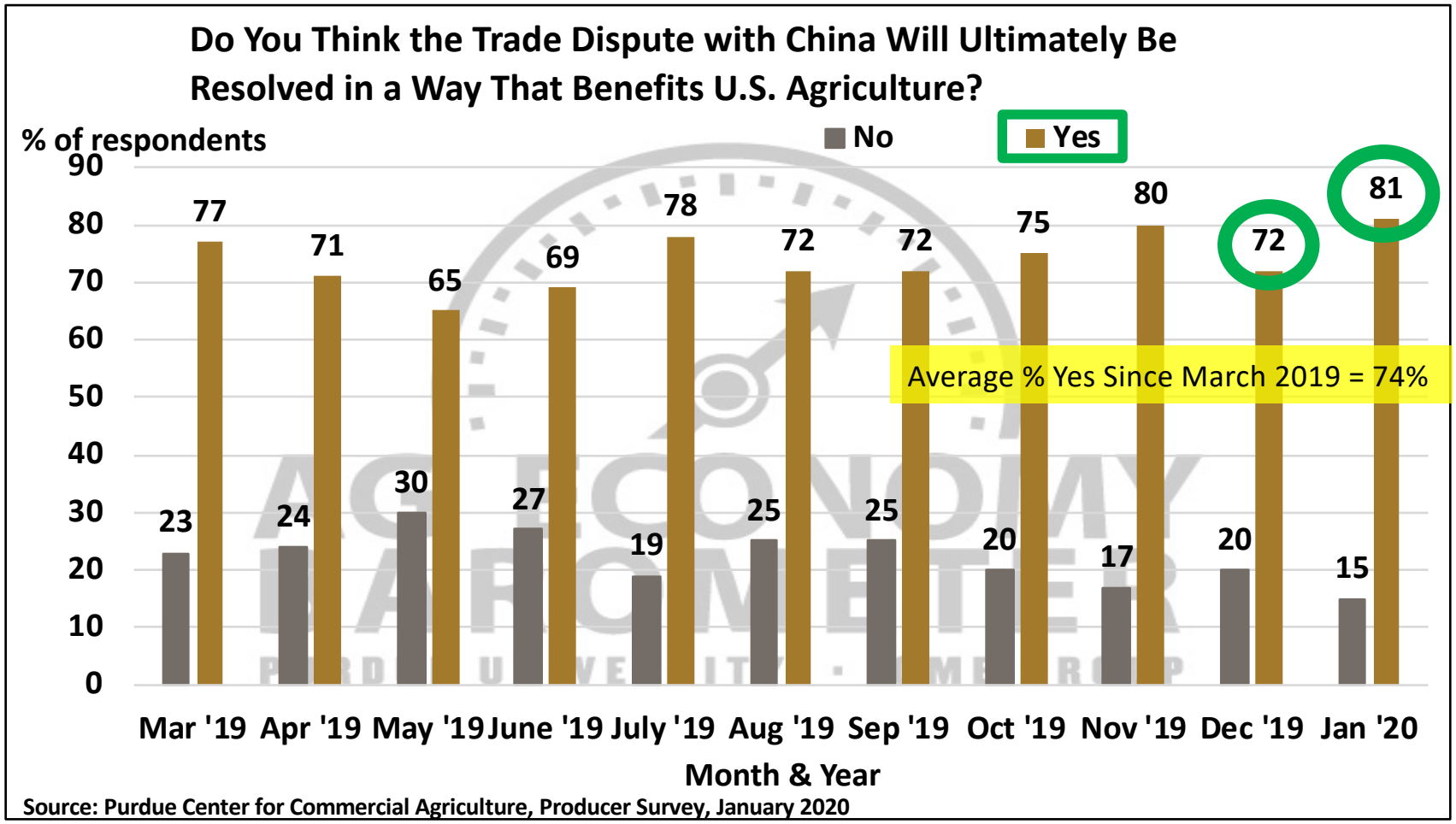
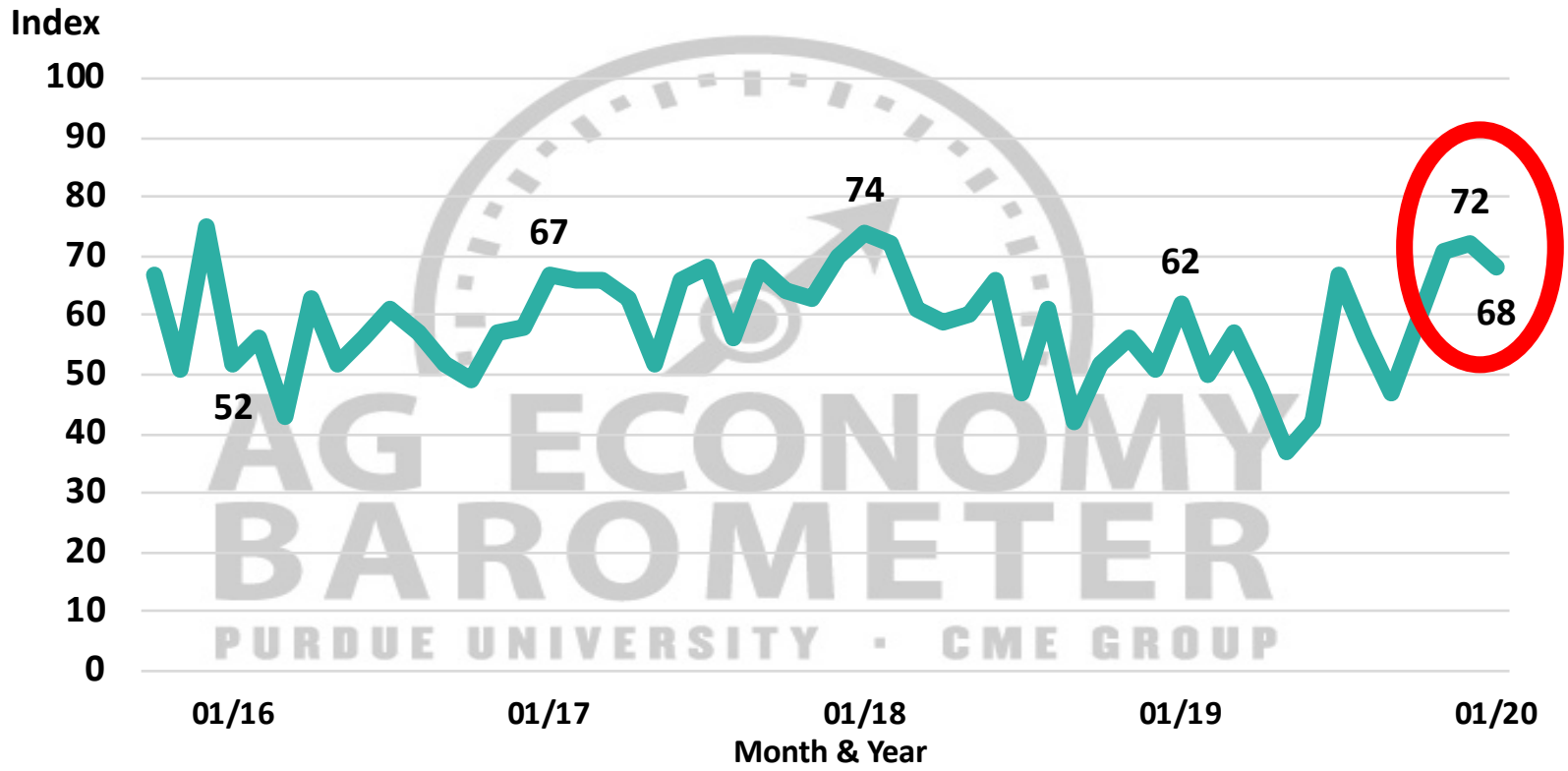


