

Acreage Migration in the Plains

By Diana Klemme

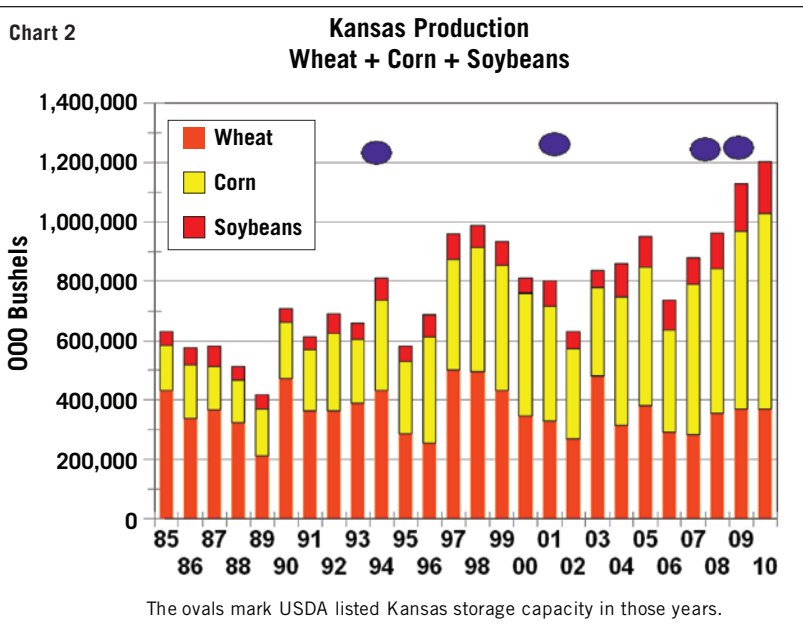
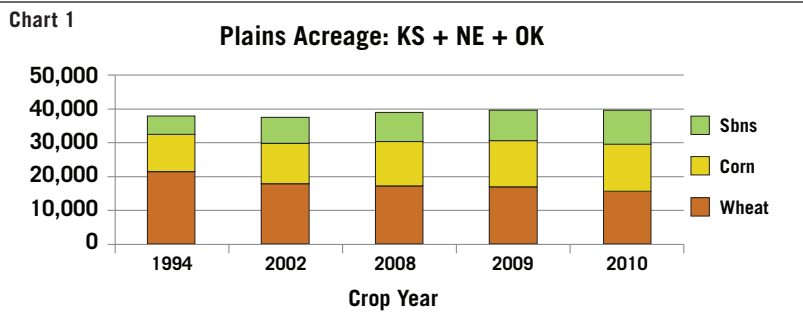
For years the wind blew freely through empty concrete silos and flats in the Western Plains. Space was readily available and storage rates were low; many traders figured a lot of space would never be filled again. But a dramatic shift has occurred that's impacting logistics, basis, and should raise storage rates. The Plains farmer has steadily increased corn and soybean acreage, largely at the expense of reduced wheat and sorghum acreage. Plains corn and soybean yields were solid in the late 90's, wheat exports were declining, cattle feeding margins recovered, and cattle numbers climbed steadily in Kansas and Nebraska. Ethanol production grew steadily, with Nebraska a central part of this new demand base. These and other factors nudged Kansas to a milestone in 2010: Corn and soybean acreage now exceeded wheat for the first time in history.

Nebraska farmers have changed as well. Since 1994, Nebraska farmers have cut wheat acres by 600,000, adding 2.5 million acres to soybeans, and a few hundred thousand to corn (Nebraska's corn acreage peaked in 2009 at 9.15 million before retreating to 8.8M in 2010.) Oklahoma has also shifted: Wheat acreage has fallen 1.8 million since 1994, down 26%, but remains #1 at 52% of the state's crop acres. (The biggest move there was into hay, although corn and soybean acres have climbed somewhat.) Plains corn yields were coming

in around 150+ bushels per acre, compared to 35 to 45 bpa for wheat and 70 bpa for sorghum. Now those same acres were turning out sharply higher handling volumes. Slowly those drafty silos and flats filled again with grain. But it wasn't until the 2008 harvest that the Plains first 'hit the wall', where production and carryover stocks exceeded available space. In 2008, it was still close; some areas ran out of space, with only the steady consumption of corn for ethanol and livestock tempering the overall demand for space. But 2009 crop pushed the regional space shortfall to almost 300 million bushels, and this harvest it could reach 350 million bushels! (Table 1) As in

'08 and '09, weekly disappearance will temper the tightness somewhat, but not enough. In Kansas alone, production of corn, soybeans, and wheat will exceed total available storage capacity* (Chart 2) – farm and commercial combined. (*Space capacity based on USDA statistics released in January.

