Row Crop Market Outlook for 2018

Panhandle Row Crop Short Course

Marianna, FL

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Changes to Cotton Policy

Seed cotton is now a covered commodity

- Title I of the 2014 farm bill
- Eligible for PLC and ARC payments
- Unginned upland cotton (lint & seed)

Generic Base will no longer exist beginning in the 2018 crop year

Option 1 - Reallocate Generic Base

Convert to Seed Cotton Base equal to the higher of

- 80% of the Generic Base
- or
- The average cotton acres planted during 2009 – 2012 (not to exceed total generic base acres)

Any remaining Generic Base acres would become **Unassigned Base** and **ineligible** for ARC/PLC

Option 2 - Reallocate Generic Base

Convert **proportionately** to Seed Cotton Base and Bases of other covered commodities according to 2009-2012 planting history

- 100% of the Generic Base would be reallocated and none would be designated as Unassigned Base

If you choose to do nothing, Option 1 will be assumed

Agriculture Risk Coverage – ARC-Co

BENCHMARK County Revenue =
5-Yr Olympic Average Yield Per Planted Acre
X
5-Yr Olympic Average Market Price

ARC Guarantee = 86% x Benchmark County Revenue

ACTUAL County Revenue =
Actual County Yield Per Planted Acre
X
Higher of Avg Market Price or Loan Rate

ARC Payment* = ARC Guarantee - Actual County Revenue
***Or 10% of Benchmark Revenue, whichever is less**

Seed Cotton PLC Payments

PLC Payment Rate = Reference Price - Higher of MYA Price or Loan Rate

Total Seed Cotton PLC Payment

= PLC Payment Rate Per Pound of Seed Cotton

× Seed Cotton Payment Yield

× 85% of Total Seed Cotton Base Acres

Seed Cotton Payment Yield

For farms with Generic Base and cotton countercyclical payment yields established under the 2008 farm bill

Seed Cotton payment yield will be 2.4 times countercyclical payment yield

Landowners have a one time opportunity to update payment yield

- To 90% of the average upland cotton yields for 2008 – 2012

Seed Cotton Reference Price

PLC Reference Price	$0.367/lb, which means payment will be made if seed cotton weighted market year average (MYA) price < $0.367/lb.
MYA Loan Rate	$0.25/lb, which means if the MYA is less than 25 cents, 25 cents is used.

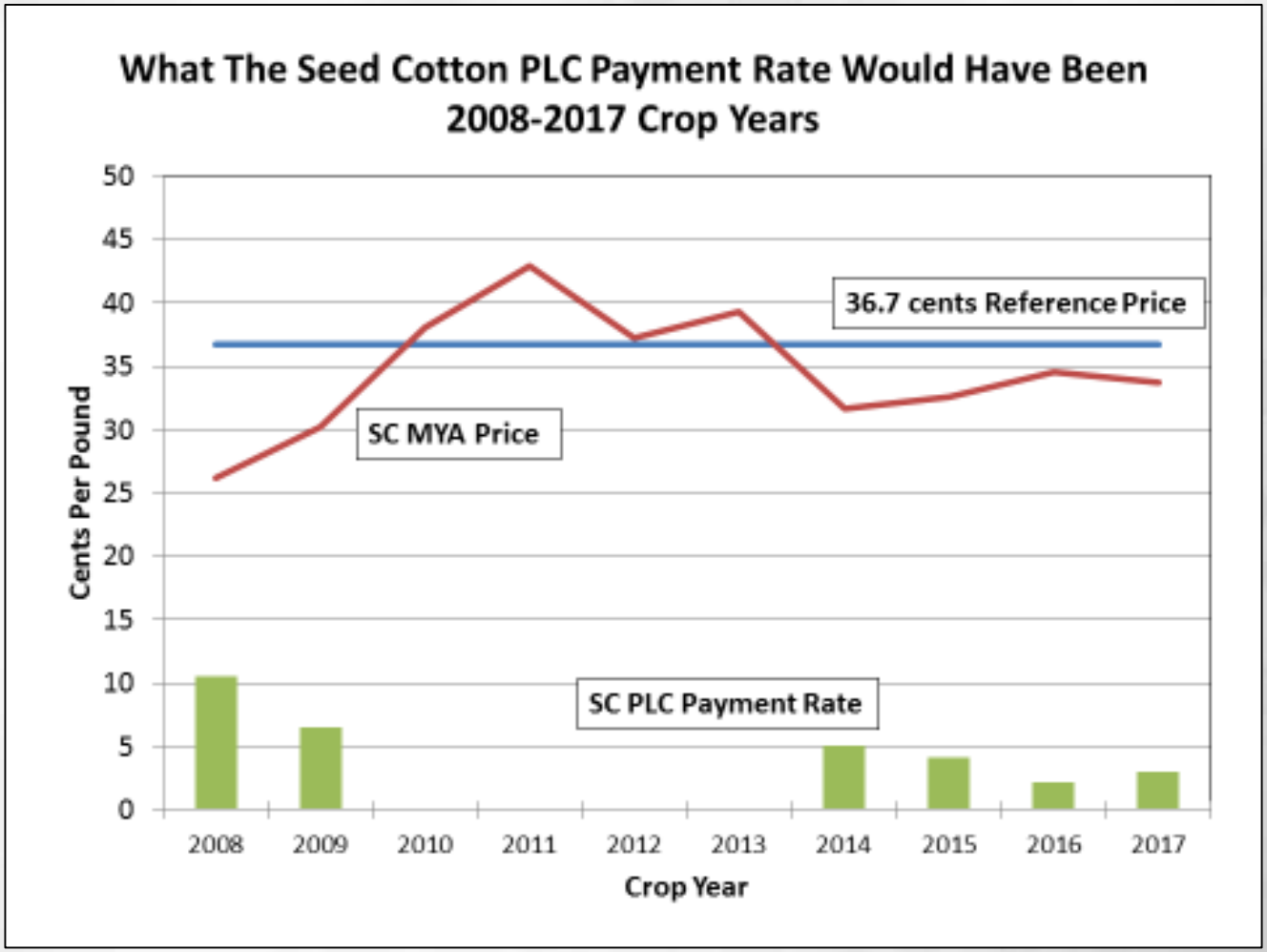
This effectively caps the PLC payment rate at 11.7 cents.

