

WILD RIDE IN GRAIN MARKETS

By Rex Wilcox

Events in crop-growing regions around the globe have conspired since mid-summer to push corn and soybean markets higher in historic fashion. Let's review – the 2009 harvest brought in record production in many areas, but harvest was late, at high moisture with low test weights and generally below-average quality. Despite lots of bushels, there was some belief that this crop would disappear quickly due to quality issues. As one ethanol producer commented, “We buy bushels but grind pounds”.

However, the USDA Crop Production Report of January 12th raised production substantially and was called a “game changer,” - in other words, surprising. Grain prices dropped, and this report affected the market for the next six months. Combined with excellent spring field conditions and rapid planting pace, the 2010 crop got off to a great start. Growing conditions seemed perfect through Memorial Day weekend. On June 2nd, rain began. It continued raining on a nearly nightly basis, making spraying weeds in June a difficult task. However, in most cases the rain came at night and days were sunny and warm, making greenhouse conditions with lots of “heat units” essential for developing crops.

The USDA Crop Production Report

of June 29th found substantially fewer planted acres and substantially quicker disappearance of old crop. This was also called a “game-changing” report. This report marked the lows of the grain market and began an uptrend that continues today.



Weather Worries Begin

Mid summer started a perfect storm of weather related problems. Most of our corn belt received very heavy rains, as did Saskatchewan, significantly reducing the wheat and canola crops in Canada's leading production province. Russia and the Ukraine suffered through one of their worst droughts in history, slashing their grain crops. Currently western Australia is too dry and with a strong LaNina in place, odds are higher of drought in South American growing regions.

Against the backdrop of declining crop prospects in the U.S., the October 8th USDA report was historic, dropping the national corn production figure by a whopping 6.5 bushels per acre, down to 155.8. The Ag Department has never dropped the September to October

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estimate by more than 4 bushels per acre until this year. The third “game changing” report in ten months! Generally, they ease it down monthly into the final January production report. The reaction was – how much more of a cut will come in the next few months? Prices gapped higher and have continued climbing with local corn over \$5.00 per bushel and soybeans over \$12.50 per bushel as of early November, gains of over \$2.00 per bushel for corn and \$4.00 per bushel for soybeans from the late June lows. Perhaps just as important are the
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As the green faded from the crops this year, it has taken increasingly more green to keep up with farmland prices. Sales activity has been brisk.



Pent-up demand from farmers and investors has absorbed everything offered and at increasing prices each month. Buyers have substantial cash to put into their purchase and equity to leverage. Very low interest rates can be locked in.

Does it sound like the housing bubble? Lenders still require substantial down payments and a positive cash flow with a repayment capacity much more than escalating equity values would provide. We are not aware of "sub-prime loans" in the farm lending sector.

For the past three years high quality land has increased in value. That is not the case for lower quality land. Low quality land with volatile income saw a large discount from the setback in 2008-2009. Multiple parcel sales also saw a discount.

Now there is strength across the board with much higher volume sales of all quality classes. Lenders have also noted more direct sales from landowner to tenant. Many sales that occurred this summer and fall are scheduled to close in December due to concern about changes in the tax law.

Congress will reconvene this fall and is challenged to pass a bill by the end of December to set the course. We recommend you put your estate planning on hold until the new tax laws are put into place.

Following are representative recent sales from our trade area. Stalcup-brokered sales are shown in **bold**.

Selected Sales of Good Farmland

Date	County	Acres	CSR	\$/acre	% tillable
Aug	Clay	160.0	76.2	\$7,120	97%
Aug	Sioux	69.7	68.0	7,775	95%
Aug	Lyon	160.0	67.0	7,500	95%
Aug	Plymouth	160.0	70.2	5,000	81%
Aug	Osceola	80.0	74.2	6,800	95%
Aug	O'Brien	108.9	77.6	7,350	94%
Sep	Buena Vista	120.0	71.0	6,600	97%
Sep	Sac	52.6	65.5	7,100	94%
Sep	Sioux	80.0	67.0	9,575	97%
Sep	Monona	144.1	64.2	4,700	95%
Sep	Dickinson	60.0	47.3	3,350	98%
Sep	Woodbury	66.5	43.6	3,275	87%
Sep	Clay	80.0	76.8	7,000	96%
Oct	Cherokee	114.4	72.8	7,600	92%
Oct	Plymouth	80.0	54.8	7,500	93%
Oct	Monona	40.0	63.2	5,500	98%
Oct	Buena Vista	154.5	78.3	8,250	97%
Nov	Buena Vista	111.0	72.6	6,100	93%

Log on to our website at www.stalcupag.com for listings and upcoming auctions.



