APAC Agricultural Policy Analysis Center
The University of Tennessee

PolicyPennings by Dr. Daryll E. Ray

No time to get greedy

Every spring brings its own risks for what is undeniably a risky profession. That being said, it seems to us that the challenges farmers face this year are greater than normal.

The first challenge is fertilizer. With fertilizer prices headed to the sky last summer, some farmers decided to protect themselves against even higher prices by contracting ahead for this summer's prices. As we all know, prices went south and what might have been a wise decision leaves some farmers facing unusually high input costs. For those farmers it will take ideal weather and extraordinarily high yields to take some of the sting off those high costs.

But, farmers weren't the only ones last summer who booked 2009 fertilizer orders at high prices. Lots of fertilizer distributorships are now holding large quantities of expensive fertilizer. With prices substantially lower, we are watching a stare-down contest between farmers who want lower priced fertilizer and dealers who want to minimize the financial blood-bath that is awaiting them. Each side is waiting for the other to blink first.

The longer this stare-down goes on, the greater the risk that there will be a last-minute rush of fertilizer orders by farmers which may result in supply problems. This will be especially true in those areas that needed every snow-free day last fall just to get the corn crop in. Even if they had wanted to, there was no time to make the usual fall application of anhydrous. That means that there will be more acres depending on a spring fertilizer application.

Given the slowness in fertilizer markets, some fertilizer plants have shut down waiting for paying customers to come through the door. If all of the spring orders come in at the last minute, there may not be enough time to get the product manufactured and delivered in time for this spring's corn, rice, and cotton crops.

Last year's high prices are still wreaking their damage on agricultural markets.

Second, the balance between soybean acres and the acreage for alternate crops like corn, cotton, and peanuts is extremely touchy, given what is expected to be relatively low year-ending stock levels of soybeans. Produce too few soybeans and the price heads up the next peak on the roller coaster. Produce an abundance of soybeans and it would not be surprising to see soybean prices below $6.00, dashing all hopes for a new price plateau.

The ethanol-induced surge in corn acreage over the last two years complicates this equation. Given the yield drag some farmers experienced with corn-on-corn, many farmers are thinking it may be time to return to a fifty-fifty corn/soybean rotation.

Another complicating factor is the price and availability of fertilizer. It costs a lot less to put in an acre of soybeans than an acre of corn. Will farmers swing to soybeans to minimize their exposure to high input costs?

Then again, depending on the weather, farmers may have little choice of what to plant. Get a stretch of good weather early in the season and corn will go in the ground-assuming appropriate seed varieties are available. Push the planting date too late and it will be soybeans.

Then again, combine abundant soybean acres with 160 bushel national average corn yields and the price of both may be in the tank.

As Yogi says, "It ain't over 'til its over." This year that may be particularly true.

Our third concern for the coming season is corn marketing. We are still worried about the impact that index funds may have on commodity prices-particularly corn- in the coming months. Though these funds, which hold long positions, have taken a beating since last summer, some are still holding large long positions hoping for an increase in prices.

If they were to decide that prices have no hope for recovery and as a result liquidate their long positions, prices would fall even further than they otherwise might. This could also happen if some of that money were to decide that stocks have hit bottom and now is a good time to get into the stock market.

The other issue we see is the amount of grain that farmers are still holding. The present prices are not enticing farmers to bring corn to town and sell. The present prices seem meager compared to last summer's highs. But we could see still lower prices this summer if a large portion of last fall's harvest hits the market in July and August in preparation for the new crop.

Yet, given that we are going into this new production year with adequate, but not large stocks, a serious reduction in coming-year yields could vault prices right back to the levels of last summer-making those who have not sold much of last fall's harvest look like geniuses.

But going with that possibility smacks more of

Cont. on p. 2

Originally published in *MidAmerica Farmer Grower*, Vol. 29, No. 12, March 20, 2009
Reproduction Permission Granted with 1) full attribution to Daryll E. Ray and the Agricultural Policy Analysis Center, University of Tennessee, Knoxville, TN;
2) Copy of reproduction sent to Information Specialist, Agricultural Policy Analysis Center, 309 Morgan Hall, Knoxville, TN 37996-4519

No time to get greedy

Cont. from p. 1

speculation than a sound marketing plan. In times like these it is easy to get caught up in the emotions of the markets.

As always, farmers should keep their eye on the bottom line. After all, covering all production costs (or surviving) is an excellent outcome.

Daryll E. Ray holds the Blasingame Chair of Excellence in Agricultural Policy, Institute of Agriculture, University of Tennessee, and is the Director of UT's Agricultural Policy Analysis Center (APAC). (865) 974-7407; Fax: (865) 974-7298; dray@utk.edu; http://www.agpolicy.org. Daryll Ray's column is written with the research and assistance of Harwood D. Schaffer, Research Associate with APAC.