Seed Cotton MYA Price

$$\begin{aligned} &Seed\ cotton\ MYA\ Price \\ &= proportion\ of\ cotton\ lint \times cotton\ lint\ MYA\ price \\ &+ proportion\ of\ cotton\ seed \times cotton\ seed\ MYA\ price \end{aligned}$$

- Seed Cotton MYA Price
  - Impacted by both the U.S. MYA **prices** for cotton lint and seed
  - Impacted by both the U.S. **production** of cotton lint and seed

6 Out of the 10 years



Payment Limits

- The *Bipartisan Budget Act of 2018* does not mention changes to payment limits.

- Payment Limits in the 2014 Farm Bill:
  - Payments for all "covered commodities" under Title I for any crop year are limited to $125,000
    - Seed cotton is now a "Covered Commodity"
  - There is a separate payment limit of $125,000 for peanuts

Implications for STAX

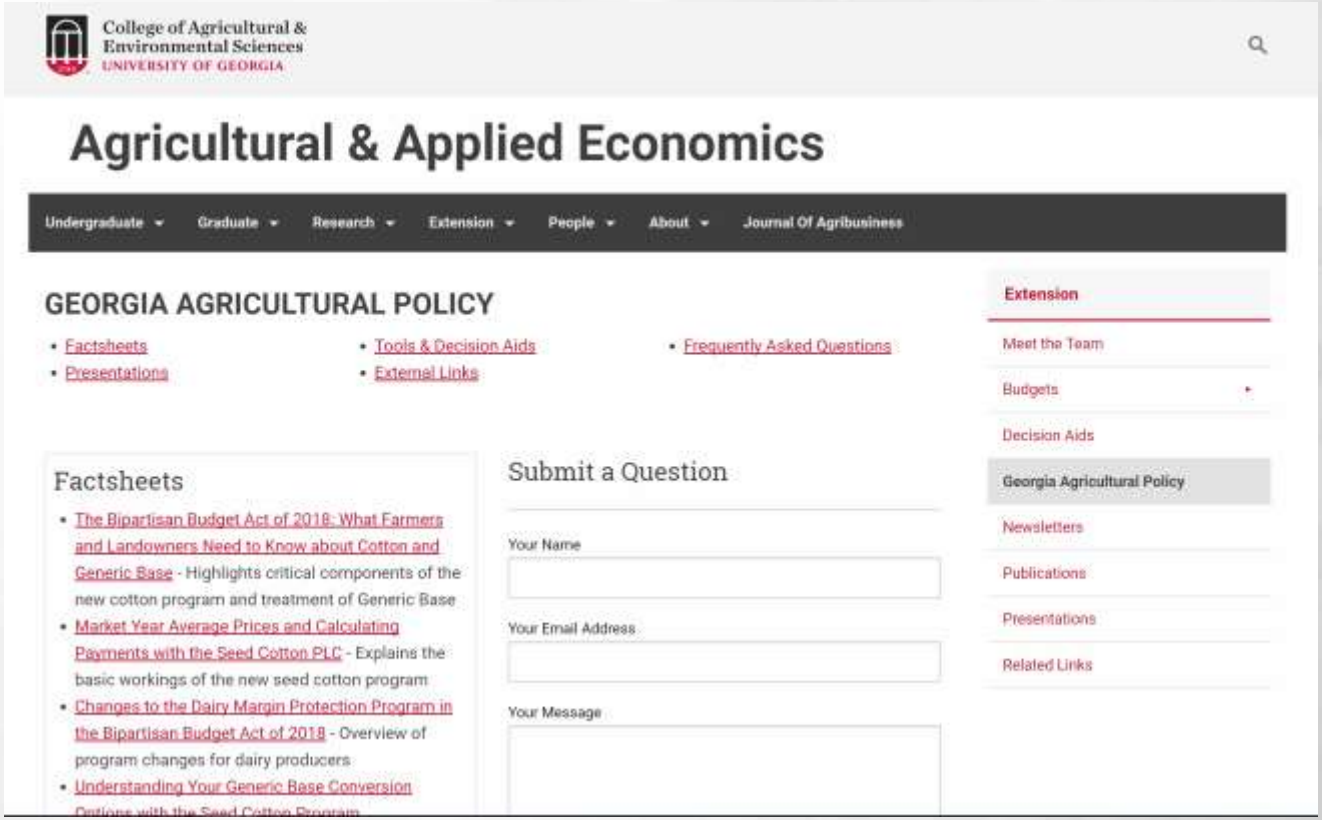
Beginning with the 2019 crop year, those who participate in PLC/ARC will be ineligible for STAX.

What does this change mean?

- Elimination of generic base means planted acres are fully decoupled from Title 1 commodity program.
- Growers need to plant for the market!
  - What are expected peanut prices?
  - What are expected prices of alternatives?
- **It is more important than ever for growers to know their cost of production!**

More Policy Information

http://agecon.uga.edu/extension/policy.html



Farm Bill Update

- 2014 Farm Bill expires in 2018
- We have already seen changes to cotton and dairy.
- No more generic base
- What's next?
  - 2018/2019?
  - New Formula for ARC? Reference Price?
  - Nutrition programs?