Plains farmers were shocked this summer when the hard red wheat basis collapsed to record low values as harvest began. Terminals had carried over large inventories of wheat after exports lagged this year, and buyers then ran headfirst into a big harvest with low-protein in many areas. Export sales called for higher-protein and buyers pushed



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basis lower and lower on the combination of quality and space issues. US wheat has been noncompetitive on the world market to all but a few markets, and our exports have suffered as a result. Wheat basis remains weak even as the start of corn harvest draw closer. Wheat

basis will recover in time, but not before the corn combines roll.

A Train Wreck Ahead?

Western farmers called their Congressional representatives and senators to complain about the record cheap wheat basis, but worse

may lie ahead. These three states will harvest nearly 3 billion bushels of corn, sorghum, and soybeans this fall and swamp the remaining space. Wheat prices have climbed enough that it will be uneconomical to feed the low-quality wheat in this region unless wheat basis falls even further. Corn basis could fall hard as harvest overruns farm bins and eventually commercial space, although strong exports and good feeding margins may help somewhat. Strong export demand for soybeans and razor-thin carryover stocks should keep soybean basis from suffering as bad a fate this fall as wheat. There will be a big fall PNW soybean export

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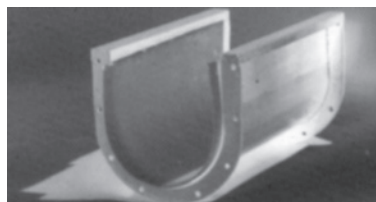
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■ **Western farmers have called their Congressional representatives and senators to complain about the record cheap wheat basis, but worse may lie ahead.** ■

program to China that will pull millions of bushels from the Western Corn Belt/Plains. But bigger overall crops and tight space will force corn and sorghum basis low enough to justify putting corn on the ground, to pay gut-slot freight premiums, or to discount the grain to someone else who can hold it. Table 1 shows potential surplus or deficit () space in both the Western and Northern Plains; the numbers are actually slightly worse than shown as oats and barley are not reflected in these 'demand for space' calculations. All numbers in millions of bushels. The crop years were selected just to show the trend over time.

Further north, spring wheat basis in the Northern Plains is falling hard

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Table 1:

Impact on Harvest volume: Stocks + Production minus est Space (M. bu.)

Year	KS	NE	OK	W. Plains
1994	150	60	150	60
2002	420	210	175	805
2008	(10)	(90)	70	(30)
2009	(200)	(250)	160	(290)
2010	(225)	(220)	120	(325)

Year	MN	ND	SD	N. Plains
1994	410	410	80	900
2002	120	455	180	755
2008	125	240	(110)	255
2009	125	240	(190)	175
2010	125	230	(80)	195

C/B/W/Sorghum; uses 1/2010 USDA storage statistics
2010 crop production is 'best estimates'

as well; durum and spring acres are up 5%, about 800,000 higher this year. The terminals at Duluth/Superior and Savage, Minnesota hold nearly 26 million bushels of carryover spring wheat, taking up 20+% of all the delivery space in those markets before spring wheat harvest even begins in the Northern Plains! Corn and soybean production in these states will be about as big as last year and space will be a problem here as well.

The Corn Belt will also have logistics issues, from Iowa to Indiana, but that region has long experience managing deficit space. The Western and Plains states will be the area where shock and awe may be the reaction of many farmers and managers as elevators fill and reality sets in.

Taking care of business

Building new space is a lagging response, but it's underway. (USDA storage statistics don't yet reflect the additional space that Plains farmers and elevators have added this year.) This will alleviate some of the crunch but there will still be widespread problems.

Managers may be able to lease some farm-bins before everything fills. Consider forward-selling harvest basis against grain already purchased to reduce basis exposure. Transportation costs also reflect the growing concerns. October BN shuttles, for example, were quoted in mid-July at \$400 per car, compared to \$225 in 2009. November shuttles were recently quoted \$313, about the same as last year. Begin locking in freight where possible. Review storage and Delayed Price rates. Rates that are 'below market' put you at risk of having your space filled with low-revenue stored

grain and force you to miss the potential to fill with better-paying basis ownership.

There is more CRP acreage that may come back 'on the market' in the years ahead, yields will trend higher, and the global demand for grains and oilseeds will continue to climb. US crops will rise with that demand and the Plains will see their share of ever-bigger crops. Demand for working-capital and credit will rise with the crops. Revenue will have to rise to justify the construction of even more bins, legs, dryers and load-out capacity to handle this grain. Will your firm be ready?

Bumper crops that overrun elevators bring a lot of frustrations and challenges, but it sure beats listening to the wind whistle through that empty space again... ■

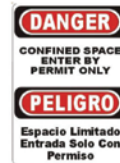
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