Diversified Crop Insurance Services

Revenue Management Update

Friday, October 14, 2016

Record Soybean Crop Gets Bigger

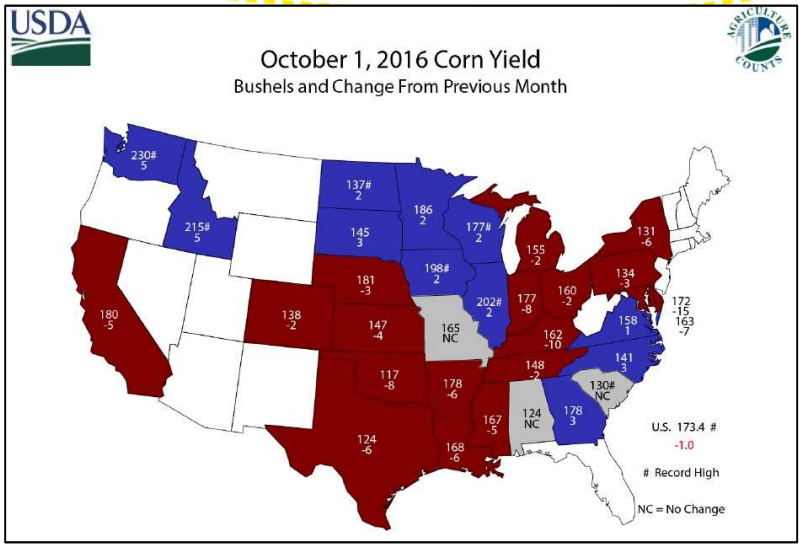
There weren't any real surprises in USDA's October Crop Production and Supply/Demand reports. But USDA did again confirm record corn and soybean crops. USDA did lower the US corn yield 1 bushel to 173.4 bpa – as expected. But they also increased planted acres 400,000 and harvested acres 200,000, which offset some of the yield cut. But on soybeans USDA raised yield 0.8 bpa to a new record 51.4 bpa. That takes production to a new record 4.269 billion bushels. And USDA dropped the US cotton yield but only by 5 lbs. The maps at right show changes by state for corn, soybean, & cotton yields, with blue indicating an increase and red a decrease.

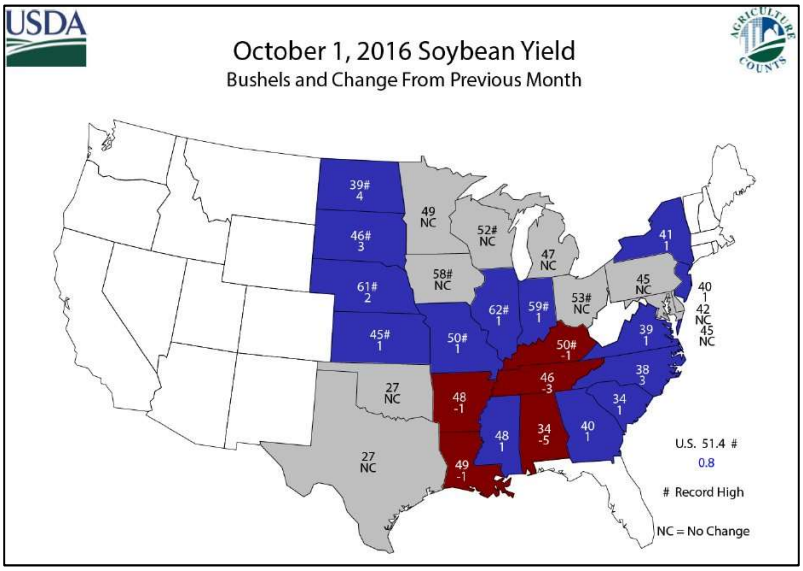
2016/17 U.S. Crop Production

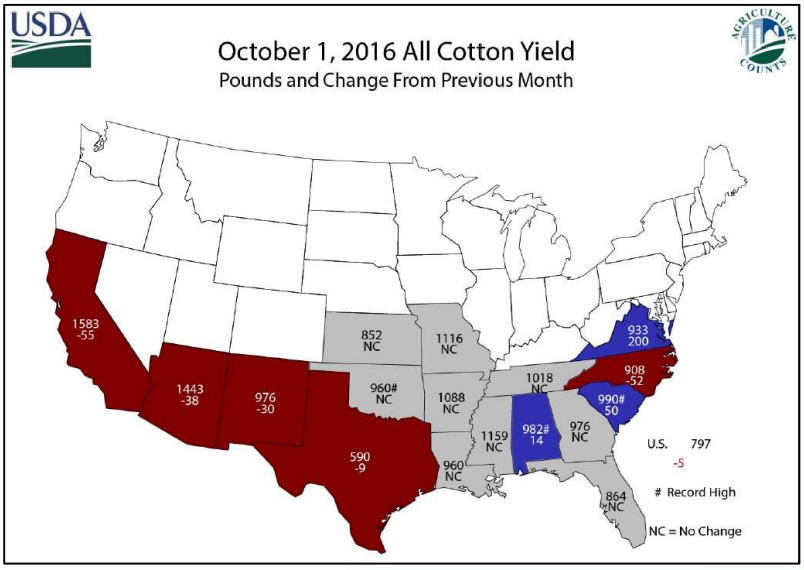
	CORN		SOYBEANS	
	NASS Sep 2016	NASS Oct 2016	NASS Sep 2016	NASS Oct 2016
Area Harvested (mil. acres)	86.55	**86.836**	83.037	**83.047**
Yield (bpa)	174.4	**173.4**	50.6	**51.4**
Production (bil. bushels)	15.092	**15.057**	4.201	**4.269**