Cotton

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	2014	2015	2016	2017 Jan	Change 16-17
		Planted and Harvested Acres & Yield			
Planted (Million Acres)	11.04	8.58	10.07	12.61	2.54
Harvested (Million Acres)	9.35	8.07	9.51	11.35	1.84
U.S. Yield (lbs/acre)	838	766	867	899	32
			Supply (Million Bales)		
Beg. Stocks	2.35	3.65	3.8	2.75	-1.05
Production	16.32	12.89	17.17	21.26	4.09
Total Supply	18.68	16.57	20.98	24.02	3.04
			Use & Ending Stocks (Million Bales)		
Domestic	3.58	3.45	3.25	3.35	0.1
Exports	**11.25**	**9.15**	**14.92**	**14.8**	**-0.12**
Total Use	14.82	12.6	18.17	18.15	-0.02
U.S. Ending Stocks	**3.65**	**3.8**	**2.75**	**5.7**	**2.95**
Foreign Stocks	108.09	91.55	84.89	82.09	-2.8
Chinese Stocks	66.92	58.2	48.42	39.77	-8.65
			Price and Stocks to Use Ratio		
U.S. Avg. Price ($/lb)	$0.613	$0.612	$0.68	$0.67-$0.71	$0.010
U.S. Stocks/Use	25%	30%	15%	31%	16.27%
Chinese Stocks/Use	197%	166%	129%	99%	-29.70%

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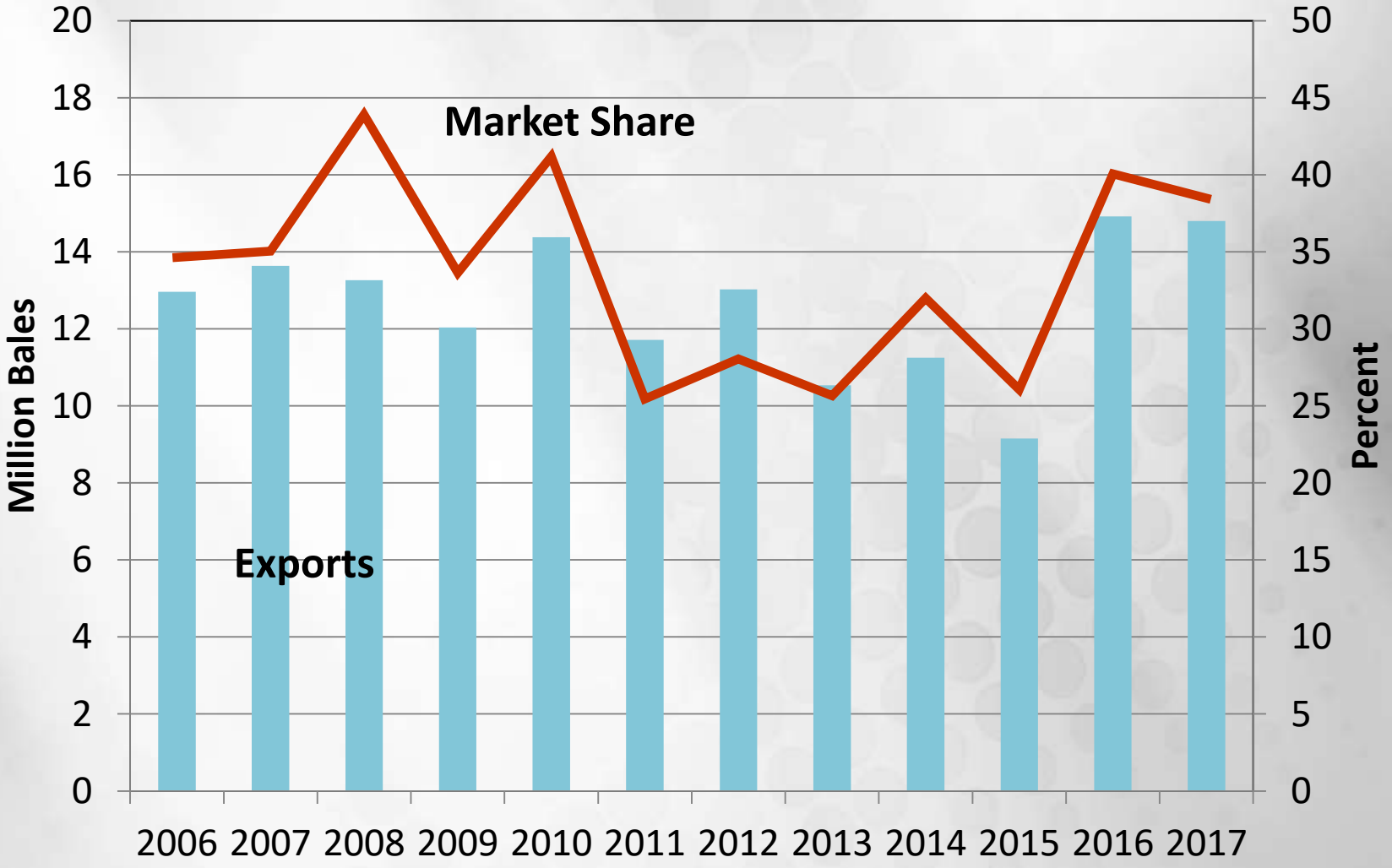
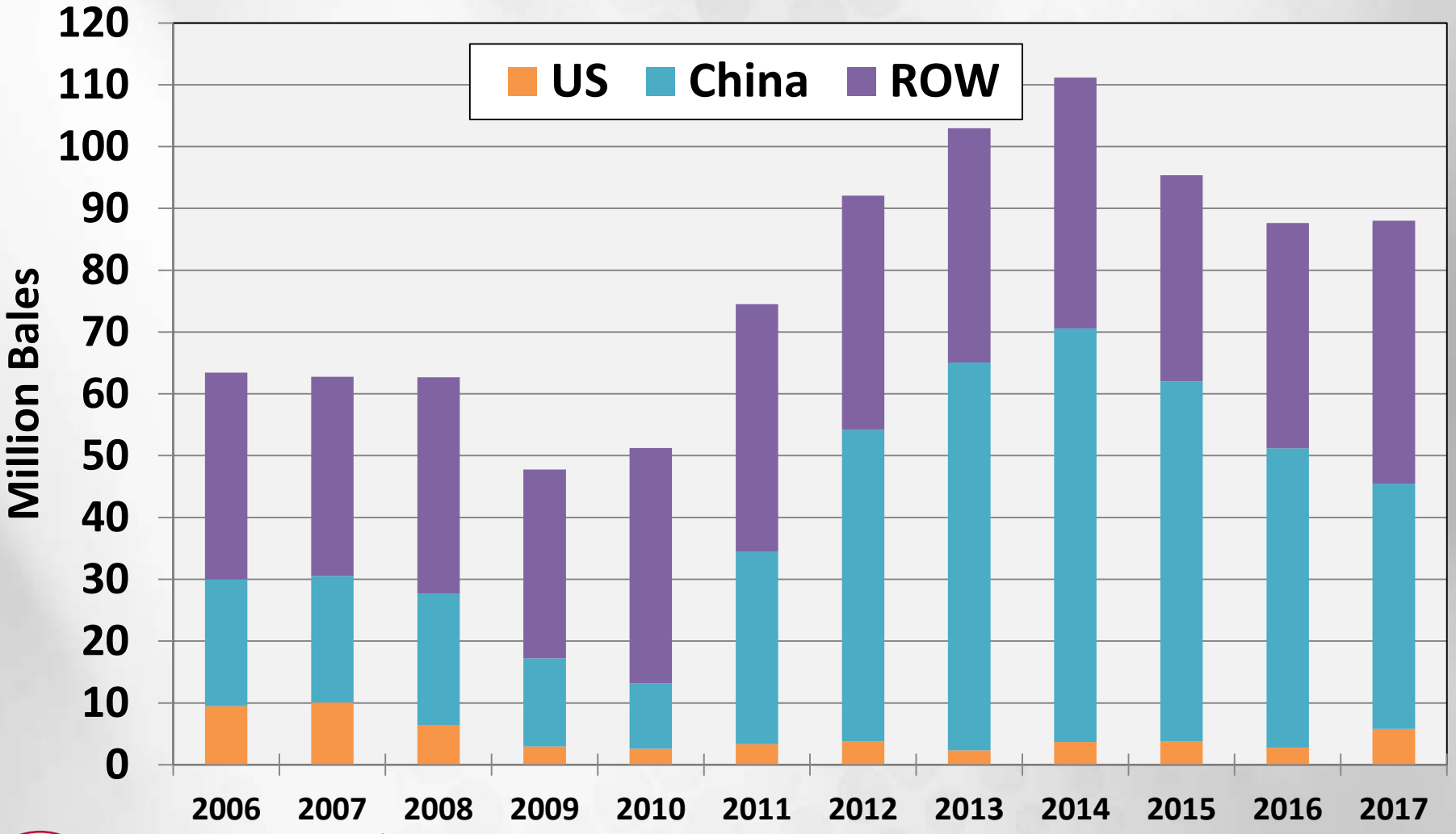
Source: USDA WASDE

