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Letter from the Managing Editor

Dear Ag Industry Associate,

As we move further into the growing season, keen attention is being focused on the development of this year's corn and soybean crops. Following a 60-year drought a couple years ago, it is understandable that crop and livestock producers alike have grown more sensitive to the production outlook of these crops. This is particularly true in the case of soybeans where continued tightness in the market has yet to be alleviated.

Production risk is something that all producers have to deal with and can have a significant impact on profitability. Hog producers are closely following PEDv accessions and how this may impact the pig supply and pork production in the months ahead. In this issue, we address the topic of production risk and margin management.

Another topic we explore is whether or not there is a best time to begin a margin management program. Also in this edition, Margin Manager contributor Mike Liautaud addresses the question of whether or not in the long run a producer may simply be better off not proactively managing forward margins, but rather riding the open market.

Given some of the issues that are affecting current margins in these industries and the uncertainty that surrounds how margins will change as we move forward in time, it is our hope that these articles will help answer questions and provide insight into common themes that cross these various markets.

Sincerely,

Chip Whalen
Managing Editor
V.P. Of Education & Research
CIH

Managing Editor, Chip Whalen is the Vice President of Education and Research for CIH, a leader in Margin Management. Over the past 15 years, Mr. Whalen has lectured extensively throughout the country, introducing agricultural lenders, producers and industry associates to the margin approach to risk management. He has also written articles for many leading agricultural publications.

Futures and options trading involves the risk of loss.

Written by Chip Whalen, Managing Editor

Production Risk and Margin Management

Of the many risks producers face in their operation, production risk is certainly a big one that merits attention given what has occurred recently. Hog producers are facing this issue head on right now with the spread of porcine epidemic diarrhea virus or PEDv, and crop producers felt this acutely during the drought of 2012. When crafting a marketing plan, production risk is something that must be taken into consideration given the impact it can have on marketable supplies and ultimately the bottom line profitability of the operation. A crop producer may not feel comfortable for example marketing too much of their crop ahead of pollination or even harvest due to the uncertainty surrounding their yields and final production levels. A hog producer likewise may not want to think about pricing their pigs until they have been weaned and thus past the highest mortality risk period for PEDv.

Given what both industries have gone through over the past few years, this is certainly understandable and may very well be prudent risk management depending on the type of marketing a producer is doing. If for example a crop producer normally establishes forward contracts or hedge-to-arrive agreements with the elevator ahead of harvest, production losses associated with drought can create the risk that the producer will need to buy out of their contractual obligation with the elevator. The loss of doing so against bushels that ultimately are not produced then must be spread across the remaining bushels that are available to market, reducing the overall return on the crop. This can have a detrimental financial impact on the operation depending on

> ***If the strategy is to do nothing until I have greater visibility in my forward production, I may very well miss opportunities to protect favorable margins being projected by the market.***

market conditions. In a similar way, a hog producer that has contracted deliveries with their packer may find that they do not have the pig supplies available to meet these contractual commitments, and have to buy them on the open market to make up the difference. This also can have a negative impact on the hog producer's returns.

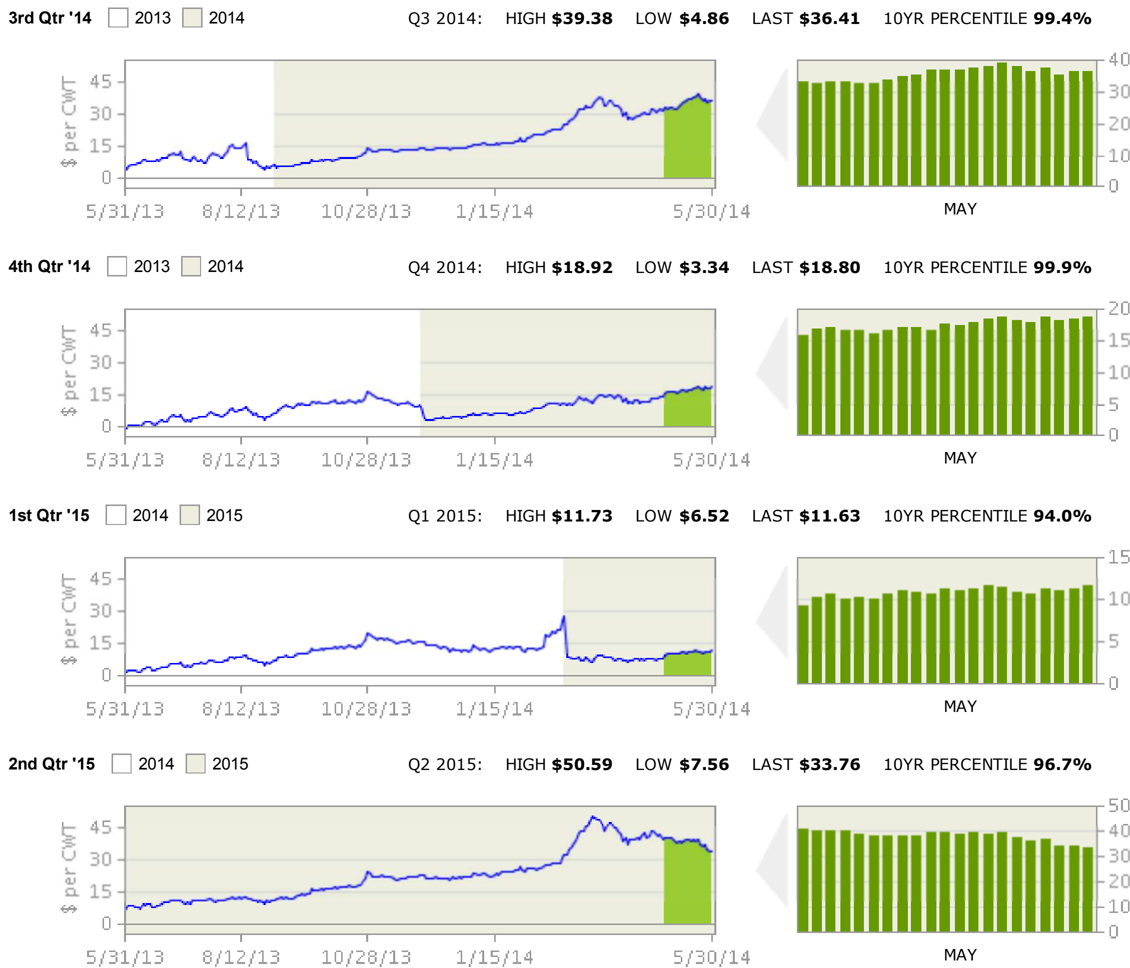
While the risk associated with production loss is very real and must be carefully considered in any marketing plan, it remains the case that very strong profit margin opportunities may present themselves well ahead of when a producer can be sure of their production outlook. Given this knowledge, what should a producer do? A conservative choice might be to wait for greater production certainty before any margin management plan is implemented, but what if the profit margin outlook deteriorates before that marketing supply is known? If the strategy is to do nothing until I have greater visibility in my forward production, I may very well miss opportunities to protect favorable margins being projected by the market. What if there was a way to address both the forward production uncertainty and profit margin opportunity together in a thoughtful plan?

