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Cash Field Crop & Feed Market Outlook

Uncooperative weather, trade disputes and market uncertainty characterized what has been a very challenging 2019 growing year. As might be expected, given the excessive moisture seen last spring across much of the country, yields were generally down. This lead to a smaller 2019 crop for most commodities.

Corn

Displayed in Figure 1, despite 800,000 more corn acres planted, area harvested was only 100,000 acres greater. Below-trend yields on the acreage harvested (167.0 bushels per acre) led to a corn crop of 13.7 billion bushels, the smallest corn crop since the 2015 harvest. In the Northeast region, New York saw a yield of 148.0 bu/acre, which was less than 2018, but in line with the state’s five-year average.

In some ways, the impact of having a smaller crop was minimized as both domestic and export demand were down sharply. So far this year, corn exports are the lowest in more than 40 years.

The end result is a corn market price projected at $3.85/bu for the 2019-2020 crop year, an increase of more than 6% over the past year. While total corn usage is expected to climb in future seasons, a return to more favorable weather should bring yields back up to the trendline. According to current forecasts, this should lead to significantly higher ending stocks and weak futures market pricing.

Soybeans

For soybeans, weather had an impact this year as well. Responding to uncertain export markets and low futures’ prices, growers planted 12.7 million fewer acres of soybeans last spring, shifting much of that acreage to other crops. A harvested area of only 75.6 million acres, and below-trend yields (46.9 bu/acre), led to a crop of 3.6 billion bushels, the smallest soybean crop since 2013. New York’s yield was 46.0 bushels/acre, less than 2018, and slightly lower than the five-year average.

Despite the unresolved trade issues with China, exports for the 2019-2020 crop year are expected to recover somewhat from their five-year low in 2018-2019, but will still remain below the five-year average.

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U.S. corn supply and use						
	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
	Million acres					
Area planted	89.1	89.9	92.4	90.4	90.8	90.9
Area harvested	81.7	81.8	84.7	82.9	83.3	83.4
	Bushels per acre					
Yield	176.4	167.0	176.4	178.3	180.0	181.8
	Million bushels					
Production	14,420	13,661	14,941	14,790	14,996	15,164
Imports	28	50	40	40	40	40
Beginning stocks	2,140	2,114	1,905	2,255	2,304	2,354
Total supply	16,588	15,825	16,887	17,086	17,341	17,559
Feed and residual use	5,618	5,275	5,473	5,474	5,506	5,540
Other domestic use	6,791	6,796	6,868	6,963	7,046	7,079
Exports	2,065	1,849	2,291	2,345	2,435	2,540
Total use	14,474	13,920	14,631	14,781	14,986	15,159
Ending stocks	2,114	1,905	2,255	2,304	2,354	2,400
	Dollars per bushel					
Price, U.S. farm, dollars per bushel	3.61	3.85	3.53	3.56	3.60	3.64

Figure 1: FAPRI-MU Bulletin #04-19, November 18, 2019

U.S. soybean supply and use						
	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
	Million acres					
Area planted	89.2	76.5	85.0	84.8	85.0	84.9
Area harvested	87.6	75.6	84.2	84.0	84.1	84.1
	Bushels per acre					
Yield	50.6	46.9	49.7	50.2	50.7	51.2
	Million bushels					
Production	4,428	3,550	4,188	4,217	4,264	4,302
Imports	14	20	20	20	20	20
Beginning stocks	438	913	468	496	500	508
Total supply	4,880	4,483	4,675	4,734	4,784	4,830
	Million bushels					
Crush	2,092	2,113	2,175	2,193	2,208	2,222
Other domestic use	128	130	130	131	131	132
Exports	1,748	1,773	1,874	1,910	1,937	1,964
Total use	3,967	4,015	4,179	4,233	4,277	4,318
Ending stocks	913	468	496	500	508	512
	Dollars per bushel					
Price, U.S. farm	8.48	8.99	8.54	8.61	8.55	8.56
Price, IL processor	8.53	9.19	8.75	8.82	8.75	8.75
Crushing margin	1.93	2.01	2.15	2.11	2.12	2.13
	Ratio					
Soybean/corn price ratio	2.35	2.34	2.42	2.42	2.37	2.35

Figure 2: FAPRI-MU Bulletin #04-19, November 18, 2019

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Nonetheless, the farm price for soybeans is forecast significantly higher for 2019-2020 at $8.99/bushel, an increase of 6% over the prior year's average. After 2018-2019's enormous ending stocks, 2019's smaller harvest will help bring inventory to closer alignment. Moving towards a normalization of trade with China will be critical over the next few seasons in order to keep supplies from ballooning as planted acreage rebounds and more favorable weather increases crop yields.