US Cotton Exports and Market Share (% of World Exports)



Data from USDA FAS

Ending Stocks– China, US, and Rest of the World



Data from USDA FAS

Cotton Futures (Dec 2018)

Cotton Takeaways

United States

- Production increase
  - Higher Acreage
  - Higher yields
- Exports strong
  - Weaken U.S. dollar
- Ending Stock increase

➢ Pressure on increase Interest Rate

Worldwide

- Production increase
  - Higher Acreage
- Consumption increase
- Ending stock decrease
  - Decrease ending stock in China

➢ Slow economic growth

Peanuts

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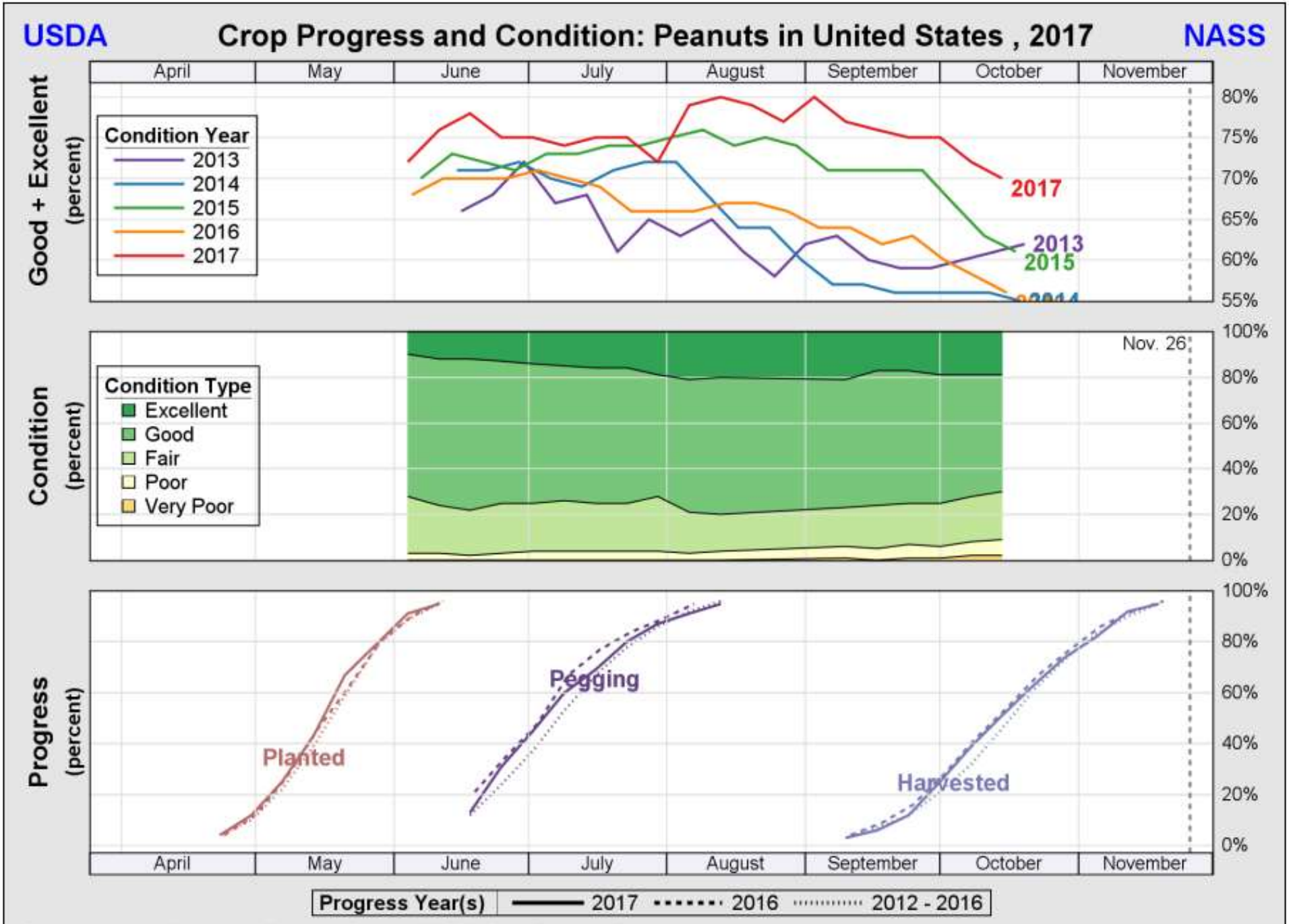
Peanut Acreage*

State	2013	2014	2015	2016	2017**	2017 FSA Acreage
	1,000 acres					
AL	140	175	200	175	195	191.6
AR	-	10.5	16.3	24	30	29.1
FL	140	175	190	155	195	184.9
GA	430	600	785	720	840	827.6
MS	34	32	44	39	44	42.2
SE	**744**	**982**	**1,219**	**1,113**	**1,304**	**1,277**
NM	7	5	5	8	9	8.4
OK	17	12	10	13	21	18.8
TX	120	130	170	305	275	237.8
SW	**144**	**147**	**185**	**326**	**305**	**265**
NC	82	94	90	101	120	115
SC	81	112	112	110	125	119.8
VA	16	19	19	21	27	26.3
VC	**179**	**225**	**221**	**232**	**272**	**261**
US	**1,067**	**1,354**	**1,625**	**1,671**	**1,881**	**1,808**

Source: *USDA NASS Crop Production Reports



Source: National Agricultural Statistics Service (NASS), Crop Progress Report

Peanut Yields

State	2016 Actual (lbs)	2017 Actual (lbs)	Percent Change	Record Yield
AL	3,600	3,650	1.4%	4,000 (‘12)
FL	3,900	3,550	-9.0%	4,000 (‘14)
GA	3,940	4,380	11.2%	4,580 (‘12)
MS	4,100	4,100	0.0%	4,400 (‘12)
NC	3,450	4,100	18.8%	4,320 (‘14)
OK	3,800	3,700	-2.6%	4,000 (‘14)
SC	3,300	4,000	21.2%	3,900 (‘12)
TX	2,800	3,600	28.6%	3,750 (‘05)
VA	3,700	4,550	23.0%	4,450 (‘14)
AR&NM	4,284	4,768	11.3%	4,284 (‘16)
Total	3,675	4,074	10.9%	4,211 (‘12)