Source: Purdue Center for Commercial Agriculture, Producer Survey, January 2020

Farm Capital Investment Index



AG ECONOMY BAROMETER
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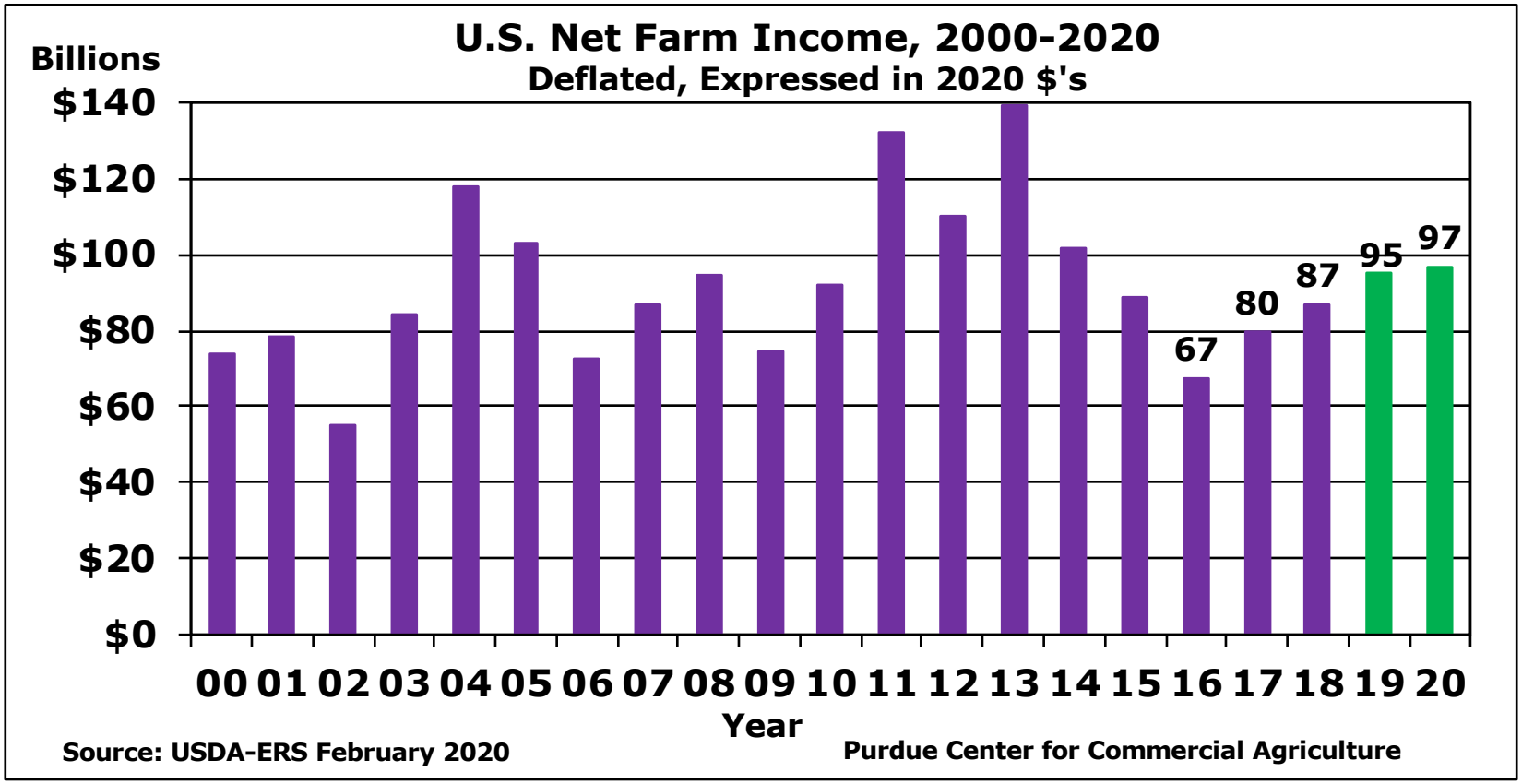
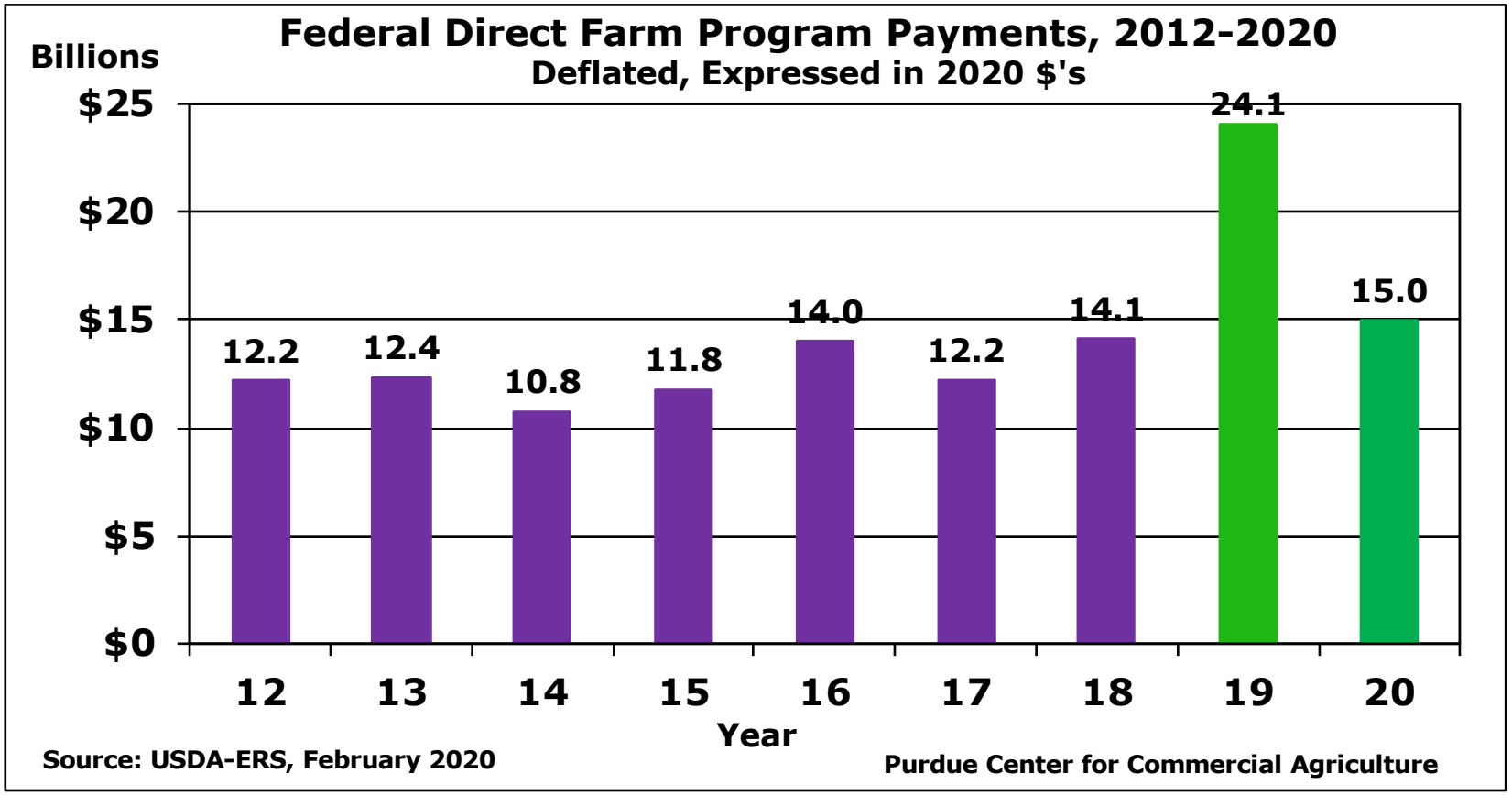
Source: Purdue University Center for Commercial Agriculture, Producer Survey, January 2020

USDA Forecasts 2% Increase in Inflation Adjusted Net Farm Income



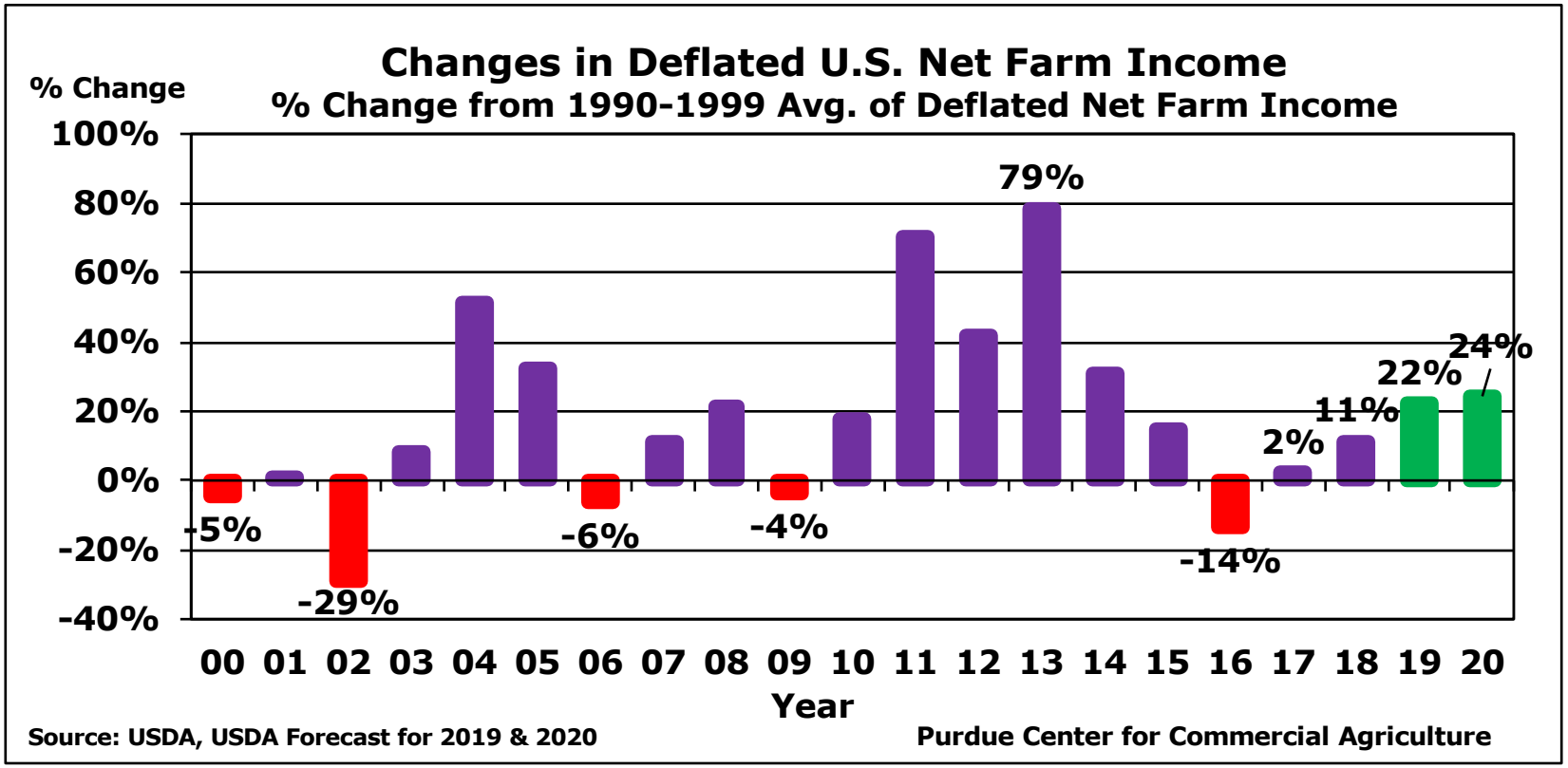
2019 Income Would Have Fallen Below 2018 Without An Increase in Government Payments