Feed Outlook

Smaller crops are hitting the market at a time of reduced demand, which should temper price increases. Nationally, the number of grain-consuming animals is projected to decrease for 2019-2020, with a decline in beef cattle numbers more than offsetting any increase in broilers and turkeys. The national dairy herd is expected to grow slightly in 2020 but will likely remain below 2018 levels.[1] While grain and oilseed prices are forecast to increase by 5-7% for the 2019-2020 crop year, they are likely to fall back to 2018 levels after the next harvest, assuming a relatively normal growing year.

International Trade

As discussed in our November *Knowledge Exchange Partner* newsletter, access to export markets are essential for grain and oilseed producers. With trade uncertainty on multiple fronts, exports for many agricultural commodities have been lower across the board. While U.S. exporters have been aggressively pursuing alternative markets, and made up some lost ground with sales elsewhere, U.S. exports worldwide for grains and feed are down 11%, year-over-year. Oilseeds and related products are down 6% while livestock and meat are down 2%. Dairy product exports have increased by 4% (by value) due to higher market prices but remain slightly below the five-year average. Outside of crops and livestock, forest product exports are off 17% and fisheries product exports are 11% lower.[2]

If the U.S. is able to resolve its multiple trade issues – particularly with Canada, Mexico and China – there is considerable upside potential for market prices to rise if past export volumes can be regained.

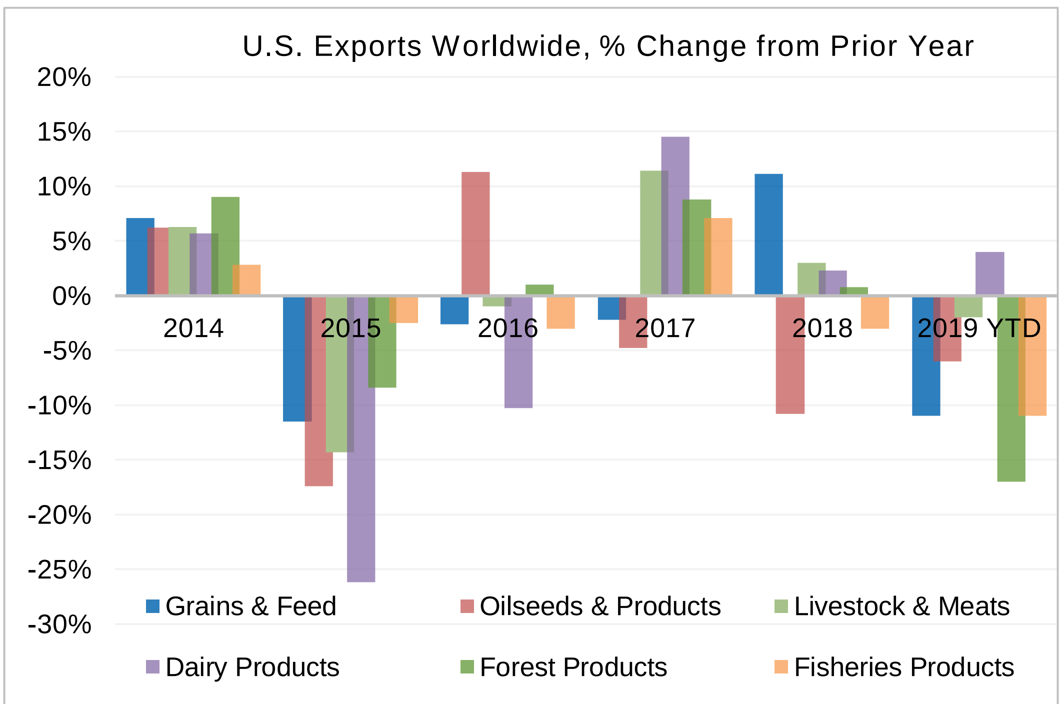

Figure 3: USDA FAS Global Agricultural Trade System – Data as of September 30, 2019