Perhaps it is possible to define a production risk scenario and build that into my margin management plan. As an

Continued on Page 4

Hog Margin Watch: May

Margins have been mixed since the middle of May, declining in spot Q2 following the drop in nearby hog futures while generally steady in deferred periods. From a historical perspective, hog margins remain exceptionally strong through the first half of 2015 as expectations for a big recovery in feed supplies with large crops this season combine with continued uncertainties in the forward supply of hogs and pork production. Nearby hog futures have dropped steadily through the month as cash prices remain weak. The CME lean hog index continues to trade at a discount to spot June futures, although the gap has narrowed significantly in the past week. While pork production has been declining seasonally, total pork production has been maintained at fairly high levels due to the heavy weights at which pigs are being marketed. Despite hog slaughter numbers down 4.8% from last year, hog weights are up 5.85% year-to-date so that total pork production is only down 0.8%. In fact, weekly pork production figures for May have hit records in some weeks. Feed costs meanwhile continue to stay in check as beneficial weather has allowed planting progress to catch up, with expectations of strong crop condition ratings to be revealed in the first report of the season this week. Corn futures have dropped more than 50 cents/bushel this month while soybean meal prices have managed to maintain lofty levels in both old and new-crop contracts. Our clients continue to scale into coverage as far out as Q3 of 2015 given the historically strong margins while also taking advantage of opportunities to make strategic adjustments on existing positions. Strengthening corn hedges in particular has been a recent focus ahead of the critical pollination period in the growing season.



The Hog Margin calculation assumes that 73 lbs of soybean meal and 4.87 bushels of corn are required to produce 100 lean hog lbs. Additional assumed costs include $40 per cwt for other feed and non-feed expenses.

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Exploring the margin management approach

Written by Chip Whalen, Managing Editor

Production Risk and Margin Management
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example, a corn producer might look back at their actual production history to determine both an average historical yield as well as a variance around that yield. They might determine based on that history that in a bad drought year, such as in 2012 for instance, it is possible to lose 30% of their yield potential from the trendline average. Knowing this fact, they might want to incorporate that into their marketing plan to protect a forward profit margin opportunity. In determining the various types of contracting alternatives they could consider, the plan might stipulate that no more than 70% should be contracted in a manner that would require physical delivery of those bushels or place a fixed sale commitment against them. This doesn't necessarily mean however that the operation has to assume risk on the other 30% of their production. Another contracting alternative would be to set a floor for example on this portion of the expected production so that a profit margin opportunity could be preserved should the bushels be available to market.

A hog producer likewise may discover a forward profit margin opportunity in a deferred period that is historically attractive against pigs that have not even been born yet. Faced with the uncertainty that one or more of their sow units could break with PEDv, the operation is faced with production risk over the eventual supply of hogs that will be available to market. The producer might consider that given current information on the disease, it is possible to lose 10% of their expected production due to the fact that systems that have reported outbreaks are discovering losses of around 2.7 pigs per sow per year. Not knowing if their farm may get hit with PEDv or how much potential loss they might suffer if it does, the producer could incorporate this into their margin management plan also. They might stipulate for example that no more than 80%-90% of their expected hog production should be contracted in such a manner that would either require physical delivery of the pigs in the cash market or set a firm sale price on the animals. This still leaves the operation open to set a floor or range of protection against lower prices to help secure or protect the profit margin opportunity should that production eventually be realized.

A hog producer likewise may discover a forward profit margin opportunity in a deferred period that is historically attractive against pigs that have not even been born yet.

The main point is that production risk should not be a factor limiting whether or not protection is taken to protect a forward profit margin opportunity; rather, it should help direct how that opportunity should be protected. Fortunately, there are various contracting alternatives using option strategies that allow for greater flexibility to protect a price level. These can be incorporated into a thoughtful margin management plan that helps protect the operation from the dual risk of production loss and profit loss in forward time periods.

Written by Michael Liautaud, Editor

Would I be Better Off Doing Nothing?

In discussing margin management and proactively hedging forward opportunities, some questions that get asked a lot are: "is there really any long-term advantage to doing this" and "wouldn't I be better off doing nothing at all?" Perhaps some of this stems from concern that hedges may lose money, result in margin calls, and the effort and capital necessary to devote to the process just isn't worth it in the long run. Moreover, there are many stories out there about bad experiences using the futures market and this likely scares people into thinking they are actually taking on more risk to their operation by trying to hedge forward margins. While an introduction to hedging with the futures market and an overview of proper hedging mechanics are probably best left for a different article, the main question is pretty straightforward to address.

On Page six you'll find 2 sets of graphs showing profit margins for both the dairy and hog industries. Each of them is looking at a rolling average of 4 calendar quarters worth of profit margins at a given time within a long-term historical context. Given that we are currently in Q2 of 2014, the last observation would be averaging the profit margin in spot Q2 with the margins of Q3, Q4, and 2015 Q1. This allows us to see where a group of margins average out looking forward a year in time at any given point, and compare that value against a long-term historical average. Two things should be immediately clear when analyzing the graphs. First, current values for both dairy and hog margins are well above the long-term historical average when considering the opportunity looking out over the next year. Second, with the exception of only a few years within this history, the 4-quarter rolling margin was above the long-term average at some point in almost every year.