Inflation Adjusted Government Payments Up 70% in 2019

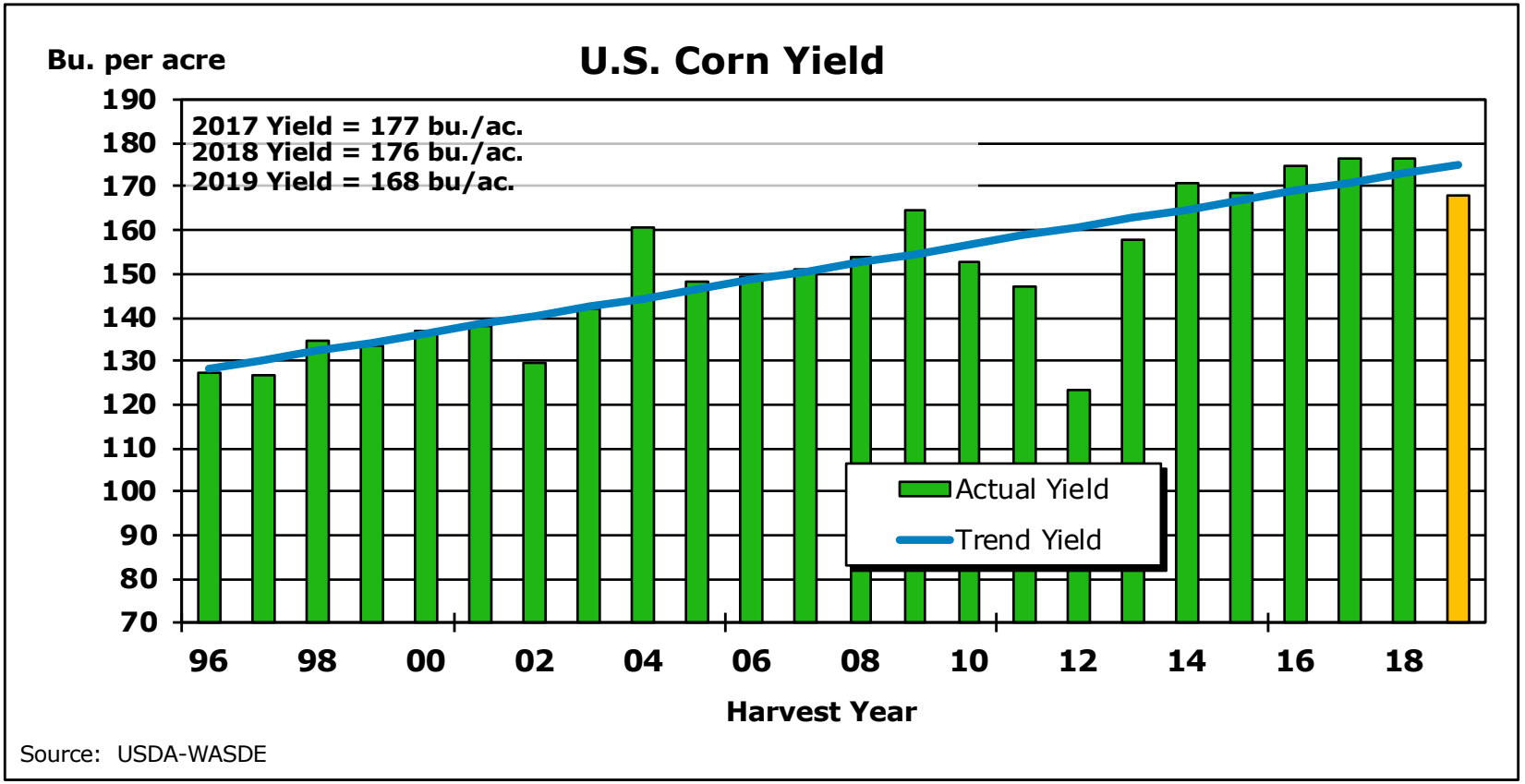


Some Perspective on Farm Income

Comparing the 2000s to the 1990s

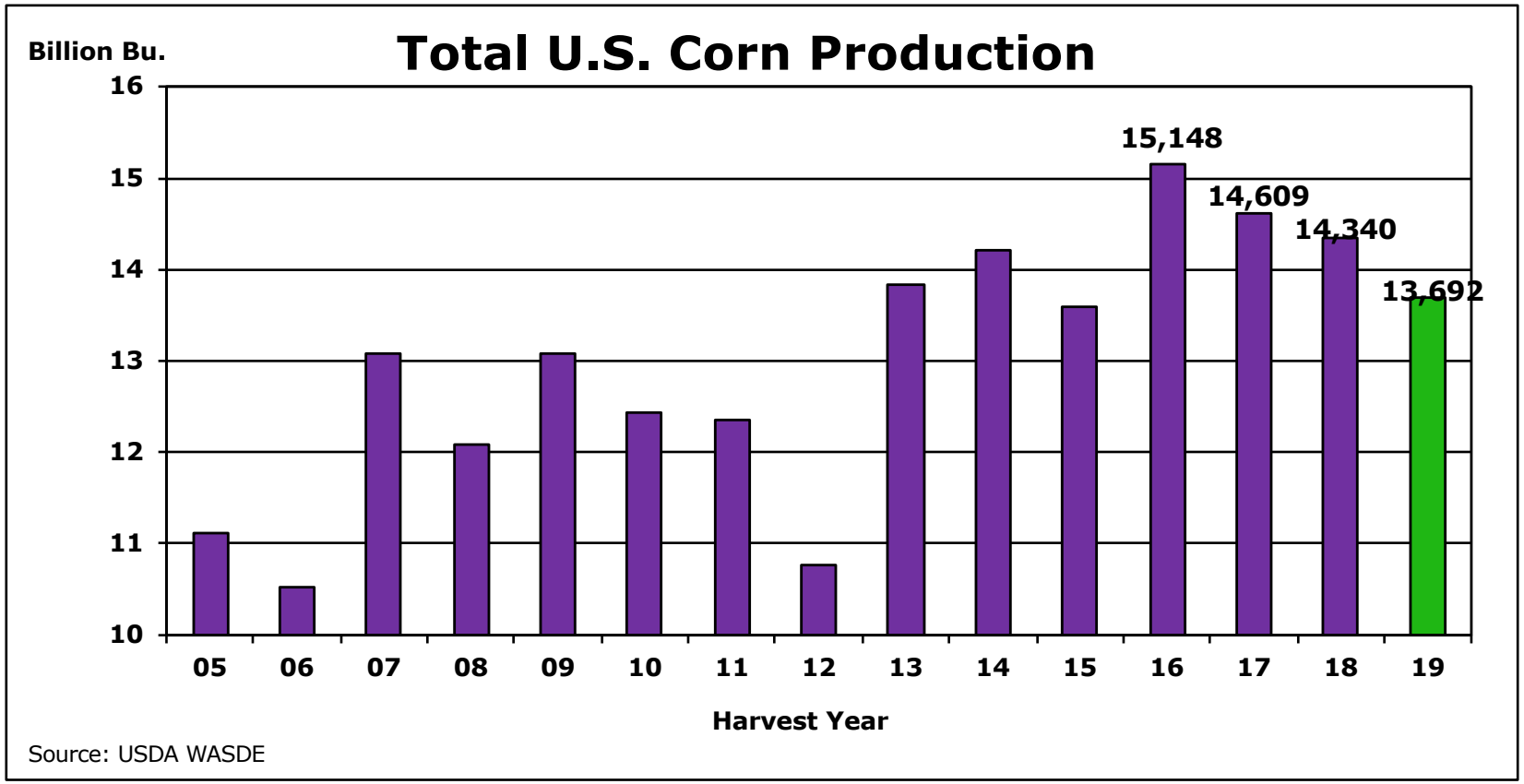


Surprisingly Good Yields in 2019



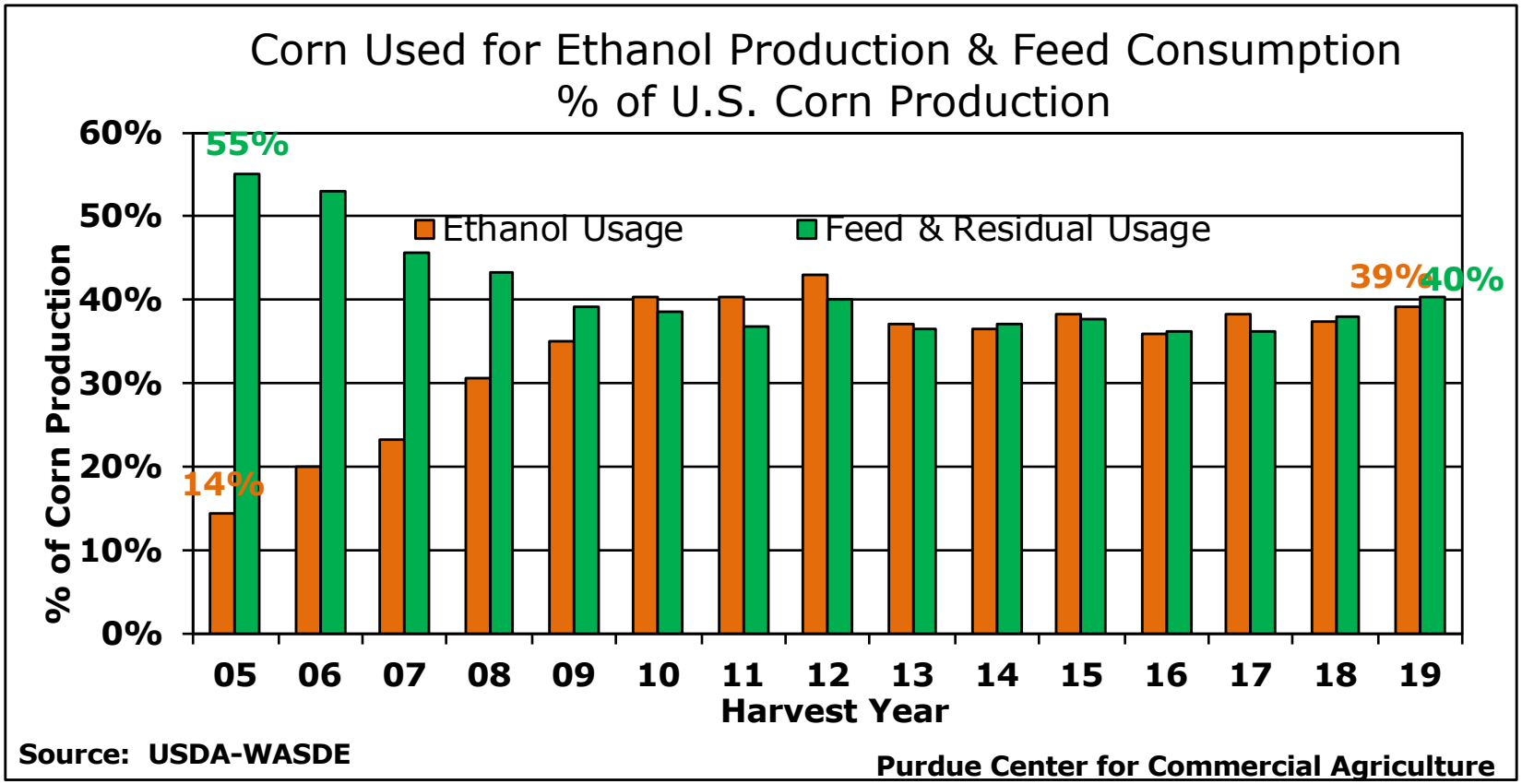
