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May WASDE Quickly Over-Shadowed by Trade and Weather News

USDA provided the first estimate of the marketing year average (MYA) farm price for corn, soybeans, and wheat on May 10, 2019. The May report garners a lot of attention as this is the first estimate of ending stocks and demand for the three primary crops produced in Kentucky. In a typical year, the market would react to information in this report and trade these numbers until the July report provides updated acreage information.

This is not a typical year. The WASDE report was partially overshadowed by trade news as the administration raised tariffs on $200 billion of Chinese goods from 10% to 25%. This news pummeled soybean futures over the fear of a prolonged trade dispute. The other factor diminishing the May WASDE news is the slow start to corn and soybean planting.

The projected ending stocks and marketing year average price for the 2018-19 and 2019-20 marketing years are shown in Table 1. The May report projects corn stocks to increase by 395 million bushels and wheat stocks to increase by 14 million bushels from the 2018 crop. Both corn and wheat stocks are expected to be the largest since the 2016-17 marketing year. Soybean stocks are projected to decline modestly; however, a projected 970 million bushels would still be the second largest on record.

Table 1. Comparison of U.S. Farm Price and Ending Stocks for the 2018 and 2019 Marketing Years for Corn, Soybeans, and Wheat.

	2018-19	2019-20	Change
	Ending Stocks (Million Bushel)		
Corn	2,095	2,485	+395
Soybeans	995	970	-25
Wheat	1,127	1,141	+14
	U.S. Marketing Year Average Farm Price Ending Stock		
Corn	$3.50	$3.30	-$0.20
Soybeans	$8.55	$8.10	-$0.45
Wheat	$5.20	$4.70	-$0.50

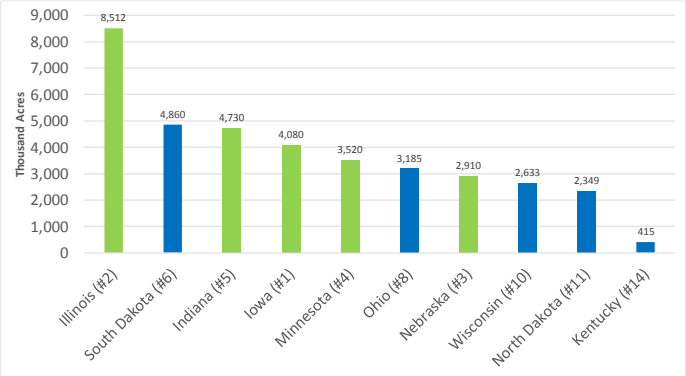
The increase in stocks is projected to push the U.S. marketing year average farm price lower to $3.30 for corn, $8.10 for soybeans, and $4.70 for wheat. Kentucky prices tend to be $0.25 to $0.35 per bushel higher than the U.S. price. The price projections suggest continued tight profitability margins unless above-average yields are harvested.

The futures market didn't respond to the bearish market news because of other fundamental news. The next round of tariffs did push soybean prices lower by about $0.06 ½ for most soybean contract months. The extremely slow corn planting progress has pushed the December 2019 contract from $3.72 on May 10 to $4.13 on May 22.

Soybeans and wheat were carried along and have increased from $8.33 to $8.47 and from $4.25 to $4.76 for soybeans and wheat, respectively.

Figure 1 shows the estimated corn area remaining to be planted as of May 19, 2019. The acreage reported in the *Prospective Plantings* report and the weekly *Crop Progress* estimate of the corn planting progress is used to calculate the amount planted and the amount remaining to be planted each week. The states are shown in the declining amount of acreage to be planted. The average ranking in corn production is included with the state label. For example, Illinois is the second largest corn-producing state and is estimated to have 8.5 million acres remaining to be planted. The other top five corn producing states are colored green in Figure 1 and are expected to have 23.7 million acres remaining to be planted. Based on NASS data, the U.S. corn crop has 47.3 million acres unplanted as of May 19. The market is reacting primarily to the fear that 50% of the unplanted area is in the top-five corn-producing states. Kentucky is projected to have 415 thousand acres remaining to be planted on May 19, 2019.

Figure 1. Statistical Corn Area Remaining to be planted on May 19, 2019



What might happen if the U.S. corn planted area falls by 3.5 million acres and the national yield is reduced by 3% to a yield of 170.7 bushels/acre? Under this scenario, the U.S. corn crop would be reduced by 1 billion bushels to a projected 14.03 billion bushels. Corn stocks would decline by 1 billion bushels and would push the U.S. farm price to $3.75 per bushels assuming no change in the other balance sheet items (Table 2). The rally in the corn futures market is trying to motivate farmers to plant every acre possible as the current cushion in corn stocks could evaporate.

