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PolicyPennings by Dr. Daryll E. Ray

Corn prices have tumbled-USDA's price forecast, not so much

With corn cash prices in the mid-$3 range and nearby corn futures closing below $4.00, it is difficult to understand how the USDA justifies setting the 2008 crop year midpoint season average corn price received by farmers at $4.40 as reported in the November 10, 2008 WASDE (World Agricultural Supply and Demand Estimates) http://www.usda.gov/oce/commodity/wasde/latest.pdf.

Maybe they believe that the current prices are harvest lows and the price will increase significantly in the coming months in order to attract a couple of million additional acres of corn plantings next spring. With the November WASDE projection of 2008 crop year carryover at 1.124 billion bushels, a couple of million acres of additional production certainly would be reassuring to livestock producers and other grain demanders, domestic and foreign.

Or, maybe they believe that given increased input costs, crop prices have established a new plateau and a stock-to-use ratio of under 9 percent justifies a season average price range of $4.00-$4.80. This November price range is significantly lower than WASDE's October projected price range of $4.25 to $5.25.

The 45-cent reduction at the top end of the price range and 25 cent reduction of the bottom end occurred with only a 36 million bushel increase in projected ending stocks between the two reports. Our modeling work suggests that this latest mid-point of $4.40 is still about a dollar higher than it would have been two years ago had the same stock-to-use ratio been in effect then.

Another possibility that would help justify the price projection would be if a significant number of farmers priced a large portion of their 2008 crop last summer when prices were running well above $6.00. A lot of forward priced corn above the $6.00 level would provide some counterbalance to the prices we are seeing in early November 2008.

We were ready to take the last scenario seriously when we ran across a fly in the ointment-the bankruptcy filing of VeraSun Energy, an operator of 17 corn ethanol plants in 8 states. On October 31, VeraSun filed for bankruptcy protection allowing it to void contracts including forward priced corn contracts it made with farmers and elevators.

According to Roger McEowen, director of the Center for Agricultural Law and Taxation at Iowa State University, "The bankruptcy filing raises numerous questions for farmers and grain elevators that have legal relationships with VeraSun" (http://www.calt.iastate.edu/verasun.html).

McEowen goes on to say, "VeraSun has received confirmation from the Delaware Bankruptcy Court that corn suppliers who supplied corn from October 11 through October 31 will be treated as priority creditors that can be paid in full from VeraSun's cash provided they agree to continue supplying corn at prevailing market prices, not contracted prices."

In addition, McEowen writes, "VeraSun will treat all corn suppliers that supplied corn to its plants before October 11, 2008 as unsecured creditors that may share in a dividend at some time, many months in the future."

Simply put, farmers who delivered corn before October 11, 2008 and haven't been paid for their corn may have to wait a long time to get paid. In addition, farmers who delivered corn from October 11 through October 31 will get paid the contracted amount for that delivery, only if they agree to give up the contracted price for future deliveries and take the prevailing price. The farmers then remain committed to the delivery quantity in the contract, only without the guaranteed price.

With 17 plants in 8 states, this bankruptcy could affect a lot of farmers who were counting on contracted prices that were well above current

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cash prices.

Farmers in states like Iowa with indemnity funds may enjoy some limited protection.

Our concern, however, is that the same economic conditions that brought VeraSun to its knees may result in additional bankruptcy filings by ethanol plants, leaving additional farmers in the lurch.

Farmers with questions about the financial implications of their contracts with ethanol plants can check out websites like that of the Center for Agricultural Law and Taxation. This coming year, many farmers may be spending more time with, and spending more money on the services of, the folks at their local law offices.

Back to the discussion of prices, in the present business environment with countless firms facing economic pressures and weekly export reports that show corn exports at 45 percent of the weekly pace required to meet USDA projections, we are left wondering what the USDA sees that will justify their price projections for the 2008 crop.

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