Farm owner Lee Heidel from Tennessee (right) came to Iowa during October and the operator Bill Wolf (left) gave him a combine ride to harvest part of his 2010 corn crop. Lee's son was along and was also able to witness the harvest firsthand. Lee and his brother Jim own the farm together in Plymouth County south of Remsen.

October 2011 bids, now at \$4.85 per bushel corn and \$11.75 per bushel beans. Fertilizer prices track corn very closely, so check that along with the price of corn.

Crops have been disappointing from Indiana to South Dakota. Harvest occurred very early. Much of Illinois was harvested long before the October 8th report. There is also some thought that enough “actual” yields were factored into the October report that future reports may not change much. The November 9th report tightened supply and demand further pushing bean prices \$.54 higher that day. An “acreage battle” next winter and spring is anticipated. Each crop must bid for acres with higher prices to maintain acreage to supply future needs.

However, the cure for low prices is low prices and the cure for high prices is high prices. If users of corn and soybeans are no longer profitable, they will cut production or find cheaper alternatives. We are fortunate that livestock prices are higher than two years ago when high feed costs caused feeders to lose considerable equity. Some went out of business. Same with ethanol producers – ethanol is currently profitable with high corn prices, low natural gas prices, and current ethanol prices. The cheap dollar has been a boon to agricultural exports; however, keep an eye on the dollar. It may have reversed trend lately. Also keep in mind the old saying “Short crops have long tails”, meaning that short production gets factored into prices quickly.

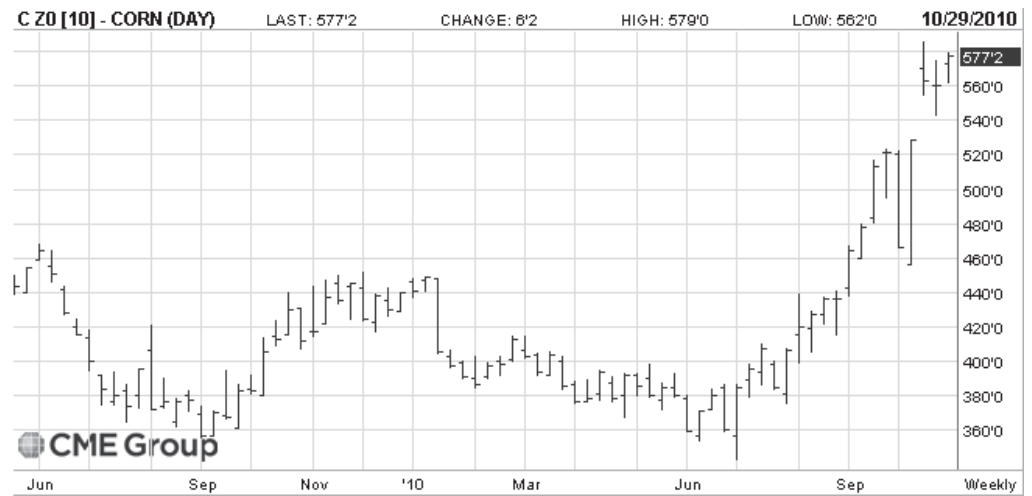
Current prices are very profitable. Perhaps they’ll go higher, and perhaps much higher. However, don’t get “seller’s paralysis” and miss out if prices drop, which they eventually will. A review of 2000-2009 prices indicate substantial price drops in corn occurred in 7 of 10 years during the summer. Six of those years the drop was 28-38% from the high. Expect similar volatility from soybeans. Remember that wheat prices affect corn, and wheat is harvested somewhere in the world every few months.

Volatility brings opportunity. Spread your sales and consider selling bushels

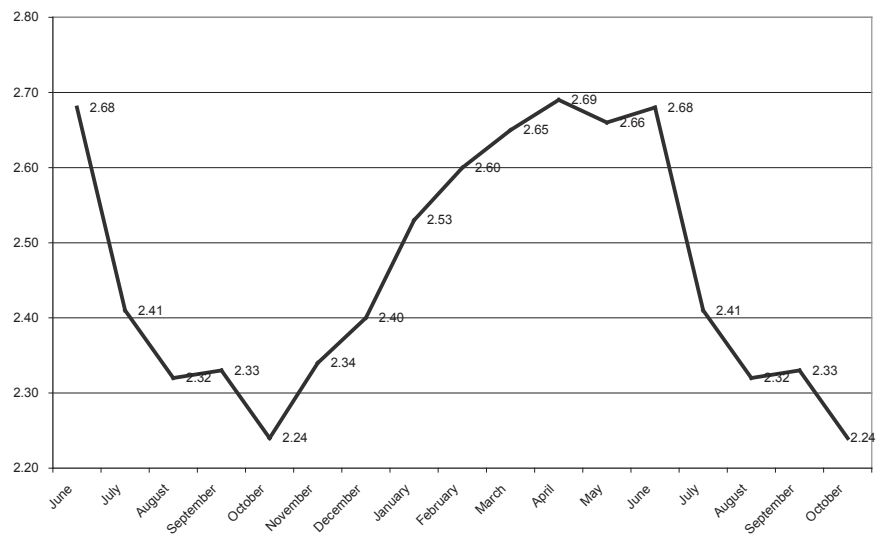
for 2010 and 2011 at the same time. Costs for 2011 are being locked in this fall. Sell bushels to keep those expenses in the proper ratio to each other.