Source: USDA-WASDE

But Still Was 3rd Year in A Row for Corn Production Decline

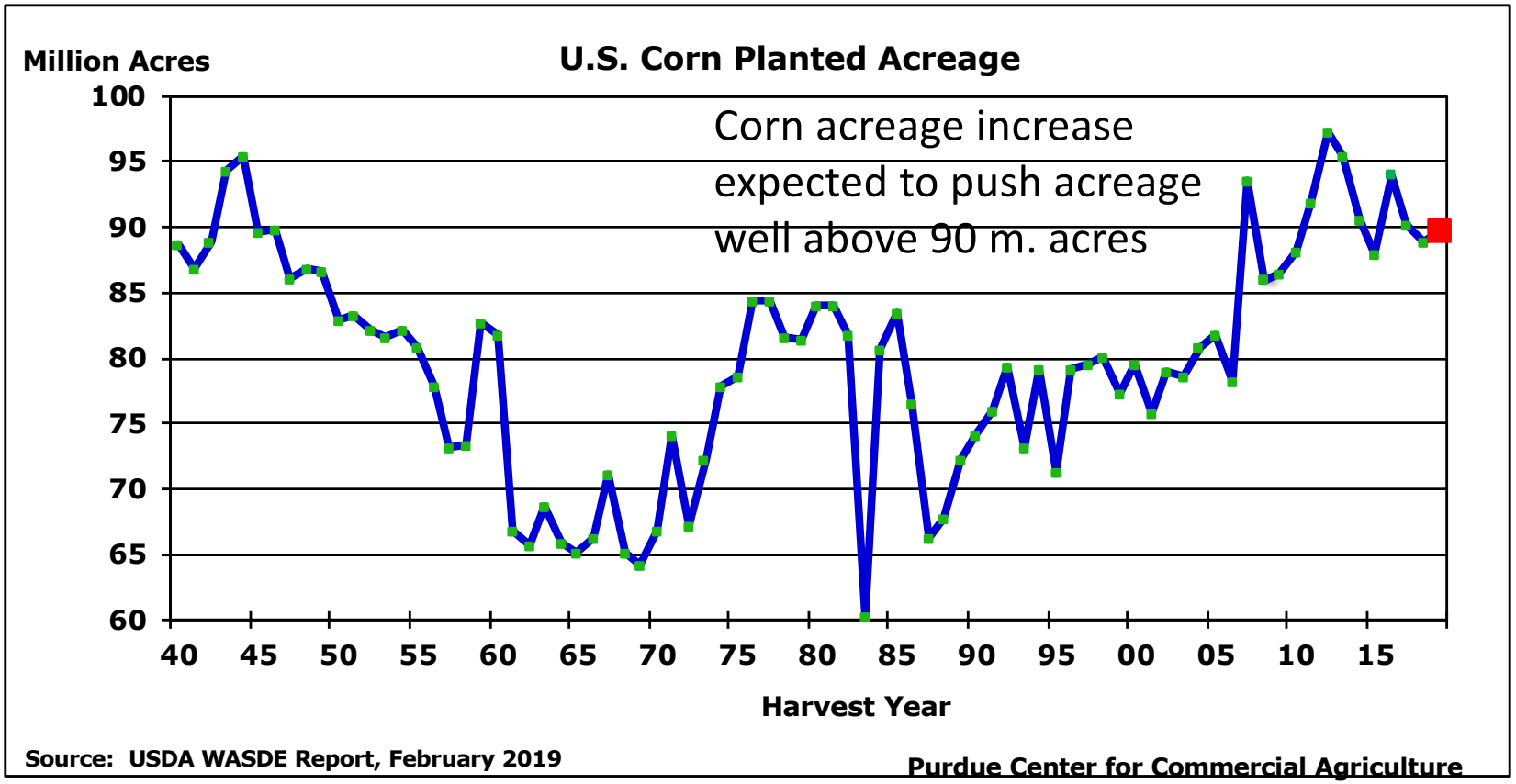


Source: USDA WASDE

Ethanol Usage Has Plateaued

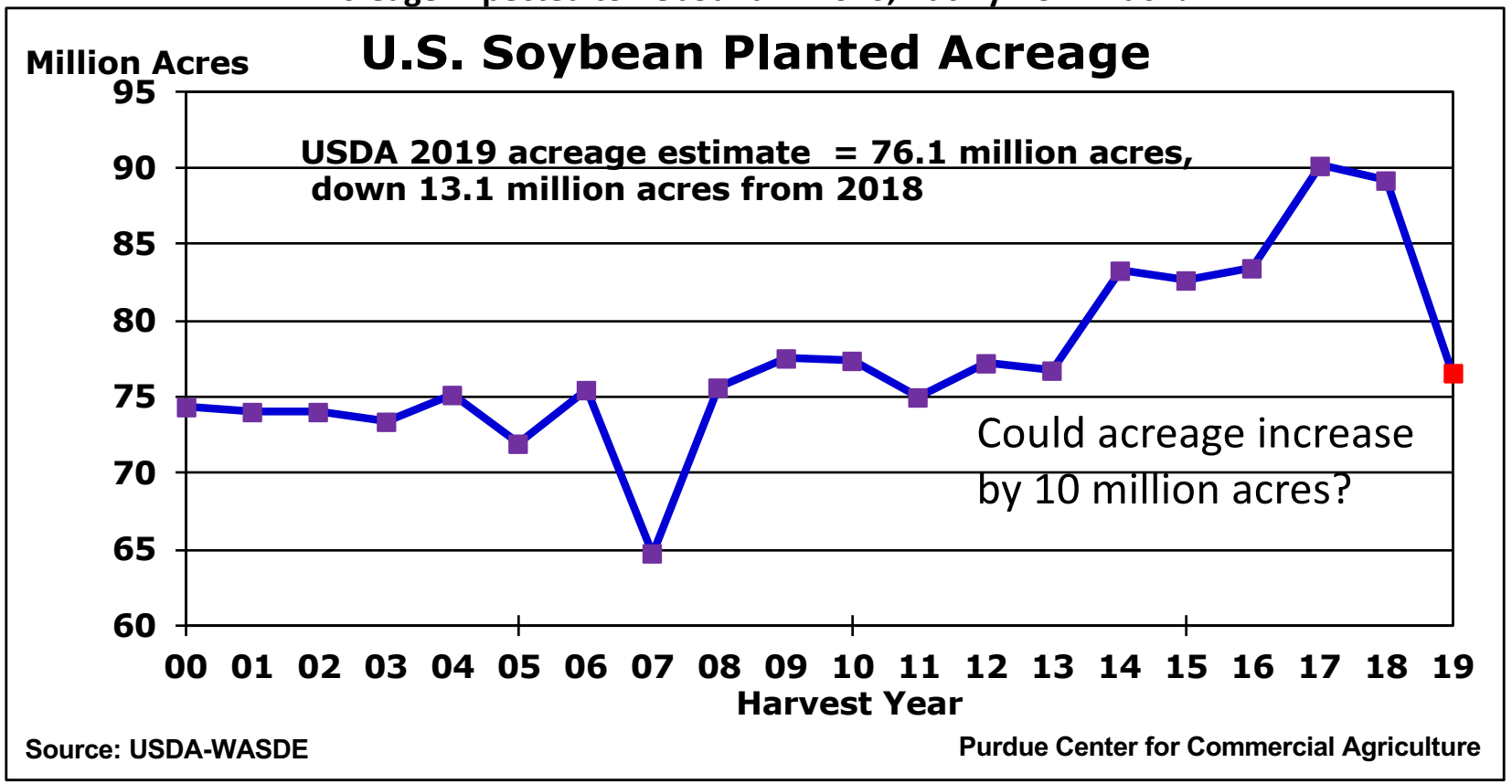


Corn Acreage Expected to Rebound in 2020, But By How Much?

