Given China’s extended increase in soybean imports, soybean prices may hold up a bit better than corn prices. But for corn farmers, especially those in grain surplus areas, prices are already well below $3.00 and falling. Some are seeing a negative basis in the range of 80 cents.

The healthy balance sheets that farmers built up over the last few years plus a measure of insurance protection will help grain producers weather the coming year. If inventories continue to move upward in the years ahead, those financial cushions will become less and less effective.

We may be like military leaders who are accused of fighting the last war, but we can’t help but think about the 1998-2001 period where very modest crops resulted in a crisis that produced billion dollar payments to farmers just to keep them afloat. Given the tenor of current debates in Congress, emergency payments may be hard to come by.

That is especially critical, because if prices are below cash expenses for a period of years, the current policy suite does not provide the degree of protection that was available in the past. If we get into LDP territory, crop farmers will be facing a real crisis and we will not have the necessary suite of policy tools available to stanch the flow of red on farm balance sheets.