Continued on Page 7

"Good people with great ideas about true risk management. I have been to the Hog Margin Seminar and I recommend it."

Hog Farmer, Nathan Smith
Kansas Smith Farms

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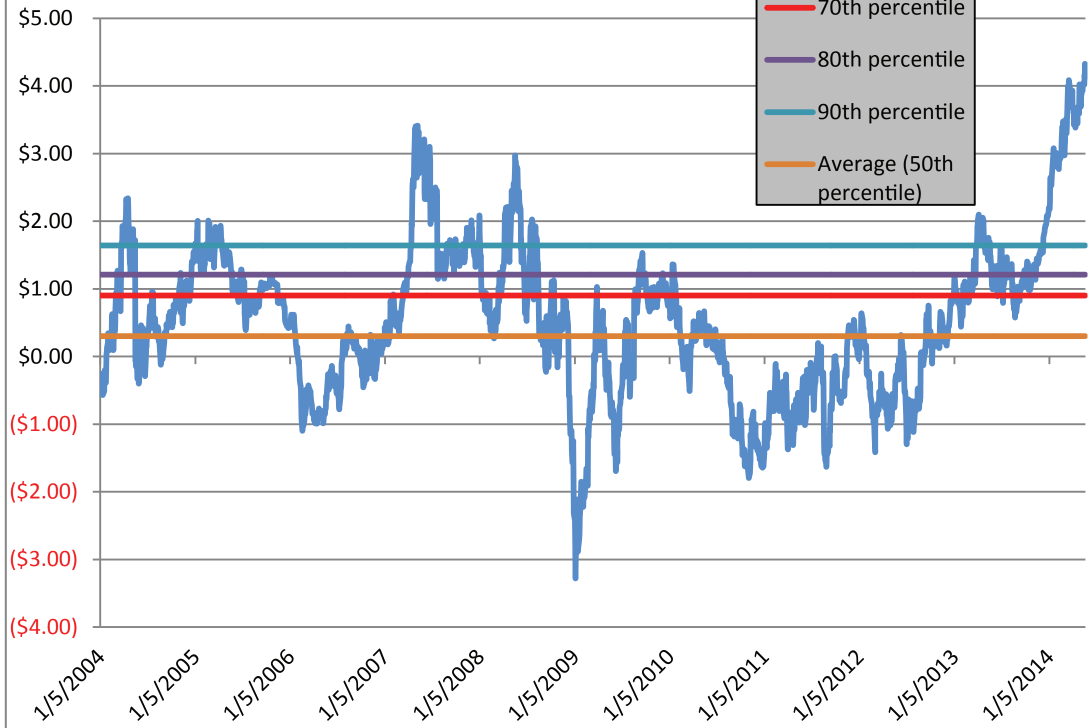
Typical Idaho Dairy Open Market Margin

Rolling 4-Quarter Average

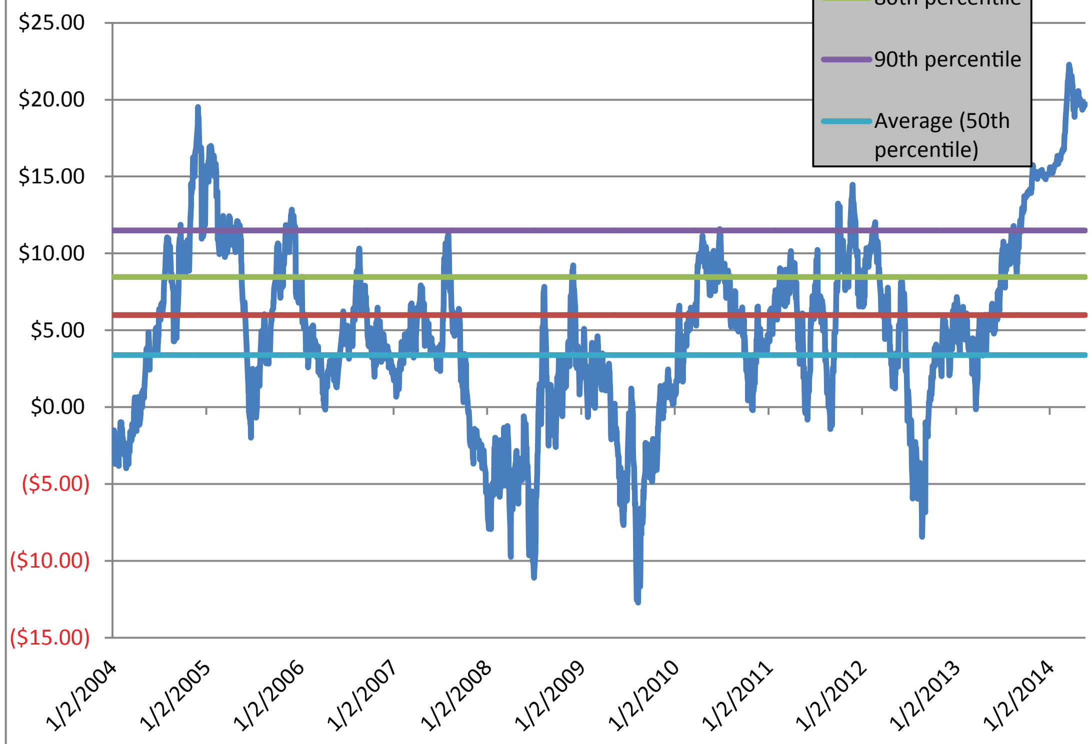
2004 - present



Typical IA/So. MN Hog Open Market Margin

Rolling 4-Quarter Average

2004- present



Q&A Answering questions about margin management

Written by Michael Liautaud, Editor

Continued from Page 5

Getting back to the original question, what if you actually did nothing over time? If I am either a hog or a dairy producer, this essentially means buying my feed on a hand-to-mouth basis as I need it and getting a milk or kill check from my co-op or packer regularly as I ship product in the cash market. In doing so, I basically will realize an average margin over a long-term time horizon. There will be periods such as the current year where I will make a lot of money, but there will also be times such as in 2009 when I will be losing a great deal of money. I will ultimately catch every high as well as every low, and thus achieve an average return over the long run. Many producers can likely identify with this and are familiar with the ebbs and flows of profitability in these cyclical industries. Some might even be wise in realizing they should save and build equity from the strong returns they are currently realizing to help cushion the eventual drawdown they will endure when the cycle turns the other way.