What might happen if the soybean area increases above the May 2019 projected area? An increase in soybean planted area of 2.5 million acres combined with trend-yields would increase production by 128 million bushels from the projections in the May report. Assuming the same projected use, ending stocks would increase by 128 million bushels and the U.S. marketing year average farm price would be pushed lower to $7.89 per bushel. Weaker than expected use would further increase stocks and result in an even lower marketing year average price.

Will intended corn acres automatically switch to soybeans? Most university budgets across the country suggest that the futures market price is below the break-even price, assuming farmers are trying to cover all of their economic costs. A wildcard in this discussion is anticipated MFP payments. The administration announced MFP payments will be made on both corn and soybean based on planted acreage. The other details will be provided at a later date. The anticipation of receiving an MFP payment might encourage soybean area to be planted instead of late planted corn or prevented planting payments.

What might keep intended corn acres from switching to soybeans? Besides a rallying corn futures market trying to motivate corn area, the crop insurance prevented planting payment could keep some corn acres idled in 2019. Table 2 provides an example of prevented planting insurance payment for an example Western Kentucky corn farm. The initial revenue guarantees provided by revenue protection (RP) insurance for a farm with an APH yield of 180 bushels/acre are shown for the 50% to 85% coverage levels. Farmers that have not completed corn planting by May 31 have the decision to continue planting corn and have reduced insurance coverage or to receive the prevented planting payment. The prevented planting payment is 55% of the revenue guarantee and would be higher than $300 per acre for those that purchased 80% or 85% coverage.

Table 2. Example Prevented Planting Insurance Payments for a Western Kentucky Corn Farm.

APH	**180**	
Projected Price	**$4.00**	**55% of Revenue Guarantee**
Coverage Level	**Initial Revenue Guarantee**	**Prevented Planting Payment**
85%	$612	$337
80%	$576	$317
75%	$540	$297
70%	$504	$277
65%	$468	$257
60%	$432	$238
55%	$396	$218
50%	$360	$198

Farmers that have not planted all of their intended corn acres by May 31 need to talk with their crop insurance agent to fully understand their crop insurance benefits and responsibilities.

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Can Your Farming Operation Be Too Diverse?

Diversity in a farming operation is generally a good thing and serves multiple purposes. Weather and price are two reasons for diversity in a farming operation. Weather may cause a disaster in one crop, but another crop may thrive with those same weather conditions. The same situation may occur with prices where the price for one commodity drops while the price of another stays the same or increases. There may also be premiums for growing one crop versus another crop. The reasons for diversity and the ways to diversify are both endless, but the big question is can you be too diverse?

The days of farmers just growing conventional corn, wheat, beans and tobacco have gone by the wayside. The options in types of corn alone are endless. You have yellow, white, blue, amylose, and waxy corn. You can grow corn organically, with GMOs or non-GMOs. Many farmers now also grow barley, canola, and rye instead of just growing wheat. Hemp is also being reintroduced and has added additional layers of diversity to farming because it can be grown for oil, fiber, and seed. Many farmers grow multiple types of vegetables so it is reasonable that a farmer could grow as many as 10-15 different crops in the same year. We are starting to see this more and more with the KFBM farmers. Many of them grow multiple types of corn, including organic and non-GMO, along with wheat, canola, barley, full season soybeans, double crop soybeans, hemp, and as many as three types of tobacco.

The concern with being too diverse is "Are you spreading your resources out too much?" Many crops either require equipment that can only be used for that crop or at least special attachments for existing equipment. A farmer may also have to build special storage facilities for these additional crops that they did not need before. This may require a farmer to spend money on equipment/attachments and buildings that could be better used in a different area that would provide more benefit to the operation.

Another issue may be labor management. Having multiple crops ready to plant or harvest at the same time requires the farmer to match his labor availability with the labor requirements. This much diversity may also lead to hiring more employees in order to spread the workforce out more and maybe even more highly skilled employees to operate all of the equipment.

Market availability may also be another issue a farmer needs to consider, especially when considering adding specialty crops like vegetables, hemp, and organic crops. A farmer should not consider a new crop without understanding the market for that crop. They should also do some research on different markets or processors to make sure they will not be hung out to dry once harvest time comes around. This is very important with specialty crops because there are so many new ones that pop up and then they disappear just as quickly as they came up. One other issue with specialty crops that should be considered is the ability to absorb the loss from that crop because of disaster or any other reason. Unlike the traditional crops, a farmer cannot receive crop insurance or government payments on these crops, so if the farmer does not have a good crop and a reliable buyer he will have to count that crop as a complete loss.

