Directions

A Newsletter of Cornelius Seed® Read it. Profit.

Spring 2014

# Agronomy Meeting Features Economic Outlook & Management

At the annual Cornelius Seed Spring Agronomy Day, held recently at Maquoketa, IA for area Cornelius seed representatives and their customers, guest speaker Dr. Chad Hart of Iowa State University said the 2014-16 period will bring its set of challenges to crop profit-making.

Hart said, "Despite the challenges in many key corn producing areas, this nation produced a record corn crop of 13.9 billion bushels last year. And while we have record demand, it's not enough to support higher prices." He said that "record demand" is 13.1 billion bushels.

'The problem is," Hart said, "we have 91 or 92 million acres of corn production slated for 2014. And if we estimate the yield to be 166 bushels per acre, we're producing another 13.9 billion bushels this year."

The extension economist said the record prices the past few years were caused by the U.S. racing to meet demand around the world. "And we not only caught up with demand, we ran right past it." That dropped prices from $6.89 a year ago to $4.50 this year.

## Soybeans Not Necessarily The Answer

The U.S. produced 3.2 billion bushels of soybeans in 2013. Yet, demand is calling for 3.3 billion bushels, enough to eliminate carryover stocks. "So, why did beans go from $14.40 to $12.50 if we're going to use more beans than we produced?" Hart asked. "The answer," he said, "lies in the global picture. The world produced even more beans than we did, leaving global supplies in excellent shape to meet demand.

"And again," Hart said, "we may knock the bean market down if we produce a record soybean crop. If we produce 3.6 billion bushels of beans, look for the market to fall.

## Harder Marketing Decisions

"The breakeven price for corn in 2013 was $4.50. Today, the price is around that number. The breakeven price for beans in 2013 was $11, so there is some gain to be made as the price hovers around $12.50," Hart explained. "While last-crop beans may hold some profit if you still have them, you can make that future $12 a $10 or even an $8 if we produce a record crop. That makes beans a loss leader," he explained.

Dr. Chad Hart

The economist said U.S. producers need to pay close attention to global markets and begin to factor that into their marketing decisions. "There were 966.9 million tons of world corn production in 2013," he said. "That's up 12%. There is no way that won't affect corn prices here."

Soybeans represent the same global picture. "Global bean production is up 7%, and Brazil is going to pass us," he said.

So what's the future hold for prices? "Demand will be the key to how fast we can go through this crop. Hog production will expand 1-2% in 2014, but that won't solve our corn problem. The cattle market is not yet responding, but will. We have the smallest U.S. herd since 1980 and it will continue to shrink 5% in 2014. However, heifer retention is up 2% so we think a 2-year cycle upswing is coming. That is one of our largest markets for corn and it can't get here quickly enough."

While farmers in the U.S. were celebrating $7 corn, many didn't realize that $7 corn cut our export market in half, Hart explained. In fact, he pointed out China, Japan and Mexico have already ordered twice as much corn for U.S. export than they did a year ago.

The bean market, on the other hand, remains strong because China is importing 64% of our beans and their future demand for import beans this year is already at record levels. However, Hart warned, "The bean exports will soften with the harvest of the South American crop."

## Will Ethanol Save Corn Prices?

Hart pointed to the ethanol market as one that has brought tremendous rewards and increased acreage to U.S. corn production. "Today, there are 210 ethanol plants in the U.S. They used 95-100 million bushels every week until June 2012," he said. "When corn hit $7, the ethanol plants dropped down to about 80 million bushels per week. Worse yet, the ethanol market is not growing anymore," Hart said.

"While many Americans were discouraged with the news the EPA had lowered its standard demand for ethanol production, that's not the

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culprit," he said. "The RFS (required fuel standard) for ethanol stood at 18.1 billion gallons per year. And ethanol represented 14.5 billion gallons of that. (Biodiesel and corn stover represented the rest). But, the EPA put the RFS at 13 billion gallons because today, that's exactly what the demand is. Motor gasoline consumption in the U.S. is in decline so the demand for total gas, let alone ethanol, is down."

## The Future of Profits

Hart said he predicts the December 31 price in 2013, 2014 and 2015 to be $4.49, $4.41 and $4.48 for corn and $12.79, $10.89 and $10.68 for soybeans.

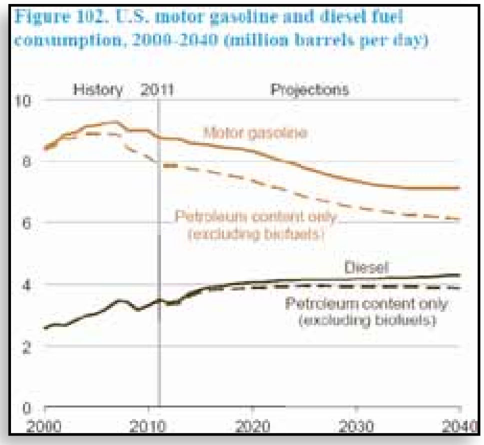
Hart said he has concerns about those farmers who have not experienced the need to learn the value of insurance, trading, price lock-ins, small moves in price, etc. "For example, December crop insurance guarantees $4.55 a bushel. You can lock that in," he noted. "This is really important because until we see the pull of new demand, we'll be fighting breakeven prices with corn and beans."