In addition to the average margin on each of the graphs, you will notice that there are a few other lines drawn in as well. These depict the 70th, 80th, and 90th percentiles of where those profit margins have been over that range of history. While there are only a few years within the history in which dairy or hog margins reached or exceeded the 90th percentile of profitability, the occurrences of margins above the 80th and especially above the 70th percentiles are much more common. As an example, hog margins attained the 70th percentile in 9 out of the past 10 years while dairy margins achieved this benchmark in 8 out of the past 10 years. If I am trying to achieve better results than doing nothing and doing nothing means receiving an average margin over a long-term time horizon, it doesn't appear very difficult based on looking at these charts to beat an average return over a long period of time.

While in any given year (such as the current one) I might be better off staying open to the market, my results will average out over a long period of time. Just as you wouldn't judge a ball player or sports team based upon a single game or series but rather over an entire season, the same thing holds true with judging the merits of hedging and proactive margin management. While it may be true that in the current year a hog or dairy producer can argue they would have been better off doing nothing, it may be more difficult to make this claim when considering that strategy over a longer time horizon. A question one might ask at this juncture is how can I manage margins successfully so that I would in fact be better off than doing nothing? This is where a carefully crafted plan comes into play.

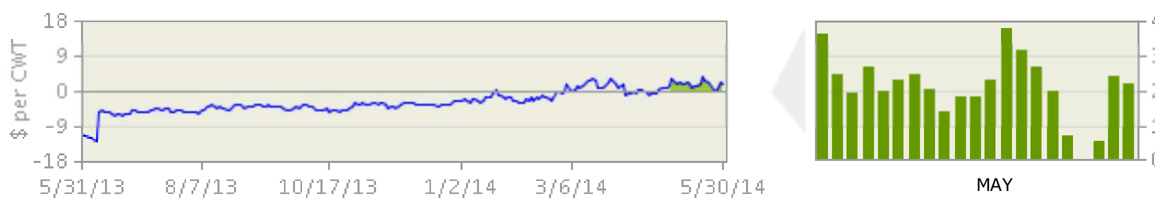
Knowing that forward margins typically achieve above-average historical percentiles in almost every single year, implementing a plan that spells out how to capture those margins when they are achieved can put you in an advantageous position to be better than average. While hedging a 70th, 80th or 90th percentile historical margin is of course no guarantee that the margin won't continue to strengthen, it does help assure you won't sustain extreme financial hardship should margins subsequently drop to very unprofitable levels. Just as a batter is much more likely to reach base by only swinging at pitches in the strike zone, by implementing hedges when returns are historically attractive, a producer is much more likely to achieve stable, attractive returns over the long run. Because some years may be more challenging, a plan should also spell out contingencies for potentially protecting breakeven levels should margins never achieve targets in which hedges would be implemented. This can help protect against losses that could be more significant without protection in place. In the end, if doing nothing means achieving an average return over the long run, a good question to ask may be "do I strive to be average?" Most producers look to excel in their production practices, incorporating improvements in technology, genetics and other factors to constantly improve upon what they are doing. Should their approach to managing the risk associated with forward profit margins be any different?

Beef Margin Watch: May

Beef margins generally strengthened since the middle of May with the exception of the spot period which was steady over the past two weeks. As has been the case for some time now, most margins in forward periods remain negative with the exception of October as continued strength in feeder cattle prices blunts the impact of rising live cattle futures. Much of the margin improvement over the past two weeks can be traced to lower corn prices which are off more than 50 cents a bushel during the month. Weather conditions have been conducive to catch up on planting progress, with USDA reporting 88% of the crop seeded through the week ending May 25. The figure is up 15% from the previous week, and right in line with the 20-year average for this point in the season. In addition, there are widespread expectations for strong condition ratings to be revealed in the first report of the season Monday afternoon. Beef production meanwhile continues to lag year-ago comparisons significantly which has helped to support cattle prices. Cow slaughter in particular is down sharply from last year, with the past 4 weeks trailing 2013 by 19% and the year-to-date total off 11% from last year. Strong dairy margins and the high cost of heifer replacements have discouraged cow culling which should keep beef supplies tight. Beef inventory in Cold Storage as of April 30 was reported at 402.3 million pounds, down 21% from last year and 10.6% below the 5-year average. Our clients continue to monitor placement opportunities for positive margins as well as evaluate adjustments on existing positions. Strengthening feed hedges continues to look attractive following the recent weakness in corn.

Live Cattle Marketing Periods:

Jun '14 2013 2014 Jun 2014: HIGH **$3.82** LOW **($12.79)** LAST **$2.22** 10YR PERCENTILE **95.7%**

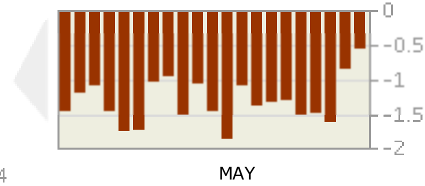


Aug '14 2013 2014 Aug 2014: HIGH **$0.68** LOW **($10.03)** LAST **($1.02)** 10YR PERCENTILE **93.2%**

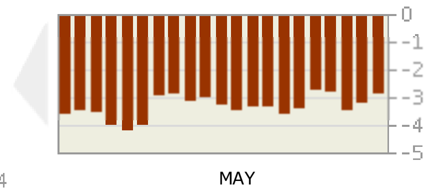
Oct '14 2013 2014 Oct 2014: HIGH **$7.64** LOW **($5.17)** LAST **$2.29** 10YR PERCENTILE **88.6%**

Dec '14 2013 2014 Dec 2014: HIGH **$13.61** LOW **($4.04)** LAST **($2.53)** 10YR PERCENTILE **55.9%**

Feb '15 ☐ 2014 ☐ 2015 Feb 2015: HIGH **$23.63** LOW **($2.95)** LAST **($0.55)** 10YR PERCENTILE **70.9%**



Apr '15 ☐ 2014 ☐ 2015 Apr 2015: HIGH **$16.34** LOW **($4.15)** LAST **($2.86)** 10YR PERCENTILE **45.4%**



The Beef Margin calculation uses Feeder Cattle futures to price inbound animals and assumes each will consume 55 bushels of corn and cost approximately $250 per head (for other feed and non-feed expenses) to gain 550 pounds and reach a market weight of 1,250 pounds.