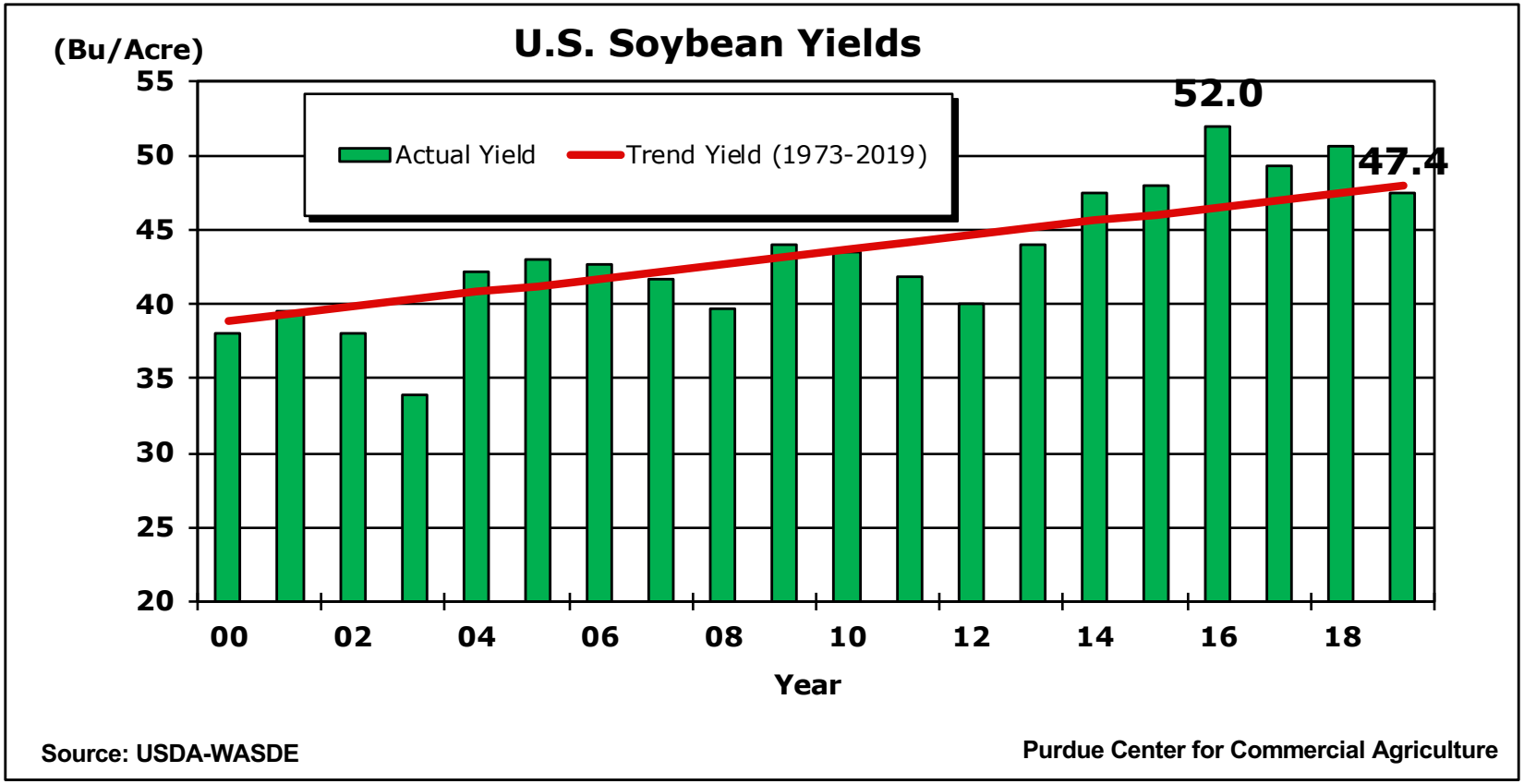


Soybean Acreage Plummeted As Prevented Plantings Soared

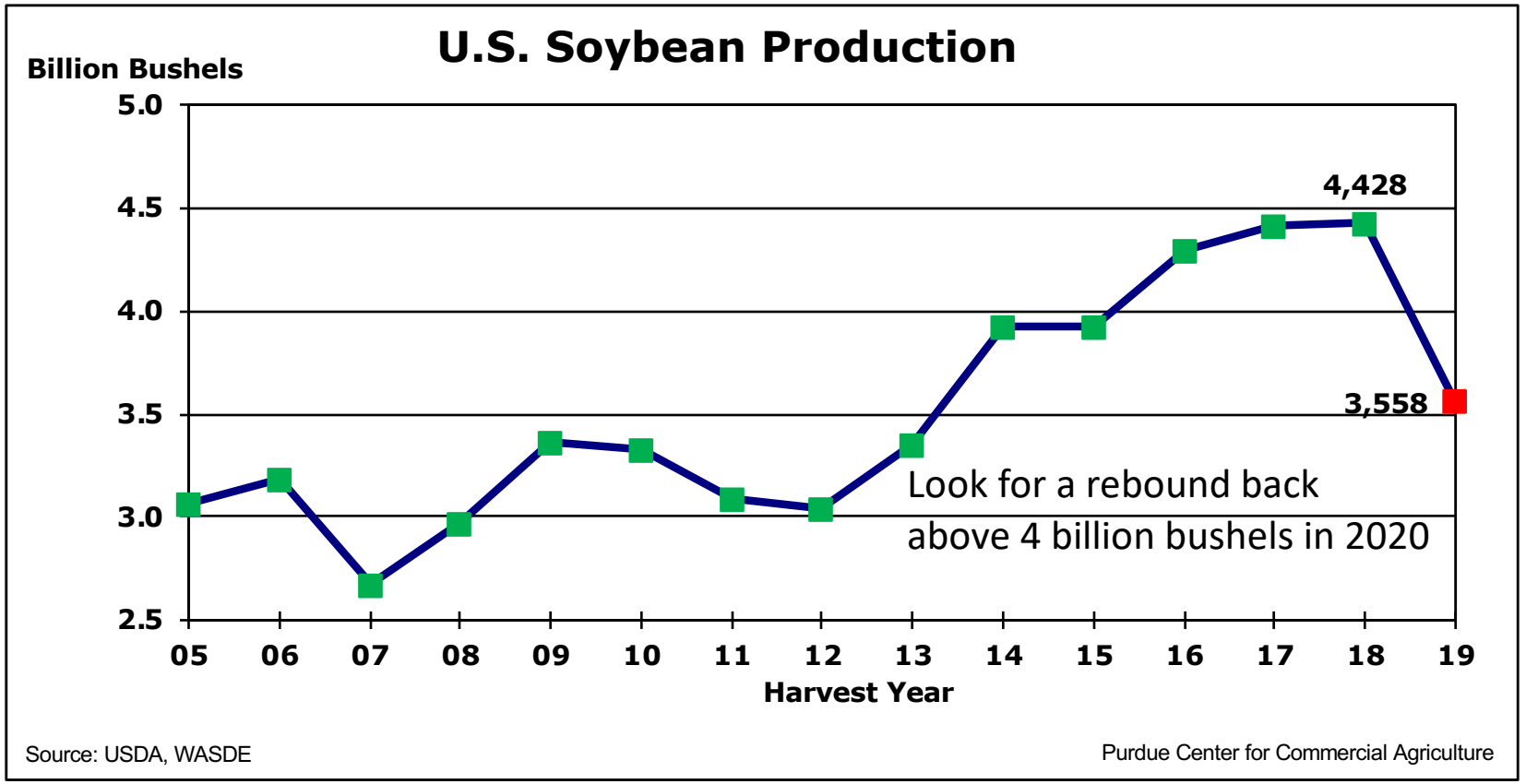
Acreage Expected to Rebound in 2020, But By How Much?



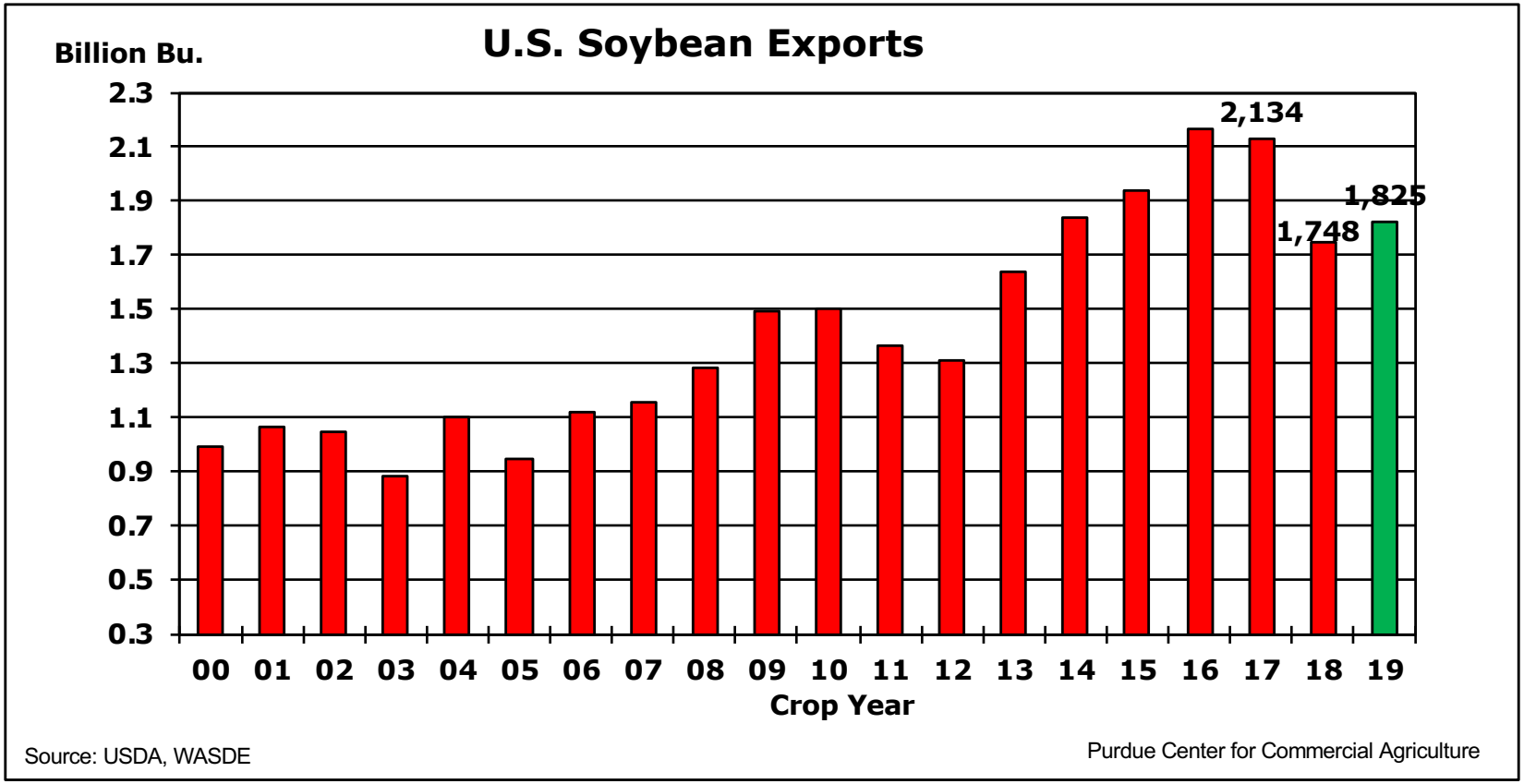
Lower Soybean Yields Than 2018…But Decline Was Smaller Than Most Expected Last Summer