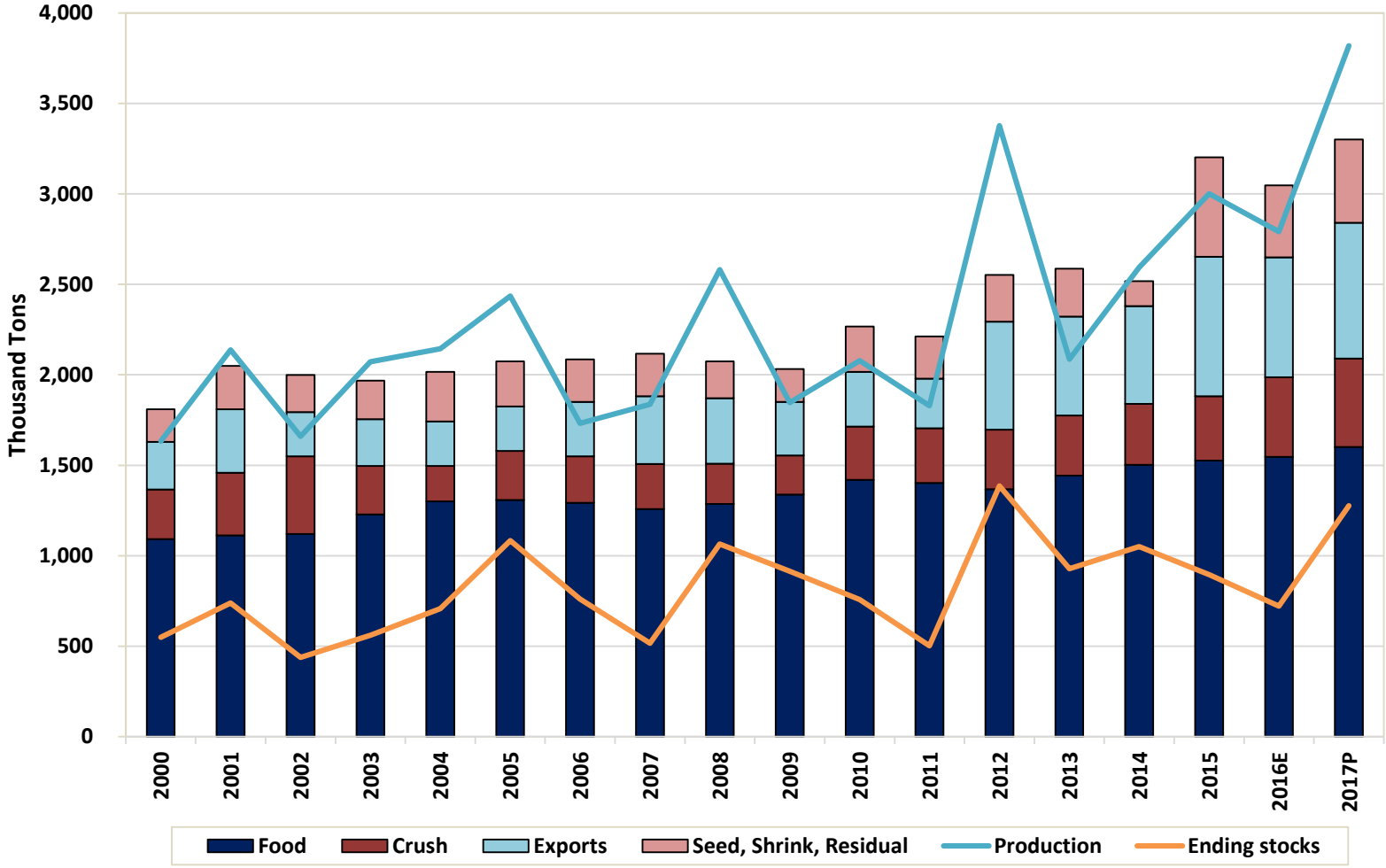
Data Source: USDA-NASS

Peanut Production

State	2016 Actual (tons)	2017 Actual (tons)	Percent Change
AL	311,400	352,225	13.1%
FL	286,650	330,150	15.2%
GA	1,396,730	1,806,750	29.4%
MS	77,900	88,150	13.2%
NC	170,775	239,850	40.5%
OK	24,700	37,000	49.8%
SC	174,900	236,000	34.9%
TX	294,000	378,000	28.6%
VA	38,850	61,425	58.1%
AR&NM	66,400	87,250	31.4%
Total	2,842,305	3,616,800	27.3%

