Farm prices likely to decline in 2010

By Sara Wyant

Seattle, WA. Jan. 11. Volatility and uncertainty will continue to be widely used adjectives in the commodities markets this coming year, but the American Farm Bureau Federation's recently retired economic analyst, Terry Francl, says there could be some market price improvement this spring, especially for cotton and the ethanol industry.

Speaking at the organization's 91st annual meeting in Seattle, WA on Sunday, Francl predicted that, while there will likely be some good rallies this spring, the average farm prices for corn, soybeans and wheat will likely be lower during the 2010/2011 crop year

"We'll probably see corn acreage expand around the 90 million-acre level, up a little over 3 million acres from this past year," Francl said. "Soybeans will probably hold. The big decline will be in the wheat area, down around 3 to 4 million acres. Francl expects the average farm price for wheat to decline from $4.85/bu. to $4.60/bu. The stocks-to-use ratio for wheat will decline only slightly, from 43.4% to 39.1%.

With more acres coming out of the Conservation Reserve Program (CRP) there will be more U.S. cropland to plant.

"We've got about 2 million acres coming out of the Conservation Reserve Program. So we may pick up another 200,000 acres to 300,000 acres in corn and soybeans, maybe a little in the wheat, but that's about it," Francl continued.

Here's how Francl sees the 2010 market prospects shaping up:

Corn. The two greatest potential demand factors heading into summer are export numbers, which currently are lagging "on the low end of expectations" and could drop even further; and the Environmental Protection Agency's (EPA) decision regarding nationwide adoption of a standard ethanol-gasoline blend rate between the current 10 percent and a proposed 15 percent. EPA is expected to rule on blend levels by June.

While existing ethanol plants are running at an average 85% capacity, production appears to be coming back on track as margins rebound. The economy is expected to slowly rally, and plants sidelined by bankruptcy and financial woes will resume operation under new management, he suggested.

Meanwhile, feeding numbers may rise as livestock require additional calories to weather a frigid winter. Bottom line: Prices optimistically may trade in the $3.75 per bushel to $4.25 per bushel range into spring, when uncertainty over crop/acreage bidding and planting prospects may boost corn into the $4.50 per bushel to $4.75 per bushel zone. Assuming a normal fall crop, Francl sees prices backing off potentially to a $3.75 per bushel bottom.

Soybeans. The South American crop is the wild card in the mix. Last year, an Argentine drought contributed to a 20-percent drop in the crop, but good rains have replenished potential for trend-line or near-trend-line bean numbers and thus increased export pressure on global prices. Francl anticipates near-term prices around $9.50 per bushel to $10.50 per bushel, with the spring corn-soybean "bidding war" adding a possible 25 cents to 50 cents. But a bountiful South American crop conceivably could knock prices to $8 to $8.50 per bushel levels by fall.

Wheat. "There's not much you can say, other than we've got wheat, wheat, wheat everywhere," Francl said, noting bushels flowing from the Black Sea region, the former Soviet Union, Argentina, Australia, and Canada. Thus, wheat likely will trade in the $5 per bushel to $6 per bushel range, with pressures toward a possible $4.50 per bushel by harvest.

Cotton. As a result of reduced U.S. production and strong global demand focused in China, prices have recovered nicely. Prices should remain fairly steady around the 70 cent-per-pound mark, relaxing to a potential high-side of 68 cents to 69 cents into summer. However, strong U.S. and world crops could chase prices back into the mid-50 cent per pound range.

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