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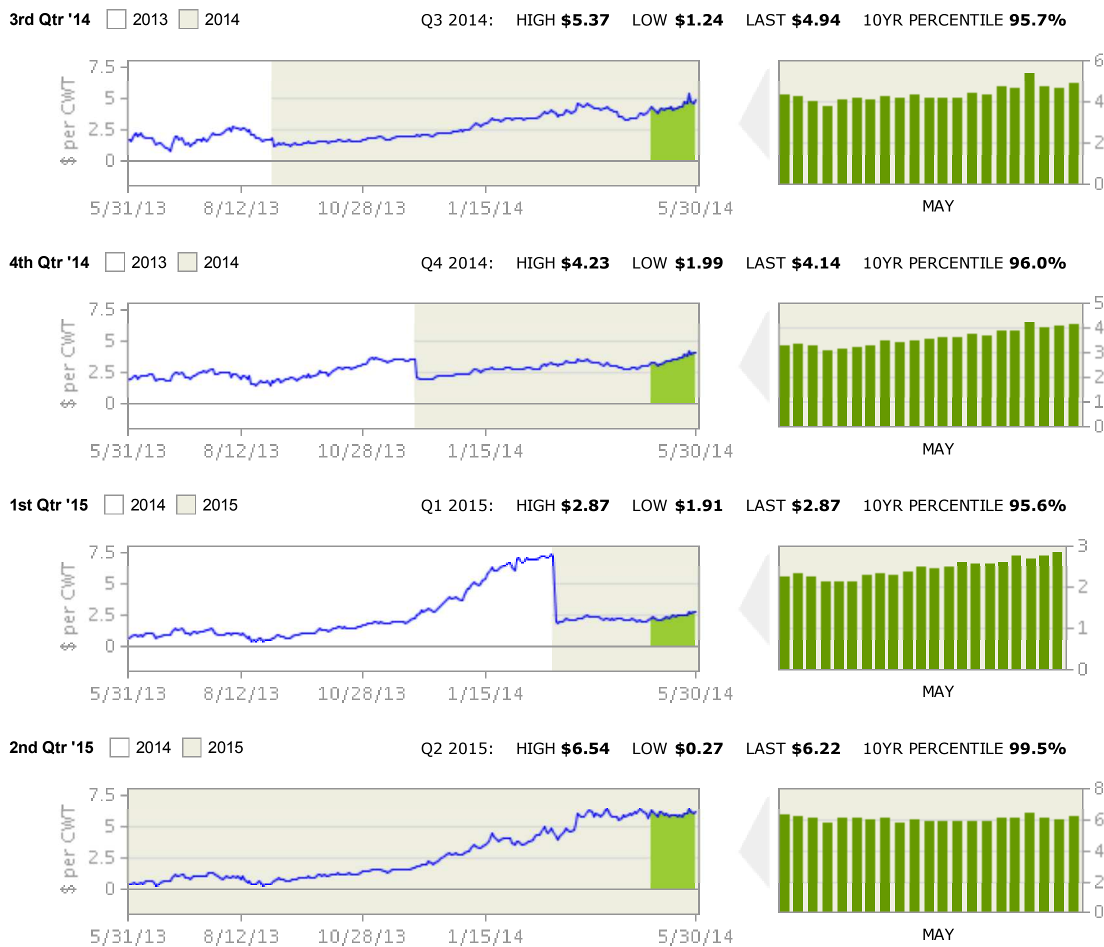
Dairy margins strengthened since the middle of May due to a combination of steady to higher milk prices while corn continued to decline. From a historical perspective, margins remain well above the 90th percentile of the past 10 years through the first half of 2015 which is providing a rare opportunity for dairies to protect very attractive forward margins over an extended period of time. While CME Class III Milk futures continue to trade at lofty levels, the weekly average spot cheddar block price has been declining and is off 18% since the peak in late March. Moreover, global cheese prices are dropping as well with Oceania cheddar prices down 13% in the same timeframe and German Edam prices off 14%. USDA's Cold Storage report reflected April cheese stocks of 1.04 billion pounds, up 1.8% from March but down 7.6% from last year. While U.S. cheese stocks remain tight, they are showing signs of building and this could begin to pressure forward milk prices as a result. Corn futures meanwhile have dropped more than 50 cents/bushel during May as weather conditions have allowed planting progress to catch up. USDA reported corn planting at 88% complete through the week ended May 25, up 15% from last week and right in line with the 20-year average. In addition, there are expectations for very strong corn condition ratings to be reflected in the first report of the season Monday afternoon. Soybean meal prices however have advanced to new highs recently as they draw continued support from tight old-crop supplies and a slowing domestic crush pace. Our clients continue to scale into new coverage in deferred periods while also capturing opportunities to make strategic adjustments on existing positions. Strengthening corn hedges looks particularly attractive right now following the recent drop in price.



The Dairy Margin calculation assumes, using a feed price correlation model, that for a typical dairy 62.4 lbs of corn (or equivalent) and 7.34 lbs of meal (or equivalent) are required to produce 100 lbs of milk (includes dry cows, excludes heifers not yet fresh). Additional assumed costs include $0.90/cwt for other, non-correlating feeds, $2.65/cwt for corn and meal basis, and $7.00/cwt for non-feed expenses. Milk basis is $0.75/cwt and non-milk revenue is $1.00/cwt.