The old saying "Don't put all your eggs in one basket"

applies to farmers and one reason you see farmers planting so many different crops and even spreading those crops out over a larger area. The one thing a farmer needs to remember is that they do not need to

become so diverse in their operation that they actually hinder the operation more than they help it. Any farmer considering adding new crops to his operation should closely examine the costs of that crop and comparing it to the additional revenue that could be added by that additional crop.

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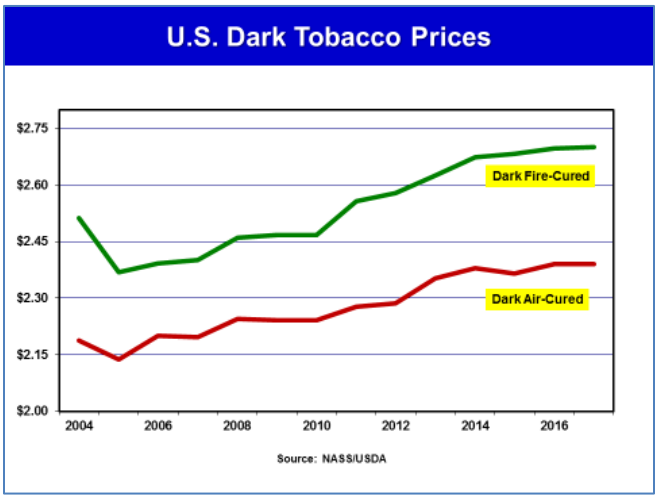
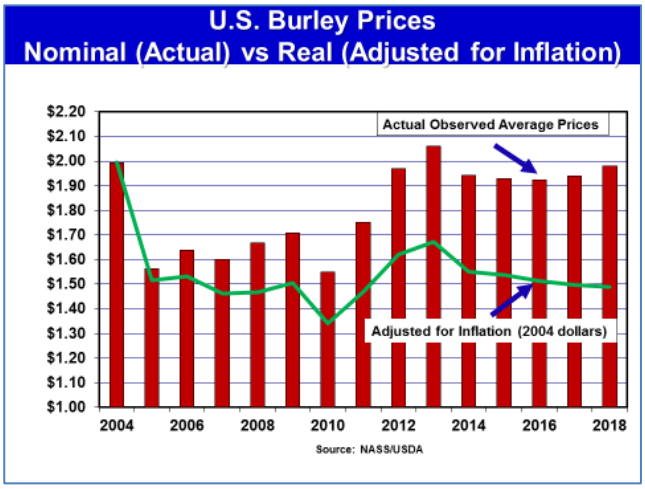
Early Observations on the 2019 Kentucky Tobacco Outlook

Look for additional concentration in Kentucky's tobacco industry for 2019 in terms of both acreage and the number of growers. The change in burley contract volume varied considerably by company, ranging from virtually no change for growers of one company to cuts exceeding 30% for growers for other companies, with some instances of complete contract elimination. Burley planning intentions indicated a reduction in U.S. burley acres totaling 12% for 2019, but based on contract conversation among growers, we could easily see an acreage decrease exceeding 20%. If observed, this would make for a U.S. burley crop totaling around 80 to 85 million pounds, which is likely in the neighborhood of anticipated domestic and export demand.



Burley contract price schedules exhibited virtually no change in contract prices, with one company adjusting a few top grades by three to four cents/lb. Based on the contract price schedules for the largest four buyers, a crop graded 30%, #1s and 70%, #2s across all companies would yield a weighted average of approximately $2.00/lb in 2019 versus $1.99/lb evolving from the 2018 crop price schedules. According to USDA, the 2018 U.S. burley crop averaged $1.98/lb, 4 cents higher than the 2017 crop, but still below the pre-buyout price of nearly $2.00/lb in 2004. In comparison, the H2A wage rate increased 44 cents/hour to $11.63/hr in 2019, 52% higher than the $7.63 H2A wage rate in 2004.



Kentucky dark tobacco growers didn't escape contract reductions as well with domestic smokeless tobacco sales stagnant following nearly 3 decades of growth. While contract cuts varied by company, in aggregate dark tobacco acreage may also be down in the neighborhood of 20%, with much greater reductions for dark air-cured. Dark tobacco contract prices remained relatively unchanged -- $2.75/lb for dark fired and $2.45/lb for dark air-cured.