Result: U.S. Soybean Production Declined 20%

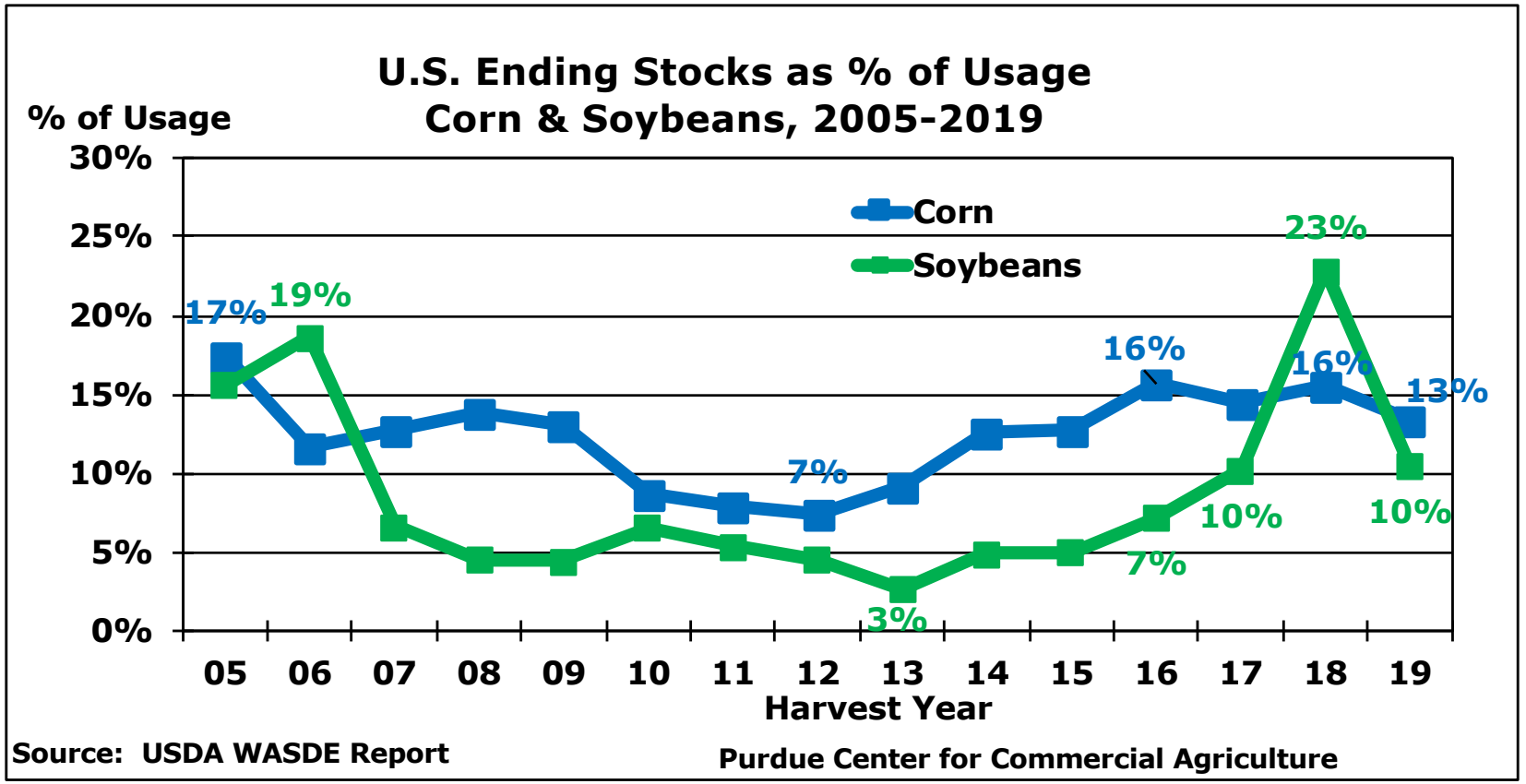


Exports Dropped Sharply in ‘18…China’s Impact in ‘19 & ‘20?

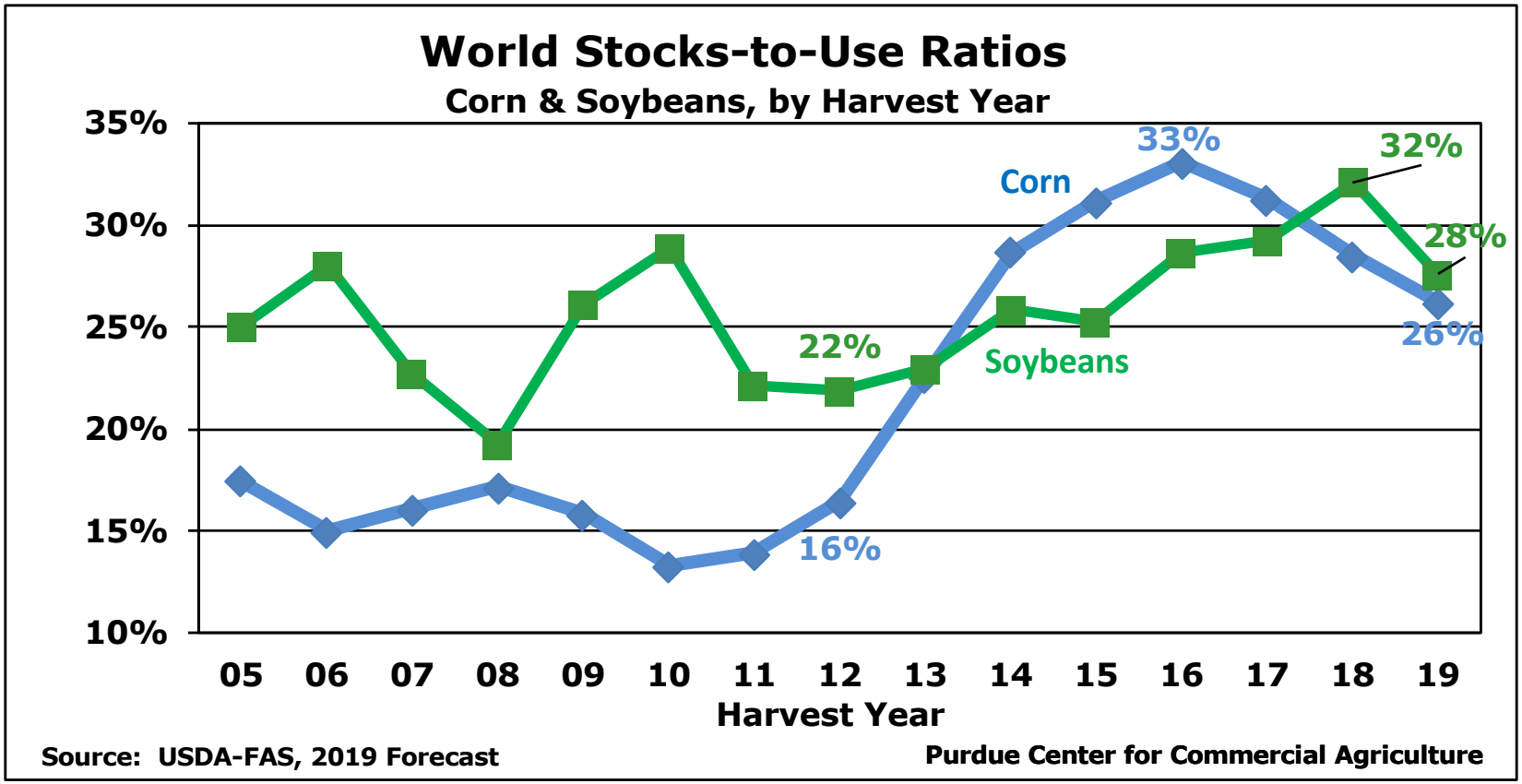


U.S. Ending Stocks Tightening

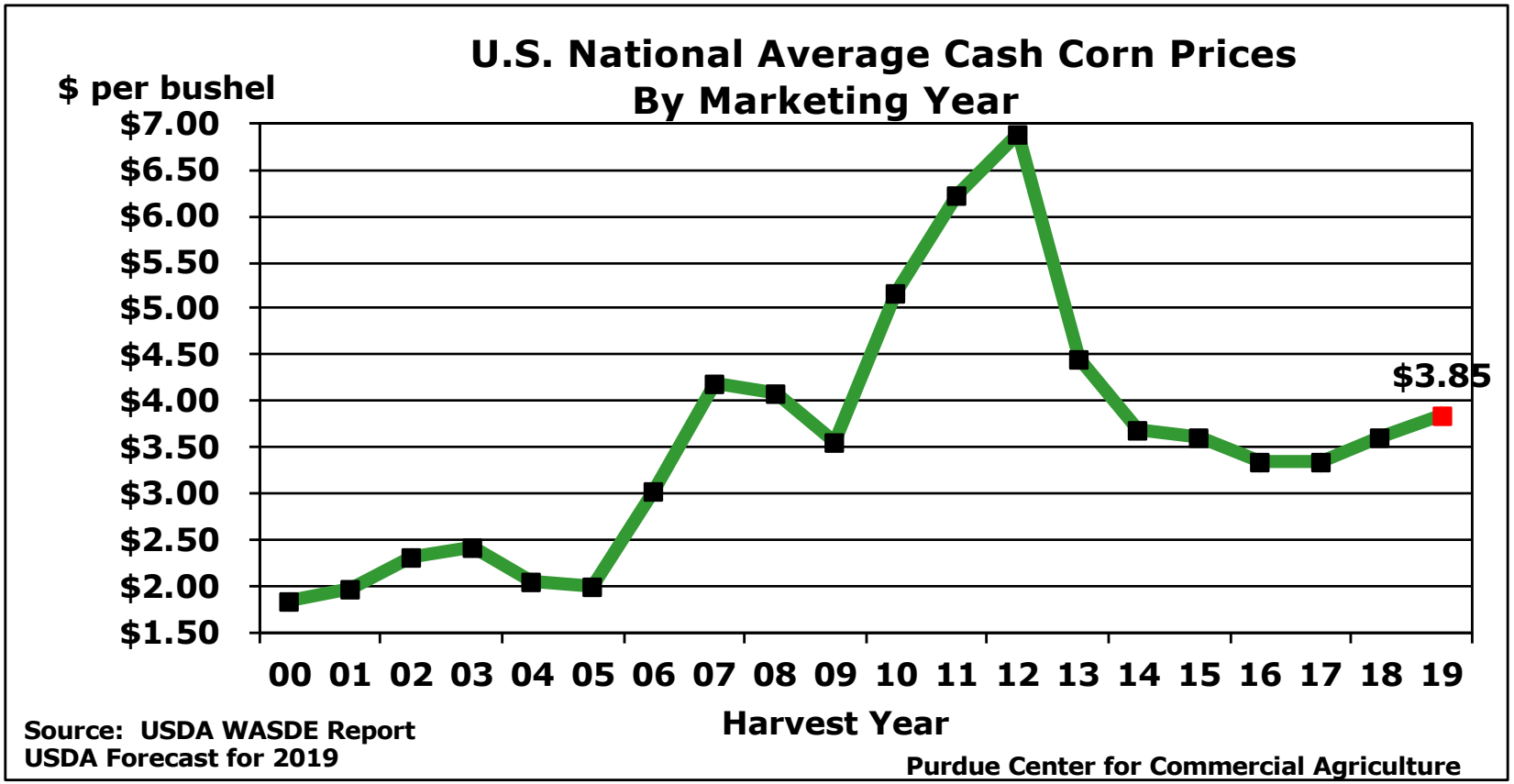
Could Tighten More If Actual Production Falls Below USDA's Projections