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Corn Margin Watch: May

Corn margins have deteriorated since the middle of May particularly for deferred 2014 margins. Planting throughout the country is winding down, with the latest NASS estimate showing 95% of the intended acreage has been seeded to date. The advanced seeding pace goes a long way in eliminating much of the prevent plant issues farmers have dealt with over the last few years. NASS also released its first estimate of what the young crop looks like, reporting 76% of the crop to be in good-to-excellent condition, above last year's 63%. Given the ideal weather conditions of normal temperatures and precipitation currently forecast, significant risks to the current crop are low. On the demand side, old crop export sales and shipments remain at a pace that would meet the USDA estimate of 1.9 billion bushels. Exporters have committed 94% of the USDA estimate for sale compared to 89% on average for this time in the crop year. Export sales for the new crop on the other hand are subdued historically. Importers have secured 117 million bushels for the 2014/15 crop year compared to 189 million last year at this point in time. Weekly ethanol production is also on track to meet the USDA estimate of 5.05 billion bushels of corn used as nearby profit margins for ethanol have supported the strong weekly grind. Nearby corn margins are currently at the 32nd percentile of the last five years while deferred 2014 corn margins are at the 28th percentile. Our consultants are working with clients discussing margin protection of these forward values, particularly in the New Crop position, focusing on flexible strategy alternatives. Given that the market has continued to fall, some of our clients are considering adjustments to current coverage that would create a range of protection to lower prices with consideration to crop insurance levels while preserving the opportunity for margins to improve in the event prices move higher.

The estimated yield for the 2014 crop is 166 bushels per acre and the non-land operating cost is $583 per acre. Land cost for 2014 is estimated at $239 per acre [1]. Basis for the 2014 crop is estimated at $0.19 per bushel.

The estimated yield for the 2015 crop is 184 bushels per acre and the estimated operating cost is $688 per acre. Land cost for 2015 is estimated at $239 per acre [1]. Basis for the 2015 crop is estimated at $-0.11 per bushel.

[1] The Corn Margin Watch yield, land and non-land operating cost values are based upon central Illinois low productivity farmland crop estimates in the "Historic Corn, Soybean, Wheat, and Double-crop Soybeans" report published by the Department of Agricultural and Consumer Economics at the University of Illinois.

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Exploring the margin management approach

Written by Chip Whalen, Managing Editor

The Best Time to Start Margin Management

Last month, we wrote about the topic of seasonality which brought up an interesting question. Is there a certain period of time which is best to begin a margin management program? The article touched on the idea that for a margin management plan to be successful, a producer needs to stick with it over a long period of time to see the benefits through an entire profitability cycle. The obvious question then is at what point of the cycle would be ideal to start this type of program? Generally speaking, if I am "locking in" a profit margin for my operation, I would prefer to do so at a peak of profitability. This implies that I have not given up any opportunity from improved margins and I am completely protected from margin deterioration as profitability begins to weaken. The problem of course is that no one has the benefit of foresight to know for certain whether or not we are at a peak point of profitability within a given cycle.

It is important to remember that margin management is forward looking. Not only am I protecting margins for a near-term production period, but I am also looking at forward production periods that may be as much as a year or more further out in time. While there is no way of having the foresight to know whether or not margins in a nearby or forward period will strengthen or weaken from current projections, it is possible to put these margins into an objective, historical context in order to evaluate the relative opportunity being presented. As an example, current profit margin projections for both the hog and dairy industries are reflecting record profitability when evaluated on a rolling four quarter basis from nearby periods. In other words, if I am considering nearby margins for Q2 as well as margins for the next three quarters of Q3, Q4, and 2015 Q1, and then average them all together, there is no other period looking back in history where the average margin on a rolling four quarter basis has been stronger than it is right now.

If I am a dairy operation or a hog producer, this means that if I were to start a margin management program and implement a plan to protect the next four quarters of profit margin, there has never been a better opportunity than at present to begin doing so. While this of course is no guarantee that the profitability profile cannot strengthen further from current projections, it is reassuring to know that I would already be starting at record levels. The following graphs depict the current margins for both the dairy and hog production industries on a rolling four quarter basis going back to 1997.

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"I like going to bed at night knowing that I'm profitable for up to a year."