## So What Happens to Input Costs?

One of the looming issues as commodity prices have fallen and seemingly stabilized (at least for now), is what will the cost of land be? "Between 1973 and 1981, land values increased beyond its ability to produce positive cash," Hart explained. "The future of land values depends on how quickly we're forced to give it up."

He did note, however, by law, 7 million acres will come out of CRP. The new farm bill will support CRP acreage at 24 million acres; not the 31 million that are enrolled now. He also said he expects some slight decline in land values in the near future, but not a dramatic drop. "Demand is still there," he noted.

Other input costs will most likely stabilize at current prices next year. "We won't see much price reduction this spring, but next year, we may see some."




**In 2005, the U.S. was using 9 million barrels of fuel every day. Today, driving patterns, fewer miles driven and more fuel efficient vehicles are contributing to a smaller fuel market, a trend predicted to continue through 2040. That dramatically affects future demand for ethanol.**

## Balvanz Lays Out Positive News In Tougher Times

Rich Balvanz, owner of AMS, a commodity marketing firm in Marion, IA, followed Dr. Hart's presentation. Balvanz highlighted "so if times are tough out there, and it's a bit more difficult to make money selling corn and soybeans, what do we do about it?"

"In years like the past few, when the ending stocks-to-usage ratio was projected below 10%, prices tend to rally into summer," Balvanz said. "But this year, you need to look heavily at the month of March because historically, that's the month new crop corn prices peak in years when stock-to-usage projections are above 15%. So, we should sell between March and June, with July 4 being the end of selling opportunities in many large crop years."

Rich Balvanz

"Iowa is blessed with some things other states don't have, and that helps support our markets more so than the markets in other states," said Balvanz. "Two of those items are the large grain processing companies and the river markets. Eastern Iowa uses more corn than anywhere else in the world for these two markets. You're lucky you're here."

In fact, he noted eastern Iowa is still corn-deficit. "The basis 'boost' from the river market will once again be in place. Take advantage of it if you're not."

He said the big question being asked today is "how do I market grain? My first inclination," Balvanz said, "is to tell young people go find a farmer who went through the 1980s and survived. Stay close to him, get to understand what he did to make money and how he came through that difficult time period."

But, he said, the pragmatic answers are "you hedge. Knowing your basis is crucial, you have to re-educate yourselves about what is a put, a call, a hedge, forward contract. Look to move hedged grain into a strong seasonal basis. This is marketing 101, but it's how you survive," he said.

Secondly, he noted, "the speed of your action is very important. We haven't worried about a $.06 per bushel daily move for years, but it's time to watch grain prices very, very carefully, noting that $.06 may be the only profit window all year long."

## The Light In The Tunnel

The USDA predicts U.S. net farm income will remain historically high over much of the next decade based on strong overseas demand for ag products.

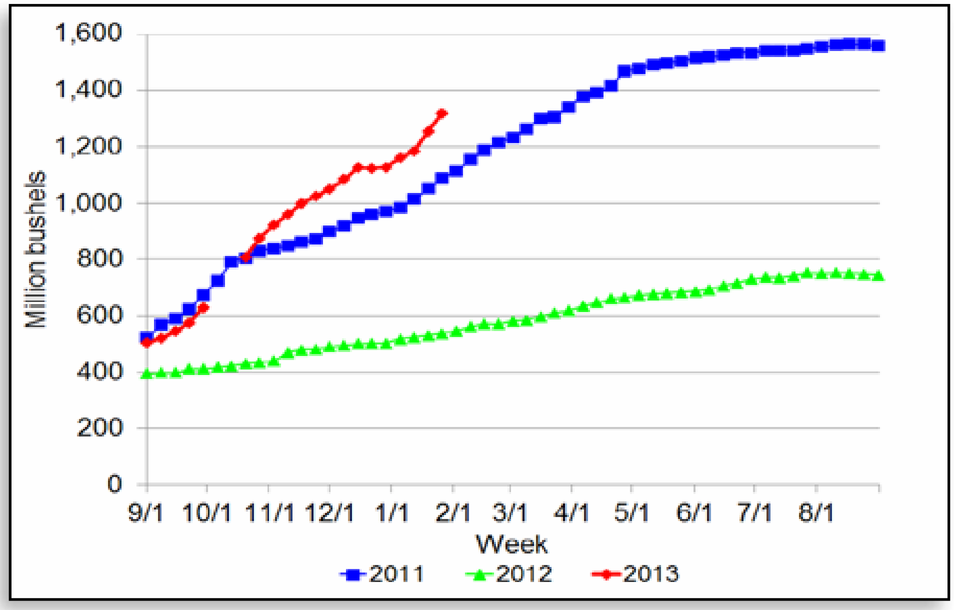
The USDA's 10-year projection says short-term prices may fall, but world economic growth and continued global demand for biofuels will continue to hold prices up.