[1] USDA ERS – Feed Outlook, November 13, 2019; Livestock, Dairy and Poultry Outlook, November 15, 2019

[2] USDA FAS Global Agricultural Trade System – Data as of September 30, 2019

The Importance of Liquidity

It's been said that in business, "cash is king." In the financial world, your cash position is referred to as liquidity. Liquidity is defined as the ability to immediately cover debt obligations or expenses with cash or assets on hand. In other words, liquidity is your ability to pay your bills.

Liquidity is important to any agricultural business, yet it may have a heightened significance depending on what you produce, how long it takes you to produce it and how it's sold or marketed.

Business owners often look at their balance sheet to assess their financial position, but long-term assets such as real estate can't pay today's expenses. This is where liquidity comes in.

Liquidity is often measured by either a "current ratio" or "quick ratio." The former is comprised of all current assets (including inventory) compared to current liabilities. The quick ratio takes inventory out of the equation; it's made up of cash and other assets that can be quickly converted to cash—compared to current liabilities. Lenders consider the quick ratio as a key indicator of a business's ability to meet short-term obligations since inventory is not always able to be quickly converted to cash. This is especially true in operations where inventory may take a long time to be sold, i.e. nurseries, wineries, orchards etc.

When liquidity is important

Liquidity's importance in your operation's overall financial picture depends on a few main factors. First, if an operation is small with low inventory and operates primarily on a cash basis, cash flow may be regular and frequent. In this case, liquidity is a less influential indicator of financial health since cash availability is more consistent throughout the year and money is not tied up in receivables or inventory.

In a larger, more inventory-heavy operation, liquidity takes on greater significance as an indicator of financial health.

For example, a crop grower who buys inputs in March but doesn't get paid until that crop is marketed in the fall needs to account for bills due during the growing season. A nursery operator with considerable working capital tied up in planted trees or shrubs should also watch liquidity closely, considering the time and work required to sell that inventory and turn it into cash.

Factors influencing liquidity

In industry sectors like these, the importance of inventory puts a premium on closely managing liquidity. Without doing so, an otherwise healthy-looking balance sheet can be misleading if the business is going to rely on product inventory to pay operating expenses and debt.

Another factor that can have considerable influence on liquidity is the stage an operation sits in its overall life cycle. An established, mature operation will likely have fewer capital requirements compared with a newer, growing business because of the required investments for buildings, machinery and equipment as the business grows.

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Regardless of size or what is produced, a downturn in market prices is a time when liquidity takes on greater significance. Low crop prices, for example, put greater pressure on cash flow than when prices are strong.

Other considerations

Another consideration in managing liquidity is having access to a line of credit. Unused lines of credit are not captured in the current or quick ratios but access to this borrowing capacity can provide funds to pay ongoing expenses while crops or livestock are being raised or marketed. When drawn, balances on these credit lines factor into the current or quick ratio as short-term liabilities. So, while lines of credit can provide an important liquidity backstop, it is important to make sure they can be paid back through ongoing, profitable operations.

Another area where liquidity can be a great business advantage is paying cash for inputs and expenses. Your suppliers have liquidity needs as well and it costs them a lot to provide supplies on credit. Businesses in a strong liquidity position are often able to negotiate substantial cash discounts by paying on or before delivery. A standard 2% cash discount – which many businesses offer for payment within 10 days – may not sound like a lot, but this is equivalent to roughly a 24% annualized return on investment—something difficult to earn elsewhere. In any case, paying on time avoids costly finance charges. Many businesses will assess 1.5% per month, equivalent to an 18% APR.

The bottom line: Liquidity is a key financial variable to watch regardless of the structure of an agricultural business. It's important to balance maintaining strong, short-term liquidity against opportunities for higher profits and in the broader context of making sound business decisions. If you have questions about liquidity and its role in your operation, contact your local Farm Credit East business consultant.

CONTACT INFORMATION

We look forward to your questions about Knowledge Exchange Partner and your feedback:

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