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Grain Market Shift and Profit Implications

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The grain markets have been on a tear for the last year and have exceeded just about everyone's expectations as to where they would be going into the summer of 2021. Current prices for 2021 fall delivery are near \$5.50/bu for corn and \$13.50/bu for soybeans in many areas in Kentucky (7/22/21). This is an increase of around \$2/bu and \$5/bu respectively compared to what these prices were expected just one year ago. For a 170 bu/acre corn crop and 55 bu/acre soybean crop, these translate into increased revenues of \$340/acre and \$275/acre.

Moreover, crop conditions at this time are mostly good to excellent throughout the main grain-growing regions of Kentucky. The Henderson-Owensboro area was getting uncomfortably dry by late June but ended up getting good rains in the last few weeks. Thus in addition to incredible prices, there is a very good chance yields will be above average yields for both corn and soybeans. At current expected prices for fall 2021, a 10 bu/acre increase in corn yield and a 3 bu/acre increase in soybean yield would translate into increased revenues of \$55/acre and \$40/acre respectively.

Tempering the increased revenue from higher grain prices and potentially higher yields, are steep increases in fertilizer and fuel prices. Fertilizer prices have been rising steadily since last winter and we now have prices that haven't been seen since 2013, the end of the previous grain boom. Since January, anhydrous is up around \$250/ton, DAP is up around \$225/ton, and potash is up around \$125/ton. This would amount to around a \$50/acre increase on a typical corn acre, and around a \$15/acre increase on a typical soybean acre. Increases in fuel prices would amount to an additional increase of around \$10/acre for corn and soybeans.

Combining the increase in grain prices with the increase in fertilizer and fuel costs (and not accounting for potential increases in yields) amounts to an increase in overall profitability around \$275/acre for corn and around \$250/acre for soybeans for a typical 170 bu/acre corn crop and 55 bu/acre soybean crop. Before this run-up in grain prices, a \$50/acre increase in profitability would have been great news. Profit increases of these magnitudes have the potential to move farms that were struggling in 2014-2019 onto firm financial footing.

The increased price response was expected for both the 2020 and 2021 crop years given the supply and demand changes that have occurred over the last year. However, what is somewhat unexpected is that futures prices remain strong all the way out to the 2023 crop year. Figures 1-3 show the 2022 harvest futures contracts for corn, soybeans, and wheat. Price increases since last summer for the 2022 crops are roughly \$1.20/bu for corn, \$3.80/bu for soybeans, and \$1.50/bu for wheat. New-crop delivery contracts for 2022 are currently (7/22/21) around \$4.75/bu for corn, \$12.25 bu for soybeans, and \$6.50/bu for wheat. Adjusted for cost increases in fertilizer and fuel, we are looking at increases in overall profitability around \$140/acre for corn, \$180/acre for soybeans, and \$70/acre for wheat with typical yields compared to expectations last summer.

Figure 1. December 2022 Corn Futures as of 7/22/21



Figure 2. November 2022 Soybean Futures as of 7/22/21

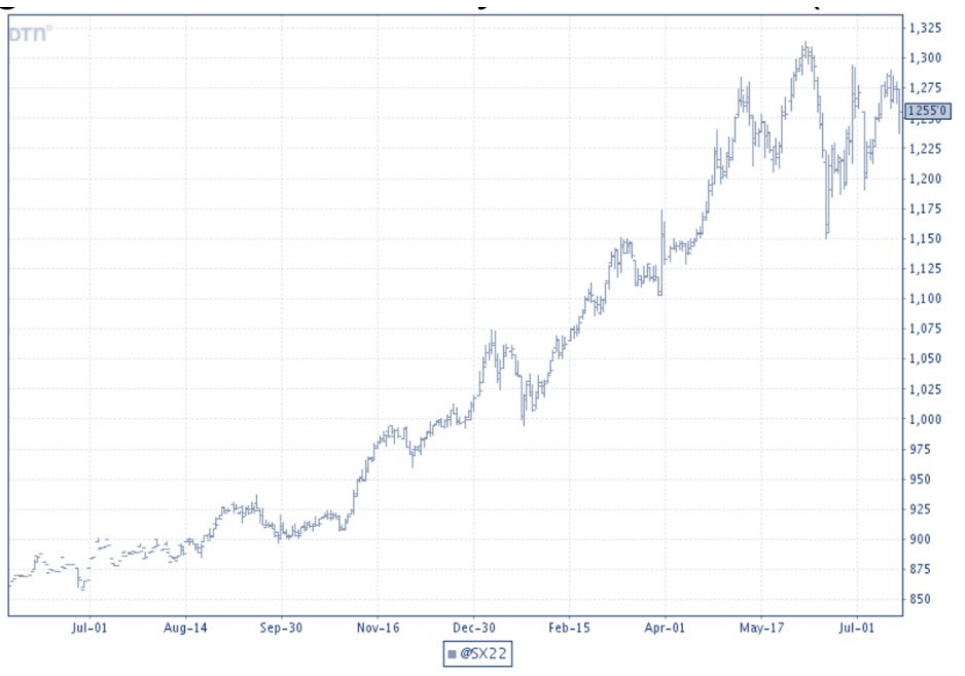


Figure 3. July 2022 Wheat Futures as of 7/22/21



For 2023, we are still looking at price increases of roughly \$.75/bu for corn, \$2.95/bu for soybeans, and \$1.25/bu for wheat over expectations last summer. Adjusted for cost increases in fertilizer and fuel, we are looking at increases in overall profitability around \$65/acre for corn, \$140/acre for soybeans, and \$50/acre for wheat with typical yields compared to expectations last summer.

While we are a long way away from 2023, and much can and will change related to grain markets in the next 2-3 years, these strong prices are getting a lot of people's attention and have been a remarkable turnaround from where we were just a year ago.

Remember the old adage "a bird-in-the-hand is worth two in the bush". If you haven't marketed much of your 2021 crops now would be a good time to start getting serious about it. The same goes for 2022 crops. While most farmers are reluctant to market that far out, the current prices offered for the 2022 new crops are screaming for attention, and at least worth considering given the major shift in market conditions. Remember the other old adage: what the market giveth, the market can taketh.

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