Export demand for U.S. corn, for example, is expected to climb to a new record 1.7 billion bushels in the 2014-2015 crop year from 1.4 billion bushels in the current year. By 2023, overseas shipments may reach 2.25 billion bushels. That paints an incredible demand picture for U.S. corn.

The department projects a record 2014 corn crop of 14.260 billion bushels, up from 13.989 billion in 2013, and a harvest of almost 15 billion bushels in 2023. If that's true, combined with the record demand projections of 1.7 billion bushels, carryover stocks will be stressed.

Soybean exports should increase to 1.64 billion bushels this coming year. A record crop of 3.48 billion bushels is projected, up from 3.258 billion last year.

The USDA noted its report assumes no "domestic or external shock" that would affect agricultural markets and that "normal weather" conditions will prevail.




**This chart shows export demand for corn for the past three years. Demand for this past year's crop has already nearly exceeded previous-year demands, as indicated by the red line. That global record demand is what is propping up corn prices at today's levels.**

## Ronnie Cornelius Retires

Ron Cornelius, long-time plant manager and co-owner, retired January 31 after 42 years of dedication and service to the company. Ron began his career with Cornelius Seed in 1972 and has seen a great deal of change in the industry. His work ethic, knowledge of the seed business and wise counsel will forever remain with those who worked with him. He made significant and positive impressions on dozens of young people, employees and his peers.

His broad-ranging capabilities in the plant allowed the rest of us to specialize and improve in specific areas such as research, genetic selection, working with suppliers, forecasting seed acreage, overseeing crop production and contracts, acreage and sales and marketing.

Ron will be spending his time with his wife, Elaine, working on his recently acquired 1954 Ford pickup and attending his grandkids' ballgames. Please extend your thanks and congratulations to Ron for his service to this business.

**Ronnie Cornelius, (left) is awarded an engraved statue thanking him for his 42 years of service to Cornelius Seed at this retirement party. Chuck Cornelius, president, stated "Ronnie was always there to help guide the company when we needed him. His contributions are countless."**

# Wedding Bells Ring

James (JC) Cornelius and Janie Imming were married February 22, 2014 in Andrew, IA at Salem Lutheran Church. James is the plant manager at Cornelius Seed and Janie has come on board at Cornelius Seed this spring. James graduated from Iowa State University with degrees in Agronomy and Ag Systems Technology. Janie also graduated from Iowa State University with a degree in Ag Studies. Previous to their marriage Janie worked for MaxYield Coop in northwest Iowa in the SciMax division. Parents of the couple are Chuck and Chris Cornelius, Bellevue, Iowa and Doug and Coleen Imming of Storm Lake, Iowa. Congratulations to James and Janie!

**James and Janie Cornelius entered their wedding reception on this 1966 International tractor. Seth Newton, Cornelius seed representative from Luzerne, IA hauled the tractor to Maquoketa, IA for his wedded friends so they could enter the reception in grand style.**

## New Line Of Cornelius Soybeans Outsells Expectations!

In June 2013, Cornelius Seed announced it was introducing its own proprietary brand of soybeans. With that introduction came 10 new varieties spread in maturity from 1.8 to 3.1.

"We had a great deal of excitement, but silently behind the scenes, we had a small degree of apprehension about sales," says Will Cornelius, Soybean Lead at Cornelius. "We knew a new brand of soybean brought its challenges, but our sales expectations were fairly high because we knew we had one of the finest lineups in the soybean industry."

Today, the apprehension has turned to celebration as a result of one of the company's largest soybean sales years ever.

Cornelius says, "We performed extremely well in last year's third-party, independent trials and a substantial number of private and plots. I credit our first-year sales to three things; our high-end 2013 performance that impressed a lot of people, the huge effort to place these beans with customers by our sales force and the faith our customers have in Cornelius' ability to select great products."

The company intends to continue to expand its soybean line-up in the coming year and will announce the new varieties this summer. If you'd like to plant some of the new proprietary Cornelius Seed brand of soybeans, give us a call at 800/218-1862 or see your local Cornelius seed representative.

## Herbicide/Hybrid Interaction Crucial

One of the Cornelius Seed services includes management advice of its hybrid and herbicide compatibility. Please review this critical data, which can be found on page 17 of the company's seed guide. If you have web access, you can also go to www.corneliusseed.com and download it from the Agronomy page or from the Product Guide itself…not a bad tool to have prior to planting.

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