Farmland
IN PERSPECTIVE

Spring 2015 Volume 36, No. 1

www.bigfarms.com

Goodwin & Associates Real Estate, L.L.C.

Mark Goodwin
Real Estate Broker

21036 S. States Lane
Shorewood, IL 60404
(815) 741-2226

China's net grain imports surge in 2012 and 2013

China's demand for imported grains, much of it from the United States, has surged recently, with imports of cereal grains rising to 16 million tons in 2012 and 18 million in 2013, according to the U.S. Department of Agriculture. Imports in 2013 included 3 million tons of corn and 4 million tons of DDGS (distillers dried grains with solubles; a co-product of U.S. corn ethanol production used for feed) from the United States. In 2013, the United States supplied 70% of China's wheat imports and, for the first time, China became a major market for U.S. sorghum.

China's demand for feed grains appears to have reached a turning point, as a tightening labor supply and rising feed costs force structural change in China's livestock sector. Labor scarcity, animal disease pressures, and rising living standards are prompting rural households to abandon "backyard" livestock production and shift more production to specialized farm enterprises that rely more heavily on commercial feed. Because of this, China has switched from being a corn exporter to importing 3-5 million tons annually since 2009. Rising feed demand has also pushed up costs and motivated feed mills and livestock producers to explore new feed ingredients such as DDGS and sorghum.

Continued on page 3

New Records in the Global Crop Markets

By Chad Hart, Iowa State University

Crop markets were sorting through a number of records with the approach of spring 2015. On the production side, records for corn and soybean production were set in the U.S. and in the world. The world has produced more corn and soybeans than ever before during the past two years.

Meanwhile, U.S. and global demand for corn and soybeans stand at record levels. Domestic and international feed demand is growing. Biofuel production at the end of 2014 was as strong as ever. Other food and industrial uses of corn and soybeans also continue to consume crop.

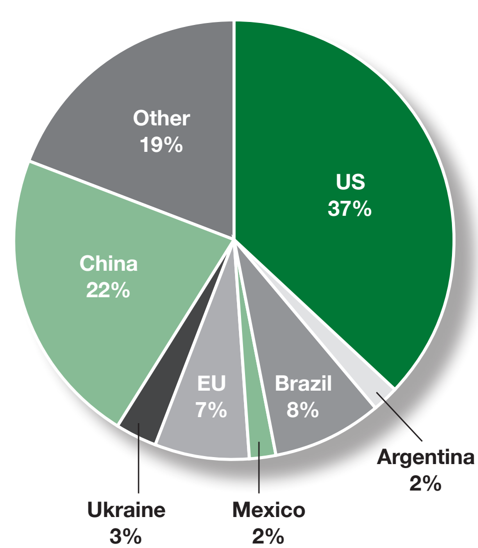
The biggest issue for the markets, however, has been the imbalance between supply and demand. While both sides of the markets are at record levels, supplies exceed demand. Stocks are building, and prices have fallen dramatically during the past two years.

Supply

Looking more closely at the supply side, the high prices in crop markets from 2007 to 2012 created a strong incentive to increase production. Crop producers worldwide responded. A broad-based surge in corn and soybean production occurred around the world.

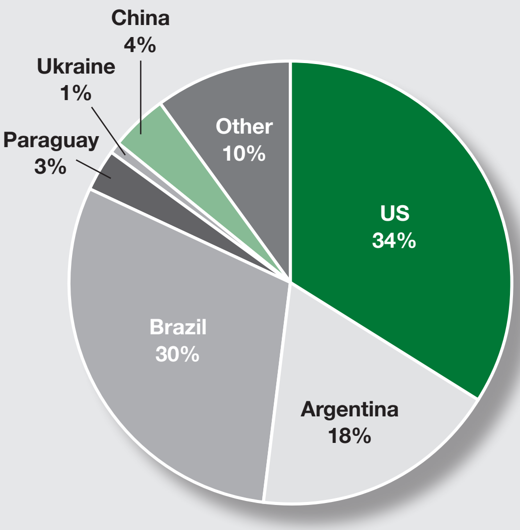
Figures 1 and 2 show the production percentages of the major crop producers in corn and soybeans. The U.S. remains the number one producer of both crops, producing roughly one-third of the global crop in each case. For corn, China is the number two producer, with Brazil and the European Union behind them. Over the past few years, all of these countries/regions have expanded corn production.

Figure 1. World Corn Production (Source: USDA-WASDE)



Continued on page 2

Figure 2. World Soybean Production (Source: USDA-WASDE)



New areas have grown in importance, such as the Black Sea region of Ukraine and Russia. Traditionally, the Black Sea region has been concentrated on wheat production. With the higher relative prices for corn and soybeans, farmers in the region have moved to corn and soybean production.

