

HIGH GRAIN PRICES PRESENT NEW OPPORTUNITIES

By Nathan Deters

Starting with the USDA crop report on June 30, 2010, grain markets have moved mostly higher, peaking in early June on weather related planting delays. Since then, global financial concerns and a surprising (and somewhat suspect) USDA acreage report estimating higher corn acres to be harvested this fall have taken the markets off their highs. We are still at very high historical price levels, however, with prices at the time of this writing for fall 2011 delivery in the mid \$6.00 per bushel range for corn and the over \$13.00 per bushel range for soybeans. Moreover, bids offered for fall 2012 are also near those levels. These prices are critical as it will determine how to structure farm leases going into 2012.

Most cash rent leases that were negotiated late last summer and early fall (when corn prices were about \$3.75 per bushel and beans near \$9.50 per bushel) were kept at fairly steady levels from the previous year. With the significant rise in grain prices that we have seen since then, a case could be made for a 20 to 40% increase in cash rental rates, depending on what level your previous lease was. Another factor that goes into determining lease levels is input costs. Fertilizer and seed prices will be higher for the 2012 crop, but we are not expecting

the dramatic run up that we saw the last time grain prices shot up in 2008.

Share Lease and Custom Farming Alternatives

With the substantial increase in cash grain prices this year, it may be a good time to consider a change in the way your farm is operated. At average yields, an 80-20 share lease or custom operation will return an additional 15 to 25% to the owner, even after cash rents are adjusted upward this year. A common concern when contemplating a change in operating methods is price or yield risk. Judicious use of revenue insurance significantly mitigates this risk. For example, crop revenue insurance policies this spring offered producers the opportunity to lock in revenue of approximately \$650 to \$900 per acre for corn and approximately \$400 to \$630 per acre for soybeans depending on yield history of the farm and coverage level. Hail insurance coverage can be added on top of these levels as well. Revenue insurance coverage provides a firm floor to cover production costs, while allowing an owner to benefit from strong prices and/or increasing yields under a share or custom lease.



In This Issue

- *High Grain Prices Present New Opportunities*
- *Today's Land Market*
- *Selected Sales of Good Farmland*
- *Missouri River Flooding*
- *We Moved!*
- *Northwest Iowa Progress Report*
- *Husman Joins Stalcup Staff*

There will be a lot of decisions to make this summer and fall on what operating method to choose or cash rent level to consider for 2012. We specialize in assisting with these decisions and welcome the chance to discuss your farm with you.

Remember, if you plan to make any changes to your current lease terms, you need to notify your current operator in writing according to Iowa Code prior to September 1, 2011, by certified mail in order to make changes to the 2012 lease.

Our Spring newsletter discussed the land market moving substantially higher last winter. The land market through this spring and early summer has continued to move higher, perhaps at an even faster rate. There has been no shortage of land offered for sale; in fact, it appears safe to say that the amount of land offered for sale during the past nine months is as high as it was during 2007 and 2008. However, the land market is local, and in any given township there are still only a few open-market transactions per year. We've noted a higher than normal percentage of privately-negotiated landlord-to-long-term tenant sales as well. Farmers are buying probably 75% of the sales. Investors are also strong in the market. "Fund" buyers are not prevalent in our area but are more active in other parts of the country.

It is important to recognize the strong localized features of the land market. In Northwestern Iowa (which we call anything north and west of Greene County), the market for top quality land right now generally varies from somewhere in the \$8,000's to somewhere approaching \$11,000. In parts of Sioux, Plymouth, and Lyon Counties, prices may exceed even that level. Medium quality land has generally sold for \$5,000 to \$7,500 per acre.

Why the variation in land values by location? Soil type and soil association play a big part. Our trade area is made up of three major soil associations. The two major types are the glacial till soils located generally east of Storm Lake, and the older wind blown loess soils to the west. The Missouri River Valley soils are the third category, but account for a relatively small area. A general rule is that good quality loess soils can be expected to have less internal drainage issues, and tends to produce soybean yields 5 to 10 bushels per acre higher than glacial till soils, while producing comparable corn yields. This is a big reason why we tend to see higher land sale results as we go west in our trade area and also explains why a very good parcel in one county may sell for \$8,500 per acre while another farm with a similar or even lower Corn Suitability Rating (CSR) twenty miles away may sell for \$10,500 per acre. While \$/CSR is a popular and quick valuation method, it is only valid if truly comparing apples to apples. CSR's do not provide a true comparison of productive capacity across a wide area, at least in this part of the state.