World Stocks Are Tightening, But Remain Large

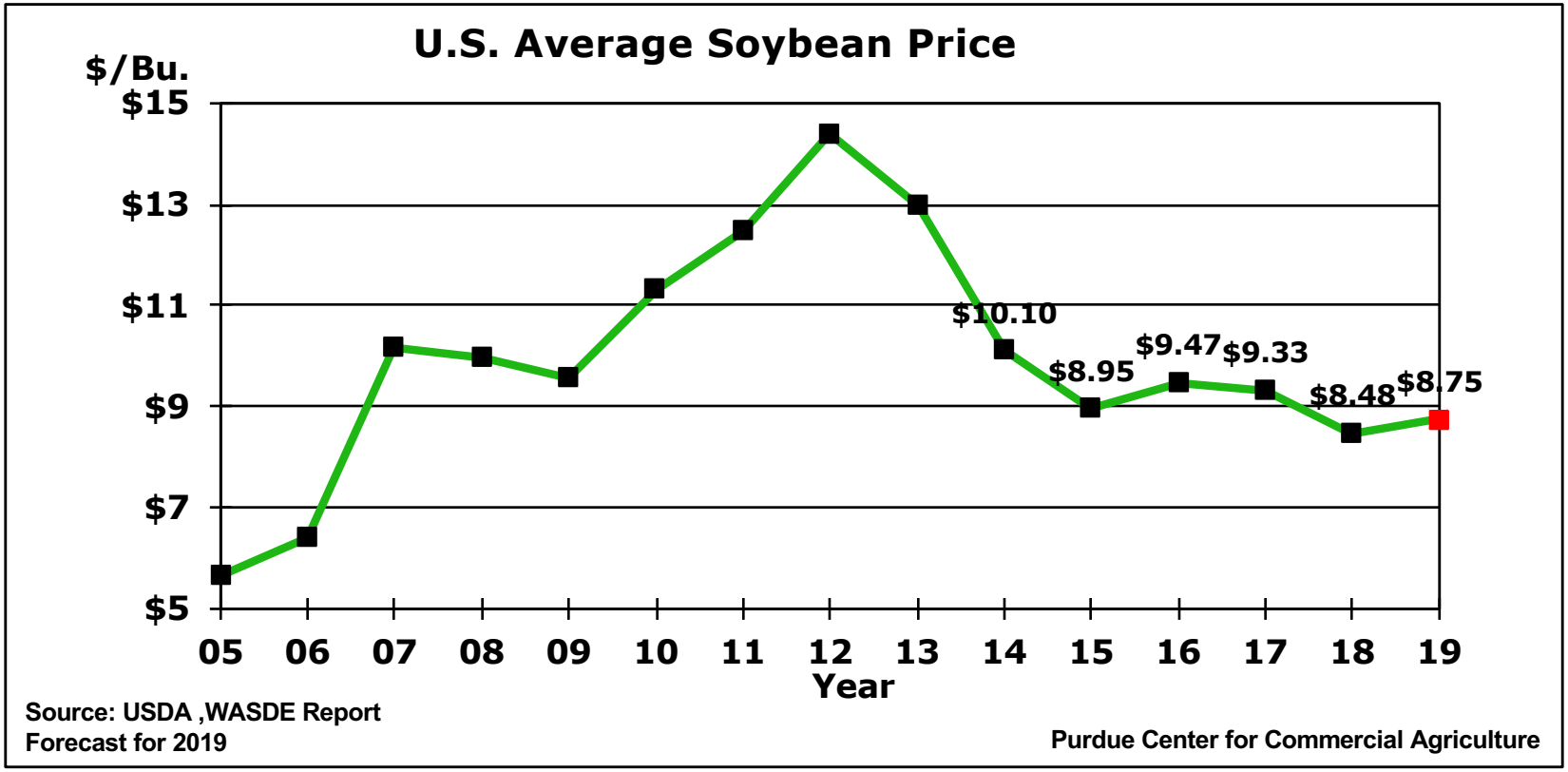


Price Recovery Since ‘16 & ‘17, But What About Acreage Impact in 2020?



Surprisingly Strong Yields & Export Concerns Pressured Prices

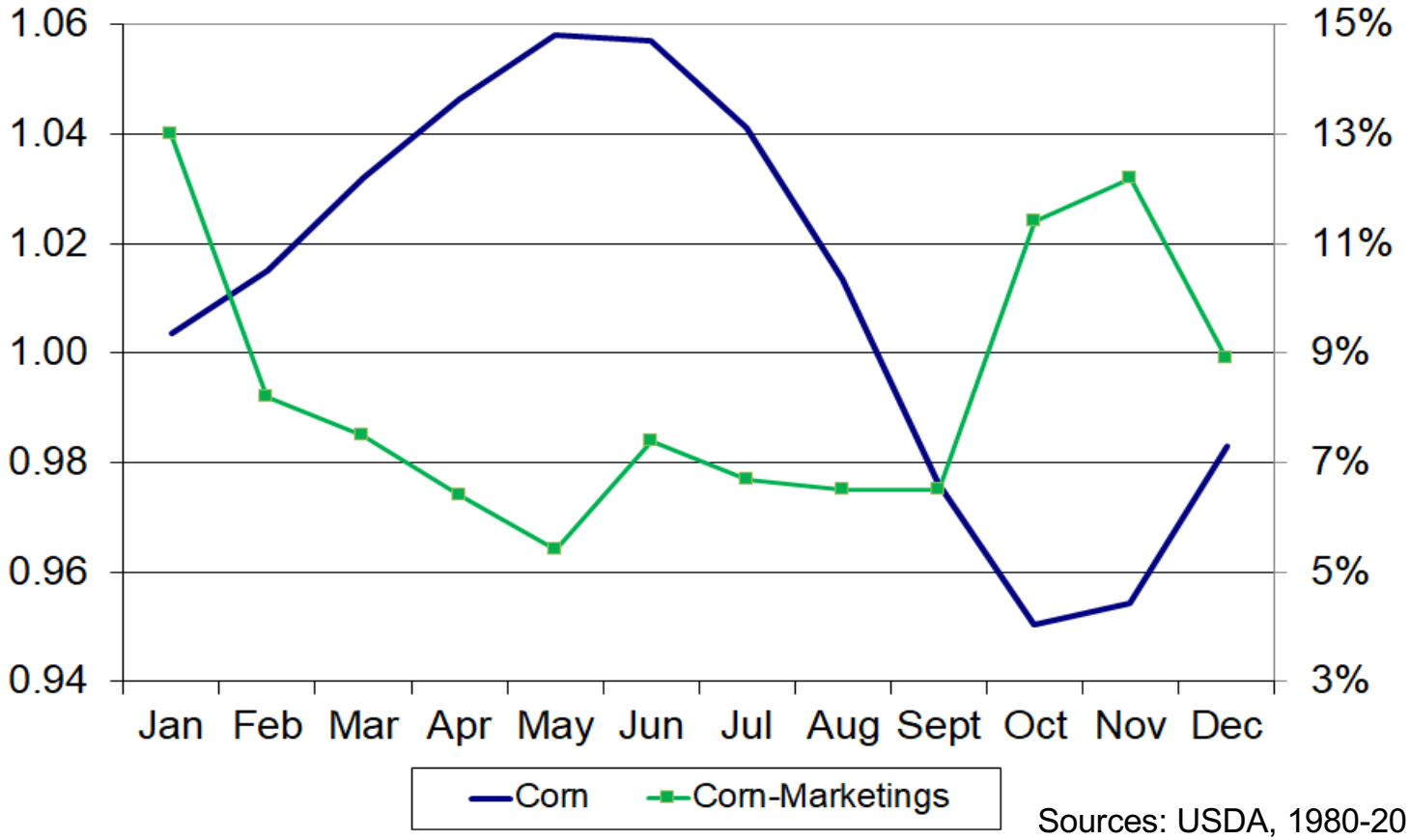
What Happens If Production Rebounds in 2020? China?



Source: USDA ,WASDE Report
Forecast for 2019

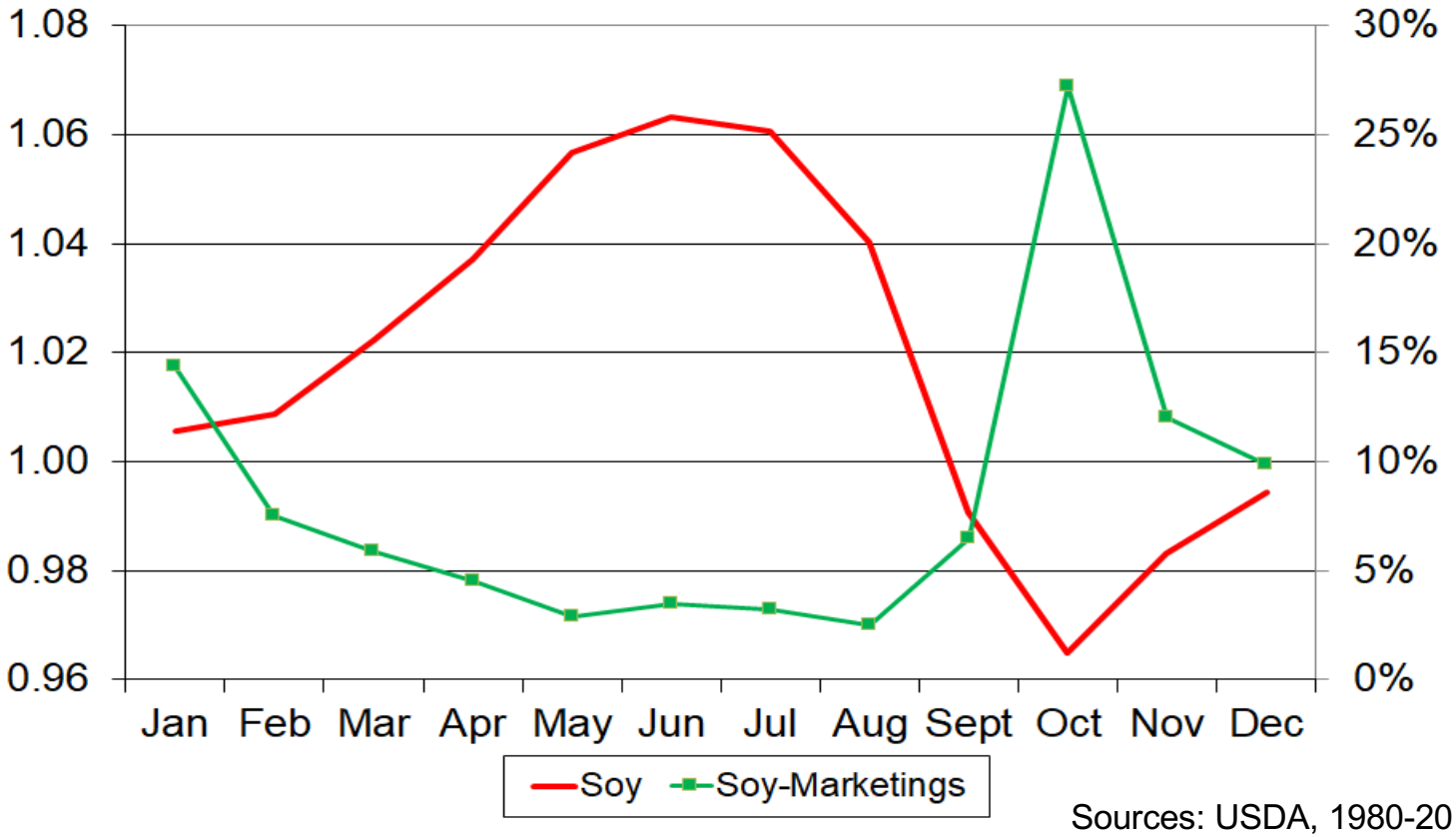
Purdue Center for Commercial Agriculture