For soybeans, Brazil and Argentina are the major U.S. competitors in international markets. As with corn, more players have entered the market during the past few years, for example, the Ukraine. Global soybean production in 2014 expanded by more than 10%, showing how quickly production can increase.

In the U.S., 2014 corn production exceeded 14 billion bushels for the first time. Meanwhile, U.S. soybean production nearly topped 4 billion bushels. Many states, especially in the southern U.S., set records for crop yields. Those yield records may induce Southern farmers to stay in corn and soybeans in 2015, even with the decline in the crop prices. Crop supplies are high, and the outlook highlights the potential for continued strong production in 2015.

Demand

Crop demand has rebounded after dropping significantly with the drought of 2012, and the record high prices associated with it. For corn, feed demand has increased by nearly 25% during the past two years. The pull of ethanol on the corn market has grown by 500 million bushels.

Export demand, which had collapsed in 2012, has recovered as well. In January, demand for U.S. corn totaled roughly 13.6 billion bushels, a record level.

U.S. soybeans also are experiencing a record demand of 3.67 billion bushels. Domestic crush demand, driven by expansion in the pork and poultry industries, has climbed by nearly 100 million bushels in the past two years. Export demand for soybeans has set records the past two years.

But while demand is currently strong, several significant factors are reining in demand. First and foremost is the concern about the global economic situation. Among the major economic powers, only the U.S. is experiencing sizable economic growth. Europe and Japan are struggling.

The concern about the global economic situation is manifesting itself in a couple ways. One, global investors are flocking to the U.S. dollar. As the dollar strengthens, it limits demand for U.S. products as our products become more expensive to the rest of the world.

Two, slowed economic growth results in lower energy demand and prices. Crude oil prices have fallen significantly during the past six months. This impacts crop demand in two ways: directly via biofuels and indirectly via exports.

Lower crude oil prices put pressure on ethanol and biodiesel prices and margins. The smaller, and likely negative, biofuel margins as we enter 2015 will likely cause biofuel plants to reduce production with an associated crop demand.

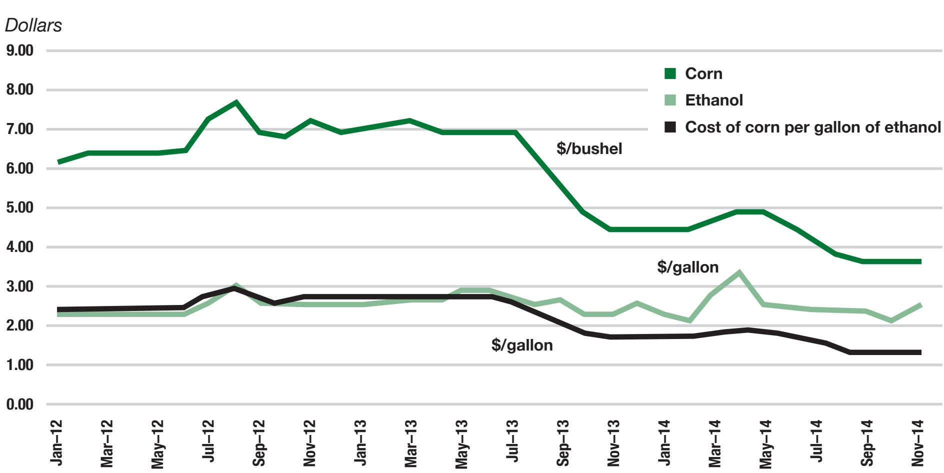
The indirect impact on exports comes about as the crude oil prices serve as a proxy of global economic demand and income. Lower crude oil prices signal lower global demand and income. Lower income implies lower export demand.

Price

While current crop demand is at record levels, the combination of record supplies and concerns about

Cost of corn falls relative to ethanol, boosting refiner m

Cost of corn, ethanol, and corn per gallon of ethanol, 2012–14



Note: Corn prices are prices received by farmers. Ethanol prices are rack price (wholesale truckload sales or smaller where title transfers at a terminal) F.O.B. Omaha.
Source: USDA, Economic Research Service, U.S. Bioenergy Statistics.

Reflecting growing supplies, corn prices have been trending lower since reaching a record high season average farm price of $6.89 per bushel for the 2012/13 marketing year (September/August). Monthly average corn prices fell sharply between July 2013 and January 2014, and then declined further through 2014, reflecting a record 2014 corn crop, projected at 14.4 billion bushels.

Corn prices in 2014/15 are projected at $3.50 per bushel, down 50% since the summer of 2013, according to the U.S. Department of Agriculture. However, throughout this future demand have brought crop prices down to levels not seen in several years. In the USDA January Reports, the national average corn price for the 2014 crop was projected at $3.65 per bushel, down 80 cents from the year before and more than $3 less than two years ago. The 2014 national average soybean price was projected at $10.20 per bushel, down $2.80 from last year and $4.20 less than two years ago.