Prospects for continued high land values seem quite good. Commodity prices will fluctuate but are expected to stay high for several years. Crop production input costs have increased but as yet have not exploded. Interest rates are low enough that a considerable amount of refinancing for lower rates is occurring this summer. Cash being put into

land purchases remains significant and lenders remain prudent. Landowner's equity positions are very strong. Ethanol and livestock feeding profits are tight, but profit opportunities have presented themselves, unlike 2008. The factors that resulted in the land price collapse of the 1980's are simply not present at this time. We keep our eyes on factors outside agriculture which may affect agriculture in a negative way.

Check the accompanying list for recent sales results around the region. Stalcup Agricultural Service has several land auctions coming up in August and September. During the past year, we've assisted more people in acquiring land than selling land. Whether you're interested in buying or selling, please give us a call.

Selected Sales of Good Farmland

Date	County	Acres	CSR	\$/acre	% tillable
Feb	Emmet	332	69.9	\$6,200	97%
April	Clay	80	78.4	\$9,600	95%
April	Palo Alto	200	75.2	\$8,100	100%
April	Plymouth	80	56.0	\$9,900	96%
May*	Buena Vista	160	77.8	\$7,200	97%
June	Buena Vista	80	79.6	\$9,725	92%
June	Cherokee	80	57.6	\$8,600	93%
June	Dickinson	37.5	74.3	\$7,950	93%
June	O'Brien	83	69.0	\$8,600	99%
June*	Pocahontas	80	80.2	\$8,980	95%
June	Sioux	77.5	70.0	\$9,300	82%

Upcoming Land Auctions:

Date	County	Acres	CSR
August 3	Ida	240	63.4
August 4	Sac	80	72.9
August 10	Clay	360	76.8
August 12	Pocahontas	73	68.7
Sept 8	Buena Vista	170	74.0

*Stalcup-brokered sales are show in **bold**.

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



Flooding on the Missouri River has been well documented by local news outlets, perhaps not as well from a national standpoint. Stalcup Ag

Service manages a number of farms on the Missouri River "bottoms" as they are known. Managing farms in this region is a different challenge compared to other areas. However, this year presents a challenge we have not seen before.

The last major flood of the Missouri occurred in April 1952. Since then six major dams were constructed on the Missouri River and managed by the Army Corp of Engineers. With the huge amount of storage capacity

afforded by these structures, it was a common belief that major flooding would not be seen again on the Missouri River.

However, historic snowfall amounts in the Montana and Wyoming mountains arrived late in the winter. Heavy snow also covered large areas of the upper Great Plains. Couple this with the fact that the huge area of eastern Montana and the western Dakotas received 100% of their average annual rainfall in May, much around May 20th, and we have a historic flood on our hands.

To give some perspective, the average river flow in Sioux City is 31,000 cubic feet per second (cfs). The previous record outflow from Gavins Point Dam near Yankton SD was 70,000

cfs in 1997. Outflows from the dams were rapidly increased in late May and early June to reach 150,000 cfs, every second of every day. After heavy rainfall across the upper Midwest in mid-June, outflows were increased to 160,000 cfs. At 150,000 cfs, there was considerable flooding of cropland south of Sioux City. At 160,000 cfs, flooding extended onto considerably more cropland. Most commercial facilities along the river were diked and sandbagged and remain open for business.

The loss of crop acres will not be known until harvest. It is easy to calculate the flooded acres lost. What we do not know at this time is how many acres will be affected by too high groundwater, or how many acres may be lost if a heavy rain hits that

has nowhere to drain. Normally flood waters recede fairly quickly. These "managed" flood waters are here for the rest of the summer, perhaps into fall.