Data Source: USDA-NASS

U.S. PEANUT:
PRODUCTION AND DISAPPEARANCE

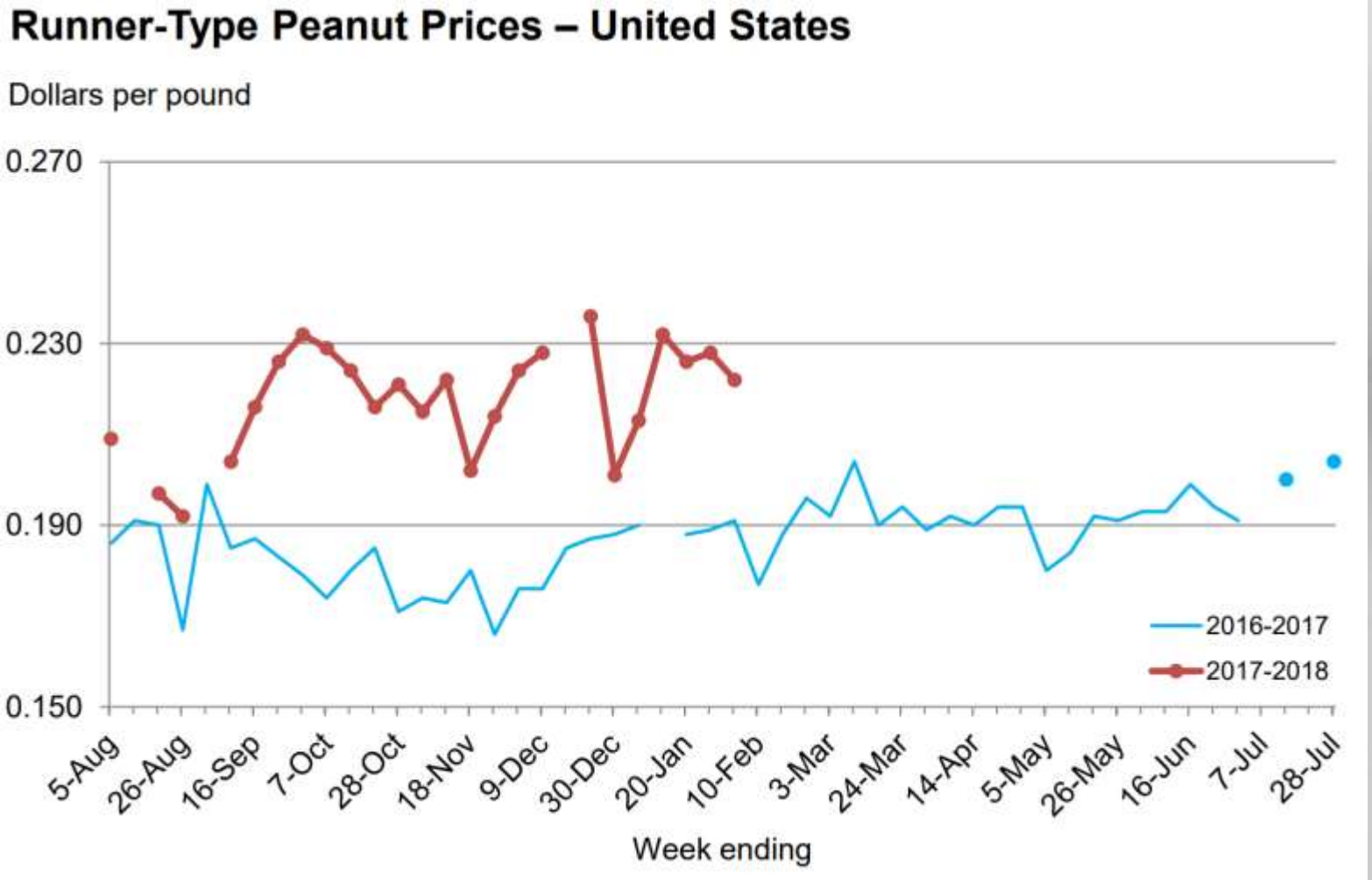


Data Source: USDA-ERS

Monthly Peanut Prices: 2016-2017

$460/ton

$380/ton



Data Source: USDA-NASS

2018 Peanut Outlook

- Planting expectations less than 2017 but greater than 700K acres likely
  - Other crop prices
  - Government safety net programs
  - Rotation
- Demand pace continues to be strong
- Record carryover stocks will keep price down
- Exports to Asia, Chinese interest to return with lower prices? Trade Agreements?

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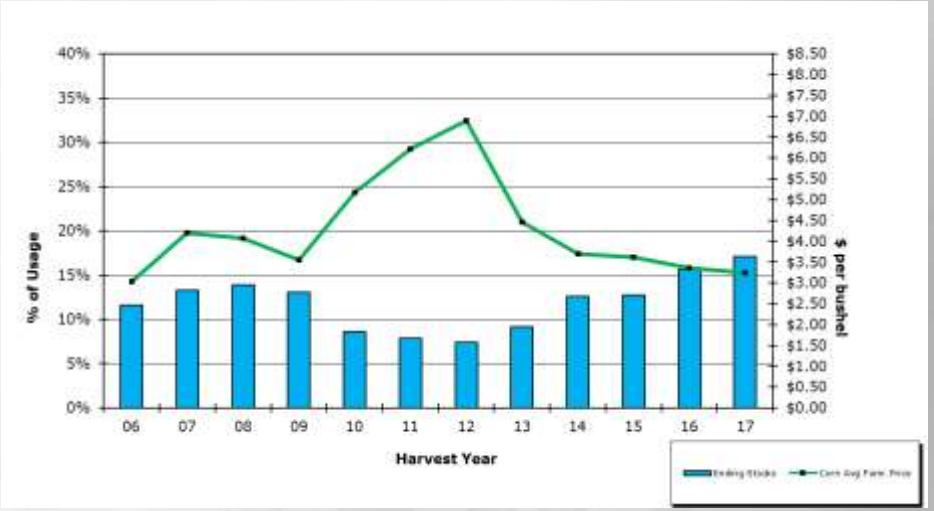
U.S. Corn and Soybean Acres and Yield

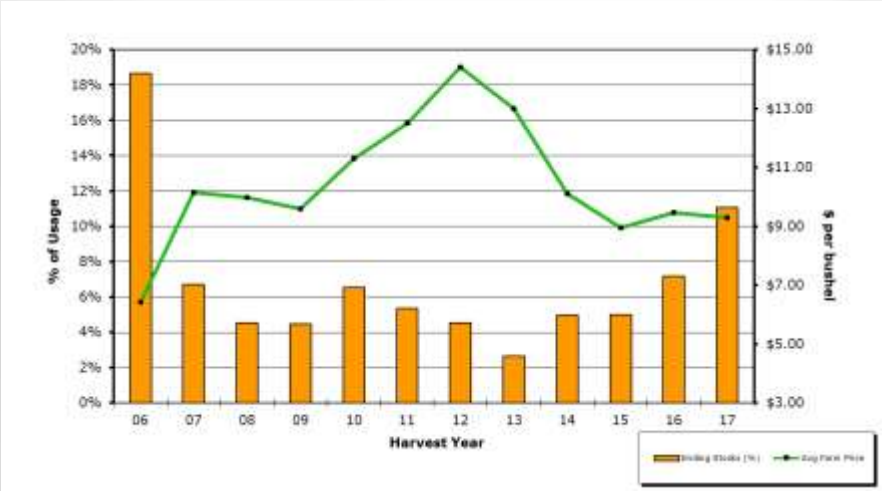
- Soybean acres have been increasing but not in the southeast.
- Soybean acres are surpassing corn acres for the first time in U.S. history, but not in the southeast
- Yields have been setting records and so production is at least 2nd highest on record.

Prices vs Ending Stocks

Corn



Soybean



Data Source: USDA-NASS

2018 Harvest Futures

Corn Futures

Soybeans Futures

Data Source: www.barchart.com

Corn and Soybean Outlook Summary

US soybean acres are projected to increase and US corn acres are projected to decrease in 2018 due to the higher soybean prices relative to corn prices.