While most of the focus from the October report was on US production, USDA did make some other changes too. Some of those were:

US wheat feeding was cut 70 million bushels;
US wheat ending stocks were increased 38 million;
US HRW ending stocks were raised 53 million;
US HRS ending stocks were cut 41 million;
US SRW exports are the 2nd lowest in 30 years;
US corn exports @ 2.225 billion bushels would be the 5th largest ever, & top 2 billion for the 1st time in 9 yrs;
US corn ending stocks @ 2.320 billion bushels would be the largest since 1987-88;
US soybean exports were increased 40 million bushels to 2.025 billion – 1st time ever > 2 billion;
Total US soybean demand also a record 4.06 billion bushels, 1st time ever > 4 billion;
US soybean stocks @ 395 million bushels, up 30 mln;
US cotton export increased 500,000 bales;
US cotton ending stocks cut 600,000 bales to 4.3 mln;
US rice demand cut 3 million cwt, stocks up 2 million;
Brazil corn production raised 1 mmt;
World corn demand increased, stocks cut 2.6 mmt;
World rice carryout up 5 mmt (!);
World cotton carryout cut 2.5 million bales;
Brazil soybean production raised 1 mmt;
World soybean stocks increased over 5 mmt (!).







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Revenue Management Update

Focus Now on 2016-17 (and future) Prices

Most readers of this letter *should* have recently received their PLC &/or ARC payments for the 2015-16 marketing year. Final 2015-16 MYA prices were set on September 30 which allowed USDA to then calculate and send payments. Now, for farm program purposes as well as marketing the crop, our focus is all on the 2016-17 prices. The top table shows MYA prices for the first three years of the current farm program – the first two years final, with the third year just started. In the October report, USDA raised the estimated prices for corn, wheat, cotton, & sorghum, while dropping the price for barley. These prices won't be final until September 2017, but we can use them to estimate potential PLC and ARC payments.

PLC is simple – we compare this year's MYA price to the reference price (bottom table in blue), and if it's lower you get paid the difference times your payment yield times 85% of that crop's base acres. ARC is based on county revenue, and uses the county's 5-year Olympic average yield times 5-year Olympic average price (bottom table in red) times 86% to get the trigger. Then that's compared to the MYA price times the final county yield. If there's a loss you get paid the difference times 85% of that crop's base acres. Based on USDA's current price projections, I'm assuming we'll see substantial PLC and ARC payments for some crops again next fall.

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USDA Final & Projected MYA Farm Prices

($ per bushel, cents per pound, $ per cwt)

	Final 2014-15	Final 2015-16	2016-17	
Corn	$3.70	$3.61	$3.25	up 5 cents
Soybeans	$10.10	$8.95	$9.05	unch
Wheat	$5.99	$4.89	$3.70	up 10 cents
Cotton	60.5	58.0	64.0	up 1 cent
Sorghum	$4.03	$3.31	$3.10	up 5 cents
Barley	$5.50	$5.52	$4.90	down 5 cents
LG Rice	$11.90	$11.10	$9.70	unch
Peanuts	$0.2200	$0.1930	$0.1890	unch

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	PLC Ref Price	2014-15 5-Year Oly Avg	2015-16 5-Year Oly Avg	Est 2016-17 5-Year Oly Avg
Corn	$3.70	$5.29	$5.29	$4.79
Soybeans	$8.40	$13.00	$12.27	$11.87
Wheat	$5.50	$6.60	$6.70	$6.70
Sorghum	$3.95	$5.10	$5.10	$4.77
Barley	$4.95	$5.48	$5.57	$5.64
LG Rice	$14.00	$14.17	$14.17	$14.17
Peanuts	$0.2675	$0.2787	$0.2787	$0.2787

Your DCIS representative can show you scenarios using these prices and your yield estimates our farm program calculators. And I'll take a look at a few examples in this month's *Third Thursday Marketing Meeting* as well.

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