Steve Whitesides,
Dairyman, Rupert Idaho

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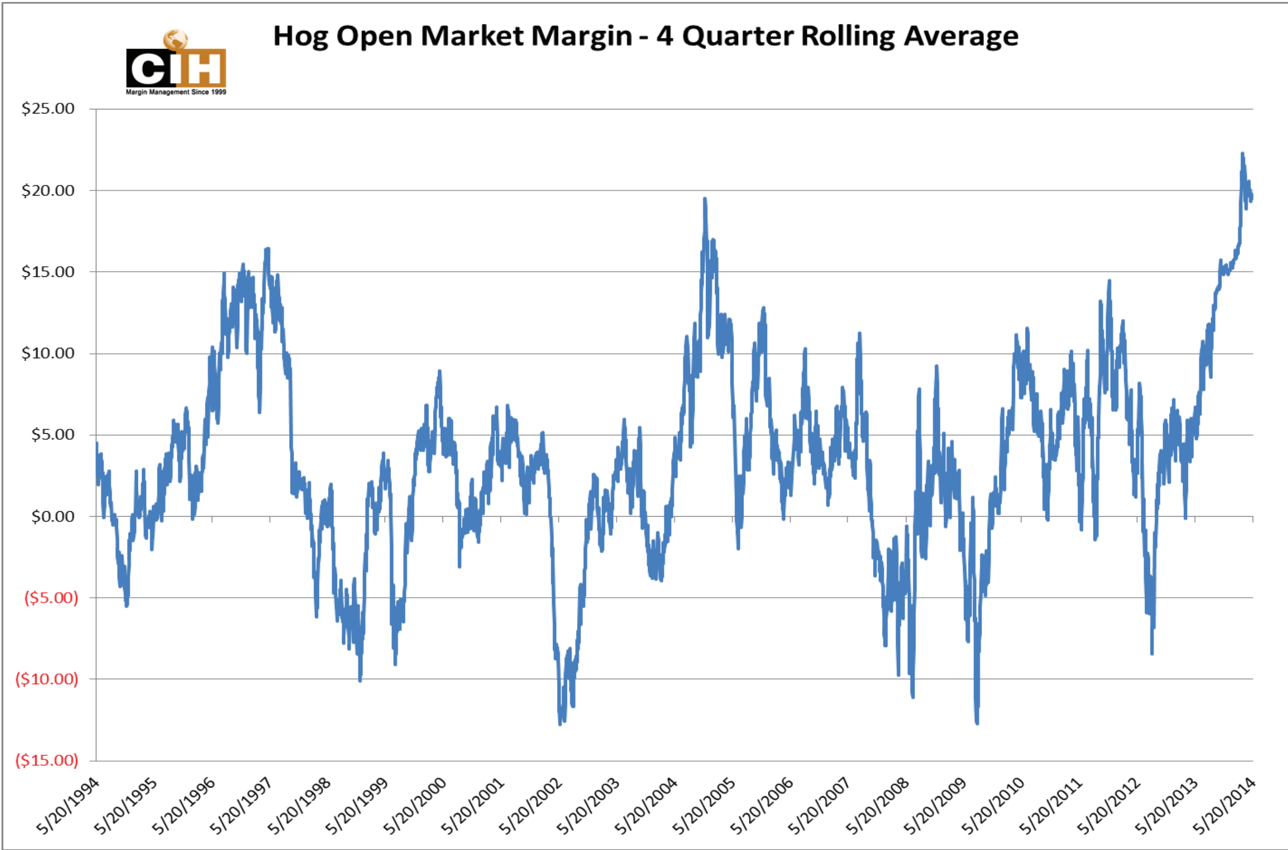
Hog Open Market Margin - 4 Quarter Rolling Average
CIH
Margin Management Since 1999
$25.00
$20.00
$15.00
$10.00
$5.00
$0.00
($5.00)
($10.00)
($15.00)
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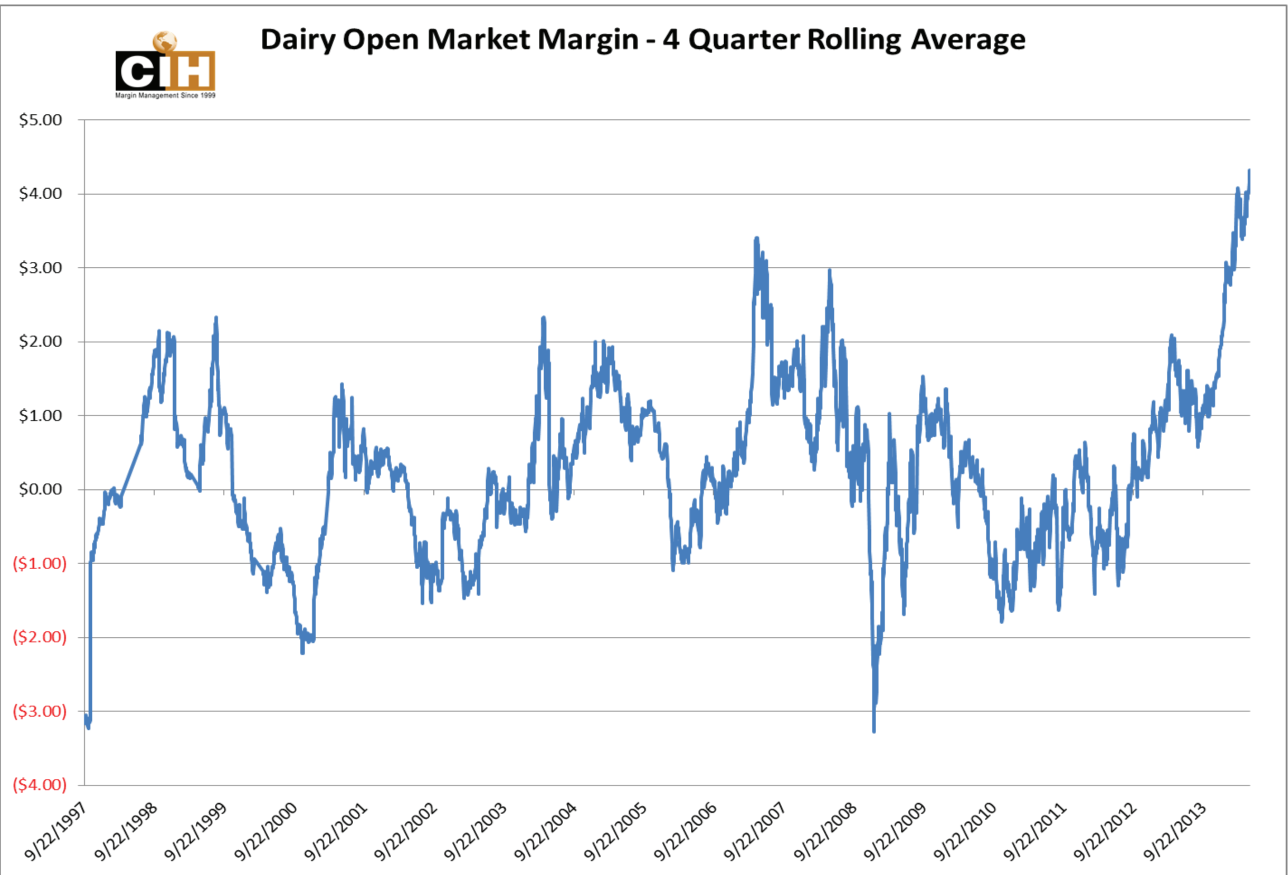
Dairy Open Market Margin - 4 Quarter Rolling Average
CIH
Margin Management Since 1999
$5.00
$4.00
$3.00
$2.00
$1.00
$0.00
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($2.00)
($3.00)
($4.00)
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ARTICLE

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The Best Time to Start Margin Management
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One of the common things we hear about reluctance to start a margin management program when times are good is that a producer does not want to give up the opportunity to participate in further margin appreciation. This is particularly true when we are coming out of a period of severely depressed margins. Producers in both the dairy and hog industries can certainly identify with horrible margins experienced during 2009-2010, as well as more recently in the second half of 2012 through early 2013 following the historic drought a couple years ago and the soaring feed costs that accompanied it. It is easy to simply ride the open market during periods of strong profitability, but it is precisely at these times when starting a margin management program can be the most beneficial. Because these industries are cyclical in nature, we know that eventually the profitability cycle will turn lower. While it is impossible to know what specific factors will pressure margins over time, or when this pressure will begin, it is extremely rare to have not only spot margins but the average projected margin for a year forward in time be this strong and present this kind of opportunity.