Are You Taking Advantage of Seasonal Corn Price Pattern



Sources: USDA, 1980-2018

Are You Taking Advantage of Seasonal Soybean Price Pattern



Sources: USDA, 1980-2018

Looking Ahead to the 2020 Corn Crop

Dec. 2020 Corn Futures Settled @ $3.90/bu.

Late Sept. South Central IN Basis Forecast =$-0.23/bu.

$3.90 + ($-0.23) = $3.67/bu. Expected Sale Price, if hedged

History suggests opportunity to roll this hedge forward at harvest time to take advantage of increase in futures market carry

Hedging directly into deferred futures makes it possible to capture basis improvement, but locks in futures market carry near seasonal low

May 2021 Corn Futures Settled @ $4.03/bu.

Late April South Central IN Basis Forecast =$-0.19/bu.

$4.03 + ($-0.19) = $3.84 Expected Sale Price, if hedged

Looking Ahead to the 2020 Soybean Crop

Nov. 2020 Soybean Futures Settled @ $9.21/bu.

Late Sept. South Central IN Basis Forecast =$-0.50/bu.

$9.21 + ($-0.50) = $8.71/bu. Expected Sale Price, if hedged

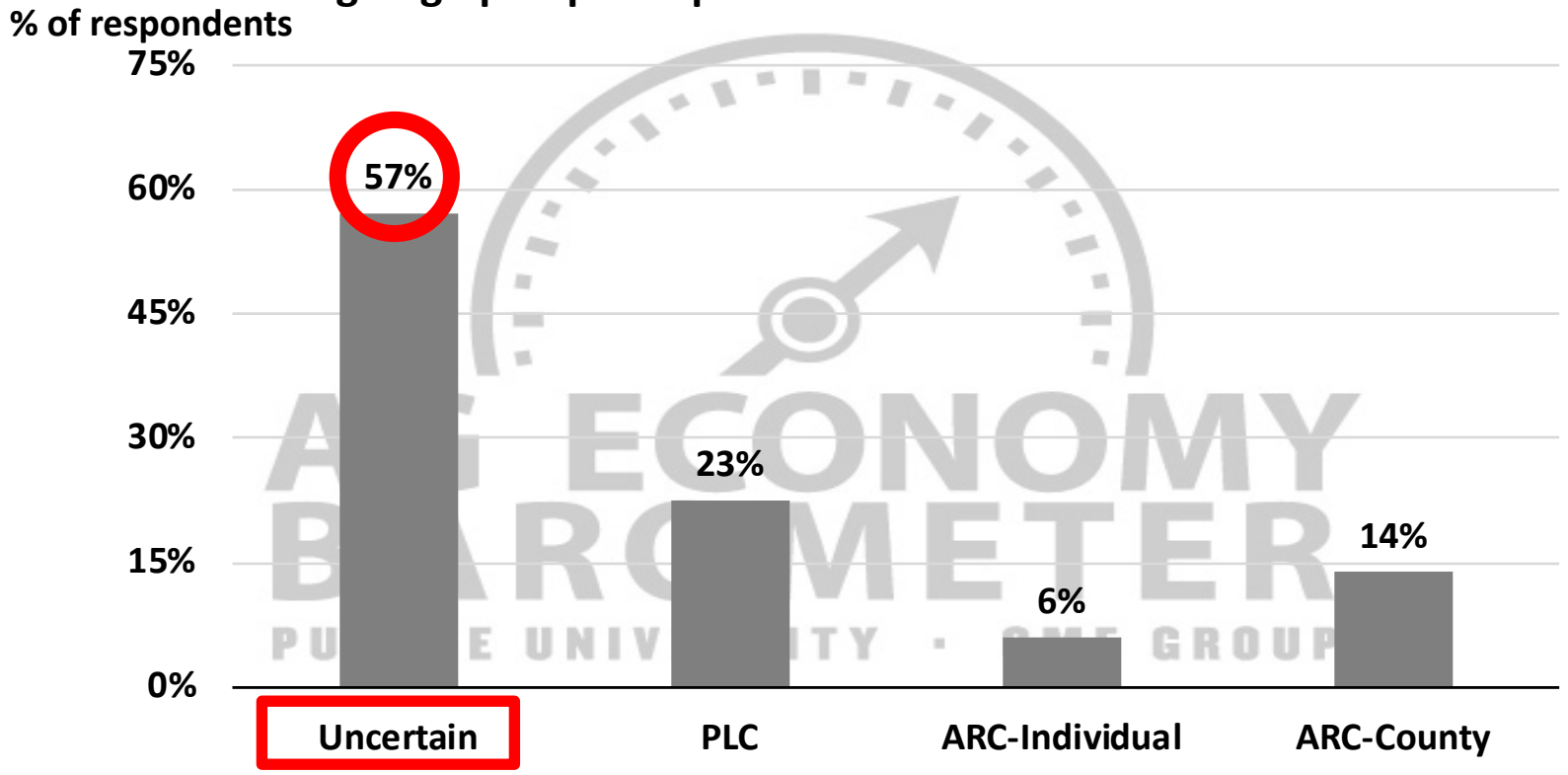
History suggests opportunity to roll this hedge forward at harvest time to take advantage of increase in futures market carry

Currently, very little carry in deferred 2020 crop soybean futures. Carry tends to improve as harvest approaches. Hedges this spring should be placed in November and rolled forward as futures market carry improves

6 Keys to Improving Your Crop Marketing Skills

1. Prepare a written marketing plan
2. Be willing to make pre-harvest crop sales
3. Take advantage of seasonal patterns in crop prices
4. Capture storage returns, but avoid storing crops too long
5. Understand basis seasonality and learn how to become a good basis speculator
6. Be aware of the ”carry” provided by the futures market and take advantage of seasonal patterns in futures market “carry” when placing hedges

Which USDA program do you think you will choose for corn when signing up to participate in 2019 and 2020?



Source: Purdue Center for Commercial Agriculture, Producer Survey, January 2020

2014 Farm Bill Decision Review

- Most farmers chose ARC-County under 2014 Farm Bill for corn and soybeans
- Forecast was for higher ARC-County than PLC payments over the 5-year life of the Bill making decision easy for most farmers
- Forecast was on-target for 2014 Bill, will it also be true for 2018 Bill choices?
  - Forecasts for 2014 Bill were keyed off of the fact that benchmark revenues for 2014, 2015, and 2016 would be high
  - High benchmark revenues for those years front-loaded ARC-CO payments and made it an easy choice on most farms
  - Situation is much different for the 2018 Bill decision since ARC-CO benchmark revenues are not as high
- PLC needs more consideration this time
- ARC-Individual Coverage is worth considering on some farms

Updating Yields Is Not An Automatic Decision

- For most producers actual yields today are substantially higher than yields used to compute ”old” program yields
- But Use of two factors (90% times 90%) effectively pulls down yield calculations for corn and soybeans
  - In case of wheat it’s 90% times 95.45%
- Result: You have to compute your updated Program Yield and compare it to “old” Program Yield to make your yield update decision…likely not the same decision on every farm and for every crop

What About Agricultural Risk Coverage – Individual (ARC-IC)?

- Initial decision **by FSA farm** for 2019 and 2020 program years
- ARC-IC payments occur when an FSA Farm's crop revenue is below the ARC-IC revenue guarantee for a crop year
- ARC-IC guarantee is 86% of ARC-IC benchmark revenue
- Coverage is capped at 10% of benchmark revenue
- ARC-IC benchmark revenue based on Olympic average of revenues for preceding 5 years
  - Revenues calculated using higher of MYA crop prices or "effective price" and proven yields
- **Payment is made on 65% of base acres (not 85% of base acres)**

When Should You Consider ARC-IC?

Evaluate by individual FSA Farm#

1. Sample calculations suggest producers with 20% production losses in 2019 should take the time to evaluate ARC-IC

   ✓ Farms with 100% prevented planting in 2019 will receive the per acre payment cap for 2019

2. All Farms enrolled by a producer in ARC-IC within a state will be combined when computing Actual Revenue

3. In some situations, combining a Farm with 100% Prevented Planting in 2019 with 1 or more Farms with planted acreage will still result in a relatively large 2019 payment

Farm Bill Decision Summary

- Compare updated yields to existing program yields for each crop and FSA farm; only update those crops with higher updated yields
- Program Choice:
  - Corn and Wheat: start with PLC as your initial program choice and evaluate ARC-CO as a challenger
  - Soybeans: start with ARC-CO as your initial program choice and evaluate PLC as a challenger
  - ARC-IC is attractive if a farm had 100% prevent plant or low average yields in 2019

Crop Insurance Decisions Webinar
February 24, 2020

More info & register at
purdue.edu/commercialag

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