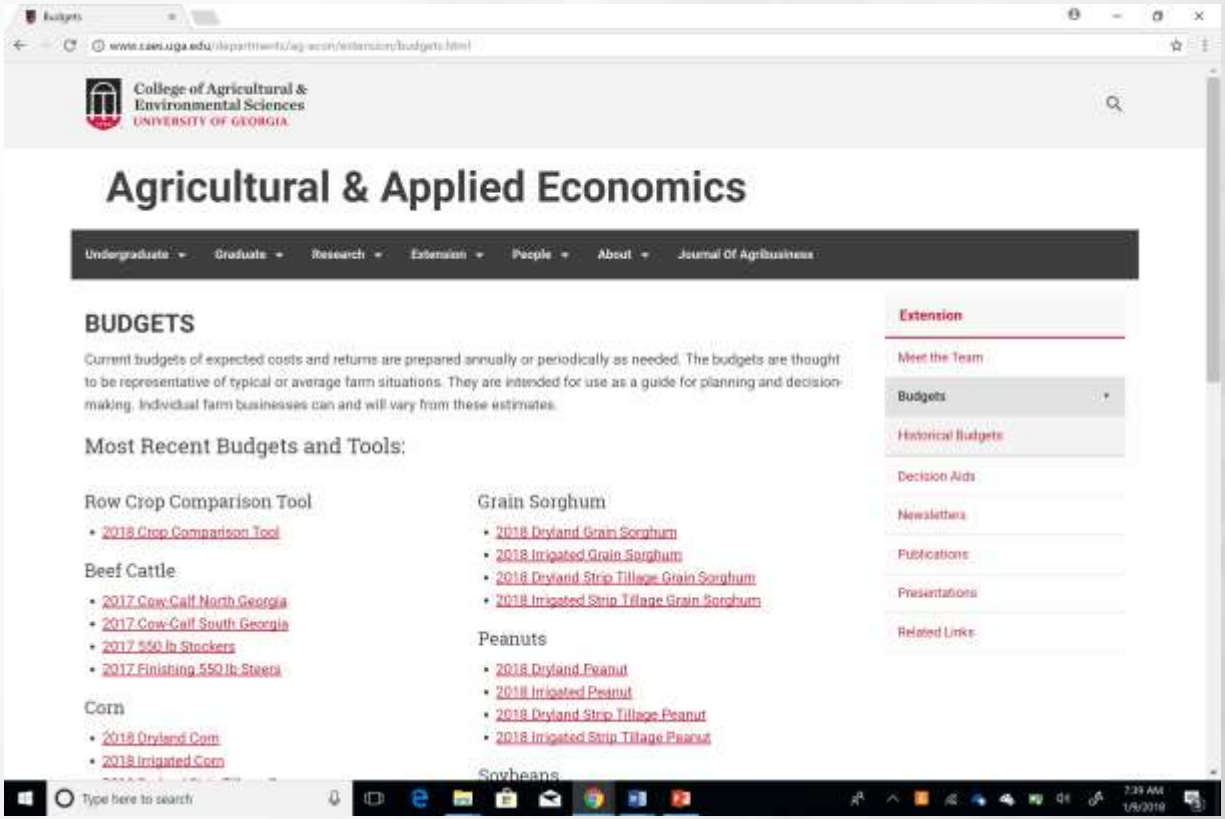
Demand is strong for both corn and soybeans but stocks are large.

Whether strong exports continue is going to be a big question and will depend on how well the South American crop fairs from weather and trade relations.

Inputs and Crop Comparisons

2018 Enterprise Budgets

- Updated row crop budgets and the crop comparison tool are available at: http://agecon.uga.edu/extension/budgets.html



Row Crop Comparison Tool

Comparison of 2018 Estimated Net Returns, Georgia, Irrigated					
	Corn	Cotton	Grn Sorgh	Peanuts	Soybeans
Expected Yield	200	1,200	100	4,700	60
Expected Average Price[1]	$4.15	$0.72	$3.85	$400	$9.50
Crop Income	$830	$864	$385	$940	$570
Variable Costs[2]	$588	$573	$322	$670	$274
Net Return Per Acre Above VC	$242	$291	$63	$270	$296
Net Return per Acre Above VC with $200/ac Irr Land Rent	$42	$91	($137)	$70	$96
1/ Expected average price. Cotton includes LDP and quality premium.					
2/ Assumes Jan 2018 costs, Crop Comparison Tool, Department of Agricultural and Applied Economics, UGA					

Row Crop Comparison Tool

Comparison of 2018 Estimated Net Returns, Georgia, Non-Irrigated					
	Corn	Cotton	Grn Sorgh	Peanuts	Soybeans
Expected Yield	85	750	65	3,400	30
Expected Average Price[1]	$4.15	$0.72	$3.85	$400	$9.50
Crop Income	$353	$540	$250	$680	$285
Variable Costs[2]	$305	$454	$215	$580	$211
Net Return Per Acre Above VC	$48	$86	$35	$100	$74
Net Return Per Acre Above VC + $65 Land Rent	($17)	$21	($30)	$35	$9

1/ Expected average price. Cotton includes LDP and quality premium.

2/ Assumes Jan 2018 costs, Crop Comparison Tool, Department of Agricultural and Applied Economics, University of Georgia

Strategies for survival

- Short-term
  - Budgeting, planning and examining input costs
  - Develop a risk management plan
  - Create a marketing plan
- Long-term
  - Build working capital
  - Diversification
  - Capital expenditure planning
  - Land rental agreements

Thank You

CAELA

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