Consider the two charts below. One is the 2010 December futures corn chart. The other is the monthly average of actual 2000-2009 cash corn bids. It is not an exact comparison since we’re looking at local daily cash bids versus December board prices. Both charts cover 17 months. The message is how the trend in 2010 has been so counter-seasonal.

Board of Trade December Corn Chart – June 2009 to October 2010



Average Monthly Prices 1999-2009



NORTHWEST IOWA PROGRESS REPORT

By Nathan Deters



When one hears the term “Greenhouse Conditions”, the first thought is a good environment for plant growth. It seems logical that heat, humidity, and abundant water, the conditions in a greenhouse, should lead to accelerated plant growth. Iowa just experienced a growing season that probably resembled a greenhouse more than any in modern memory, yet corn yields dropped significantly to an estimated 167 bushels per acre after yielding 182 bushels per acre last year.

Where did the bushels go?

Why the drop in yields? There are several reasons. Drainage was key. Torrential rains of three to ten inches in places from June through August left ponded areas and saturated soil which inhibited root growth and nutrient uptake. At the same time nitrogen leached away, limiting yield potential. Warmer than normal nighttime temperatures were a factor as well. Corn likes warm daytime temperatures, as long as moisture is adequate, but prefers nighttime temperatures below 64 degrees to help respiration/grain fill. Warm nights make the corn sprint, never catching its breath. Maturity is accelerated, but at the cost of lost yield potential. Finally,

warm, moist conditions are a good environment for plant diseases, which also helped take away yield.

Soybean Yields More Variable

The soybean plant is better suited to the warm conditions we saw this summer. Again, the most critical factor was drainage. Well tiled or more rolling farms had some of the best yields ever this year. Poorly drained fields largely saw results below average. Overall, Iowa yields were similar to last year at 52 bushels per acre.

We saw the same yield trends in our trade area. Soybeans on the better drained, wind blown “loess” soils in the western part of our area had generally good yields, while the yields on the poorer drained glacial soils to the east were mostly disappointing. Corn yields in our areas were lower than last year (generally 5-10%), but the magnitude of loss was quite a bit less than the southeast half of the state, where rain totals were extreme.

Harvest a Bright Spot

After a trying growing season, harvest has been a pleasure. The rain stopped in late September and we have had over a month of rain-free days. Harvest was completed by early November. The

accelerated development of the corn and the dry fall meant low moisture at harvest. Most corn came out of the field below 15% moisture, meaning very little drying costs and more money in the farmers’ pockets helping to make up for some of those lost bushels.

2011 Crop Plans

Fertilizer prices have moved higher with grain prices. Manufacturers anticipate higher usage with the jump in grain profitability, but there is also the mentality of moving prices up to what the market will bear, even if the cost to produce fertilizer has not changed significantly. Fertilizer manufacturing and supply are consolidated in fewer hands and this becomes a problem when demand rises. Prices were reasonable if locked in earlier this fall, but they will likely be considerably higher for spring application.

Seed costs should be relatively stable. There has been some resistance by producers to purchase the highest priced corn seed stacked with multiple genetic traits, which in many cases hasn’t performed as well as older products. This should slow the upward trend we have seen in corn seed prices over the last several years. Seed supply should be good, but getting the hybrids you want may require placing an early order.

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910 Flindt Drive • P.O. Box 67 • Storm Lake, IA 50588
(712) 732-4811 • Fax (712) 732-7371
stalcup@stalcupag.com
www.stalcupag.com

Stalcup’s Team

Rex Wilcox, AFM
Lyn Berkland, AFM
Terry Argotsinger, AFM, ARA
Kent Smith, AFM
Dennis Reyman, AFM, ARA
Nathan Deters, AFM
Andrew Phillips

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