2019 Average Burley Contract Price By Company and Grade 1/

BUYER	GRADE			
	1	2	3	4
A	$1.96	$1.86	$1.67	$1.02
B	$2.15	$2.06	$1.94	$1.24
C	$2.07	$2.02	$1.86	$1.48
D	$2.06	$2.00	$1.87	$1.42
2019 WGT AVERAGE	$2.06	$1.98	$1.83	$1.24
2018 WGT AVERAGE	$2.05	$1.96	$1.82	$1.22
2017 WGT AVERAGE	$2.02	$1.94	$1.80	$1.20
2016 WGT AVERAGE	$2.02	$1.94	$1.82	$1.23
2015 WGT AVERAGE	$2.03	$1.95	$1.82	$1.30

1/ Weighted Average Based on Buyer Volume Purchased in the Previous Year and the Typical Crop Throw

While burley and dark tobacco acres fall in response to depressed product demand, a significant number of Kentucky tobacco farms will have an opportunity to grow several hundred acres of Connecticut Broadleaf tobacco in

2019 which is used in cigar production. This high risk/high return tobacco type will fetch a higher price than burley and dark tobaccos (reportedly in the $3.50-$5.00/lb or higher range for top quality leaf), but will require much more management, higher input costs, and lower yield potential.

Collectively, the total value of the Kentucky tobacco crop (all types) is likely to fall below $300 million in 2019, compared to averaging nearly $350 million over the past five growing seasons.

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High Tunnel Growth in Kentucky

High tunnels are simple season-extension structures that allow specialty crop growers to manage challenges both from otherwise shorter market access and weather-related quality issues. The use of high tunnels has grown nationally over the last 8-10 years, especially with the advent of the NRCS high tunnel cost share program. Nationally, NRCS had supported the development of 1966 high tunnels in 2010. By 2018, this number had grown to almost 17,000 as more states entered the program and as more growers started to realize the benefits to their enterprise.

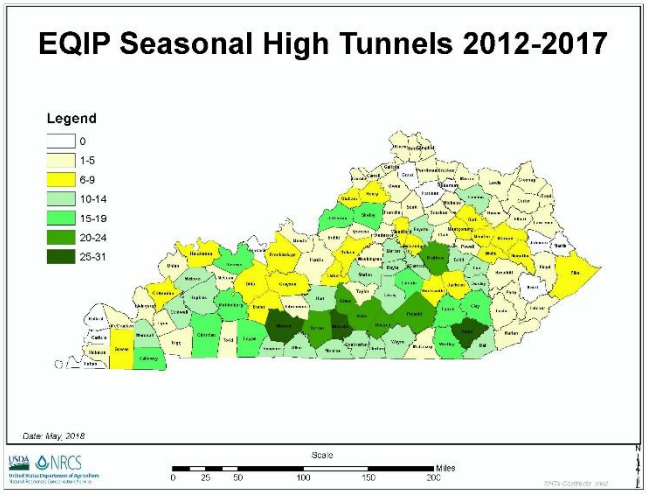
High tunnels are a great fit for a state like Kentucky that has many smaller scale growers, moderate but distinct winter seasons, and a strong emphasis on direct to consumer markets and auctions. Kentucky, although a late-comer to the NRCS program, has been one of the states taking the most advantage. NRCS has helped Kentucky farms build 994 of these structures – most in the U.S... This represents approximately 40% of the total such structures in the state. And while exact total high tunnel counts are difficult to pin down, one estimate has KY at 2,485 total high tunnels, more than every other state in the U.S.

Kentucky, while not a major producer of vegetables compared too many other states even in the region, has been able to sustain production growth across a number of marketing channels. High tunnels, according to our recent survey of over 100 producers in the region, have been especially helpful to expand on-farm retail markets, auctions, and farm-to-school and other related institutional markets.

Production and marketing support for producers using high tunnels have been identified by the KY Horticulture Council as one of the top issues as these systems expand. The Center for Crop Diversification has made an effort to provide on-going support, working with many excellent technical assistance partners across the state to help build grower production and corresponding marketing skills with these structures.

State	Total HT # estimate	NRCS # HTs 2010	NRCS # HTs 2010-18
Arkansas	718	7	287
Illinois	685	75	274
Indiana	630		252
Iowa	1,030	96	412
Kentucky	2,485		994
Maryland	658	54	263
Missouri	2,130	124	852
North Carolina	1,213	43	485
Ohio	1,260	40	504
Tennessee	825	31	330
Virginia	1,453	53	581
West Virginia	1,485	24	594

Source: NRCS; Total HT estimates – M. Kleinhenz, Ohio State, 2019



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