In mid-January, the futures markets were pricing 2015 corn in the $3.80 to $4 price range, with soybeans in $9.50 range. Crop returns reverted back to breakeven with the 2013 crops. In early January, both the 2014 and 2015 crop years project to be below breakeven for many crop producers.

Chad E. Hart, Ph.D., *is an Associate Professor of Economics, Crop Markets Specialist, and Extension Economist at Iowa State University. His background includes a concentration on crop insurance, international trade agreements, and bioenergy policy at the Food and Agricultural Policy Research Institute (FAPRI) and the Center of Agricultural and Rural Development (CARD) at Iowa State University.*

Dr. Hart received a B.S. in economics with minors in mathematics, history, and astronomy from Southwest Missouri State University in 1991. He received his Ph.D. in economics and statistics from Iowa State University in 1999.

Dr. Hart grew up on a rural homestead near Stark City in southwest Missouri.

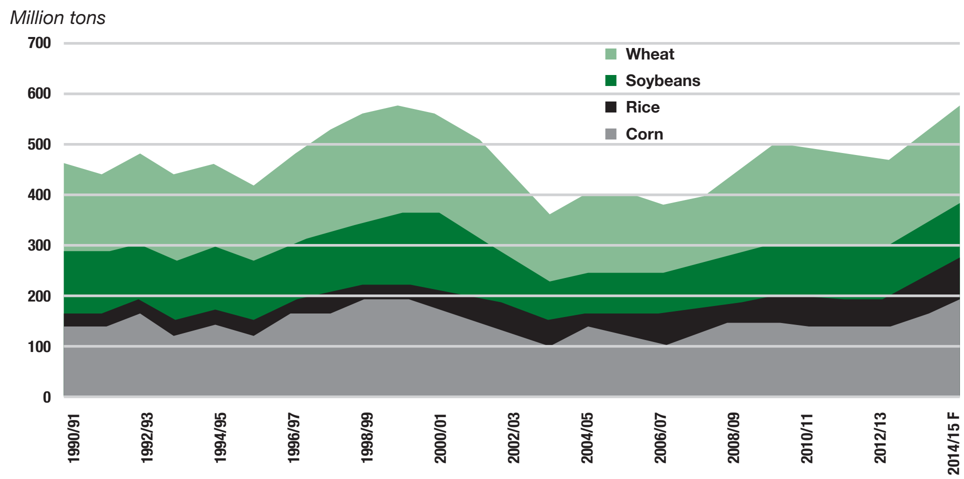
Global stocks of major crops rising

Global stocks of major crop commodities are forecast to expand in the 2014/15 marketing year, with total stocks of wheat, rice, corn, and soybeans completing recovery from the relatively low levels that preceded the 2008 spike in world crop prices, according to the Economic Research Service of the U.S. Department of Agriculture.

Record U.S. crops of corn and soybeans, along with good harvest by some other major producing countries, are forecast to push both U.S. and global stocks of these commodities to record levels. World wheat stocks are forecast to rise based on the outlook for record or near-record harvests by major foreign producers, including China, the EU, India, and the Former Soviet Union. While world rice stocks are forecast below peak levels of the early 2000s, good harvests and ample stocks are expected across the major producing regions in Asia.

The supply outlook is expected to lead to lower commodity prices, with the average U.S. farm prices of corn (-24%), soybeans (-23%), wheat (-14%), and rice (-10%) all forecast down in their respective 2014/15 marketing years compared with 2013/14.

World stocks of major crop commodities



F = Forecast.
Source: USDA, Economic Research Service using USDA, Foreign Agricultural Service PS&D Online data.

argins

period ethanol prices have remained relatively steady, averaging $2.41 per gallon. Corn is the leading feedstock for ethanol production in the United States, and ethanol represents about 40% of total corn use.

With the price of corn declining and ethanol prices steady, ethanol producer margins have strengthened over the past 18 months. Higher margins would typically encourage greater production, but with domestic use limited to the 10% ethanol blend already used in most gasoline, the market can only expand through increased gasoline use or higher exports.

China's net grain imports surge *continued from page 1*

China's net grain imports, 2000–13

Note: Net imports = imports — exports. Data for calendar years. *DDGS = Distillers Dried Grains With Solubles.
Source: USDA, Economic Research Service analysis of China customs statistics.

Farmland
IN PERSPECTIVE

Mark Goodwin & Associates Real Estate LLC
21036 S. States Ln.
Shorewood, IL 60404

FORWARDING SERVICE REQUESTED

Prsrt. Std.
U.S. Postage
PAID
Westmont, IL 60559
Permit No. 173

PRINTED WITH SOY INK