Could the Army Corps have released water earlier, or managed the river in a different way to prevent flooding? Considering the massive amount of water involved and the timing of the precipitation in the upper basin, it does not seem likely that it could have been totally avoided. The Master Manual which governs how the Corps is to manage the river will be given thorough scrutiny by Congress with plenty of input from the states involved. This is a developing situation and is truly "one for the books".



Announcing the new location for
Stalcup Agricultural Service, Inc.
 1705 North Lake Avenue
 (Former Farm Credit Services building)

After 40 years of growth at one location it was time to expand our facilities to accommodate a larger staff. We have seven professionals and four staff to serve all your farm management, farm real estate, rural appraisal and consultation needs. We want to extend a big thank you to all involved in making the move go smoothly.

Feel free to stop by and say hi.

Stalcup
 Ag Service

1705 North Lake Avenue
 Former Farm Credit Services building

Phone: 712-732-4811

Fax: 712-732-7371

www.stalcupag.com

Thank you to:

- K B Contracting LLC
- Stanton Electric
- Rebnord Technologies
- B&R Moving
- Rolling Signs
- Manuel and Crew
- Central Bank
- Wede Lock Service
- Pat Peterson - Pro Elect
- Paul Griemes Painting
- B.V. Glass
- Contract Delivery Service, Inc.
- Melissa and Joe Keller

Variable best describes the weather we have seen during the first half of the 2011 growing season. Cool and wet conditions prevailed in April, and while some tillage and fertilization was completed, very little corn was planted. Starting in early May we were fortunate to get a ten day window of warm, dry weather, during which virtually all the corn and a good portion of the soybeans were able to be planted into good soil conditions. Wet weather took over again, delaying the last half of soybean planting in many areas until late May or early June. After good weather in early June, heavy rains

moved in again in the last half of the month, making late corn fertilizer and herbicide applications a challenge.

June ended up with higher than normal precipitation and below normal temperatures. The results of this can be seen in slower than normal development of the crops, although warm, dry conditions since July 1 have allowed some catch up. In general, crop conditions are good in the area, except for parts of the Missouri Bottoms detailed in an attached article and areas in the northern portion of

been dry. Only light or sandy soils are showing severe drought stress at this time. Very hot temperatures during corn pollination season in mid-July is potentially having some affect on pollination and ear fill.



On July 11th, a severe windstorm swept across east-central Iowa, leaving hundreds of thousands of acres of flattened or nearly flattened corn. If the stalks did not break, many of these plants were able to stand themselves back up fairly well in an effort to begin pollination in the next week.

Much of the major crop growing areas of the US are under some sort of weather stress, from extreme drought in the south plains to excessive moisture, ponding, and late-planted crops in the northern plains and into Canada. Many acres of corn across the Northern and Eastern Corn Belt will be susceptible to damage if an early killing frost would hit. October 5th is the average first frost date in NW Iowa. Crops in this area should be safe from frost damage by late September. This was a year when forecasters predicted that the US could have no "hiccups" in our production in order to meet demand.

our trade area that received excessive June and July rains which caused some drown out of soybean acres and yellowing in the poorer drained portions of the corn fields. Above normal rains are again pointing up the advantages of drainage tile, as well drained farms are really showing up again this year.

Since July 1st, some areas to the south and west of Storm Lake have

Husman joins Stalcup staff

Chad Husman joined the Stalcup staff in May 2011 to meet a steadily growing business and add to our ag technology knowledge and ability.

Chad has an excellent background of education and experience: raised on and helped operate a grain and livestock farm, an agronomy degree from Northwest Missouri State, and a lead position as a Precision Ag Specialist with a large retail farm input organization.

Chad will provide opportunities for our clients to increase yields and profits with precision ag technology.

He is working toward becoming an Accredited Farm Manager and acquiring his real estate license.



Stalcup
Ag Service

1705 North Lake Avenue
Former Farm Credit Services building
Phone: 712-732-4811
Fax: 712-732-7371
www.stalcupag.com

Since 1942 Our Business Has Been To Improve The Business Of Farming

- Real Estate Brokers
 - IA, NE, SD
- All types of Sales
 - Public auction
 - Private treaty
 - Sealed bid
- Tax Free Exchanges



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
Chad Husman