Many producers we talk to tend to be more interested in learning about and implementing margin management during very poor periods of profitability. While this is understandable in the sense that there would be a more pressing need for protection when the operation is losing money, that does not mean it is an ideal time to begin managing forward margins. If you are already starting from a much above average period of historical profitability, you are putting yourself in much better position to get ahead as the odds are in your favor. In the investment world, many money managers tout the idea of dollar cost averaging. The theory behind this is that by investing the same amount of money on a regular schedule throughout the year, you average out the swings in the stock market such that your risk of having too much capital going to work in front of a significant correction is mitigated. Ideally, you would like to wait and invest all of your money at market bottoms such as in the spring of 2009. The problem obviously is that you do not have the foresight of knowing when the market is going to bottom. While perhaps not an exact parallel, being able to protect the next 4 quarters' margin at current levels might be likened to starting an investment program after a huge selloff in the market. You can't know for sure that the market will not continue going down, but the odds are certainly more in your favor.

Upcoming Margin Seminars

Beef Margin Management
July 8-9 (Kearney, NE)

Crop Margin Management
July 9-10 (Chicago)

Hog Margin Management
July 23-24 (Chicago)

Strategic Position Management
CIH Clients Only
August 6 (Chicago)

Soybeans Margin Watch: May

Both nearby as well as deferred 2014 soybean margins strengthened somewhat since the middle of May as continued tightness in old crop supplies can be attributed to the strength. Exporters have throttled back on forward sales of old crop supplies as cheaper world alternatives exist. Current sales commitments continue to be shipped out, albeit at a slow rate. The marketplace has expected current commitments to either be cancelled or rolled forward to next year but has yet to occur in large order. Forward sale commitments for the 2014/15 crop year stand at 345 million bushels, slightly less than last year's record fast pace. Regarding planting progress, U.S. farmers have seeded an estimated 78% of the intended acres compared to 70% on average for this time. Ideal weather conditions are forecast over the next two weeks which should allow producers to seed the remaining acreage. On the global front, Brazil has indicated it will move to an increased inclusion of biodiesel in their fuel blend which would elevate their soybean oil consumption as well as increase their domestic crush. Nearby soybean margins are now at the 95th percentile of the last five years and deferred 2014 soybean margins are now at the 56th percentile. Our consultants are working with clients to manage these forward profit margins. Given that old-crop margins remain above the 90th percentile, some of our clients continue to consider strengthening margin protection strategies as supply and demand factors are beginning to balance. Some of our clients are evaluating protection strategies on new-crop margins that provide protection to all lower prices while retaining the flexibility to participate in higher margins should prices improve.

The estimated yield for the 2014 crop is 49 bushels per acre and the non-land operating cost is $330 per acre. Land cost for 2014 is estimated at $240 per acre [1]. Basis for the 2014 crop is estimated at $0.25 per bushel.

The estimated yield for the 2015 crop is 53 bushels per acre and the estimated operating cost is $319 per acre. Land cost for 2015 is estimated at $240 per acre [1]. Basis for the 2015 crop is estimated at $-0.2 per bushel.

[1] The Soybeans Margin Watch yield, land and non-land operating cost values are based upon central Illinois low productivity farmland crop estimates in the "Historic Corn, Soybean, Wheat, and Double-crop Soybeans" report published by the Department of Agricultural and Consumer Economics at the University of Illinois.

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Wheat Margin Watch: May

Wheat margins continued to deteriorate sharply through the remainder of May mainly due to world competition. Domestically, U.S. farmers will begin harvesting the winter crop in the coming weeks and expect to reap a smaller crop than last year. Crop conditions remain relatively poor throughout the southern plains, particularly in Oklahoma, Texas and Kansas. The spring wheat planting pace is slightly behind average presently as farmers have sewn 88% of the intended crop, right on the average for this point in the planting period. On the world front, aggressive export offers from the Black Sea region as well as France that have pressured world prices. Presently, U.S. soft red wheat prices are on par with the Black Sea and France as the cheapest supplies globally while Argentine, Canadian and Australian prices carry significant premiums. Exporters are competing to get sales on the books as record harvests of new crop wheat are currently projected. Additionally, these countries are forecasting large corn harvests which would be used in part for feed and reduce the need to feed wheat. Conflict in the Black Sea region has subsided somewhat over the period which has taken fear premium out of nearby prices. Nearby wheat margins are now at the 28th percentile of the past five years with deferred 2014 wheat margins now at the 42nd percentile. Our consultants continue working with clients to protect these forward margins with flexible strategies that will allow for potential margin improvement over time. Given the recent weakness in futures' prices, some of our clients are considering adjustments to current protection strategies that would protect a range of lower prices while still preserving the opportunity to participate in higher prices should the market rebound.

The estimated yield for the 2014 crop is 67 bushels per acre and the non-land operating cost is $360 per acre. Land cost for 2014 is estimated at $150 per acre [1]. Basis for the 2014 crop is estimated at $0.06 per bushel.

The estimated yield for the 2015 crop is 65 bushels per acre and the estimated operating cost is $339 per acre. Land cost for 2015 is estimated at $150 per acre [1]. Basis for the 2015 crop is estimated at $-0.1 per bushel.

[1] The Wheat Margin Watch yield, land and non-land operating cost values are based upon central Illinois low productivity farmland crop estimates in the "Historic Corn, Soybean, Wheat, and Double-crop Soybeans" report published by the Department of Agricultural and Consumer Economics at the University of Illinois.

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