STATE BANK & TRUST CO.

DOANE'S Farming for Profit®

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Surprises galore in June 30th Acreage Report from USDA. The big bearish stunner was in corn, which even dragged soybeans down despite a bullish acreage figure for beans. Traders didn't seem to care that total feed grain acreage declined from March intentions despite the higher-than-expected corn acreage. The top 14 crops totaled 315.3 million acres, just 2.4 million more than in 2010 versus March indications these crops would total 7 million acres from 2010. But the trade is skeptical with planting running so late this spring and apparently, USDA officials aren't certain they quite have acreage right, either. Shortly after release of the June 30th report they announced that Minnesota, the Dakotas and Montana would indeed be resurveyed in late July and revised numbers reported Aug. 11th.

Staggering figure from FAO: One third of food wasted worldwide! In a detailed report, the Food and Agriculture Organization of the United Nations says some 1.3 billion tons of food produced annually is either lost or wasted. In the developing world, over 40 percent of food losses occur after harvest during transport, storage, processing or packing. In the developed world, more than 40 percent of losses are "the result of retailers and consumers discarding unwanted but often perfectly edible food." Finding ways to curb such waste will surely become a major issue amidst constant warnings that global food production will have to double in the next half-century.

Congress speeds up elimination of ethanol blenders' tax credit. The bipartisan deal struck July 7th would end the blenders' tax credit on July 31 instead of the previous expiration date of December 31. The bill is likely to be attached to the deficit reduction package. The news had little effect on the corn market, however, because ethanol is still priced at a big discount to gasoline. That favors continued blending even without the credit. But it also means blenders will be quicker to curb ethanol blending when the spread narrows.

Farmers who suffered at least a 10 percent production loss on their 2009 crops have until July 29 to apply for assistance under the Supplemental Revenue Assistance Payments program (SURE). There is a $100,000 per person payment limit for SURE and producers with average non-farm income of $500,000 or more are not eligible. The sign-up period for 2010 crops has not been announced yet. For more information visit your FSA office or go to *www.disaster.fsa.usda.gov*.

Most people believe that the Direct Payments to farmers will be cut in any deal to raise the debt ceiling, or when the 2012 Farm Bill is developed. In early July, Representative Jeff Flake (R-AZ) planned to introduce legislation to end the payments immediately. Direct Payments are an enticing target, costing about $5 billion per year and disbursed without regard to farm prices or profits (need). But a study released by the Food and Agriculture Policy Institute (FAPRI) suggests the savings could be much smaller. The theory is that a big cut or an elimination of Direct Payments would encourage more farmers to enroll in the Average Crop Revenue Election (ACRE) program. Currently, farmers that enroll in ACRE have to give up 20 percent of direct payments. Loss or reduction of those payments could encourage participation in the ACRE program to rise from the current level of just 14 percent.

THE BLUE-CHIP BORROWER

The kind lenders compete for!

According to the latest quarterly report from the American Bankers Association (ABA), farm banks are well positioned to service farm needs into the future. USDA is projecting farm net cash income for 2011 at $88.6 billion, up $7.3 billion (8 percent) from 2010 and $26.8 billion above the 10-year average of $71.8 billion.

The biggest concern among bankers is the expense side, so that's where you can be a super-star borrower by holding the line better than most on costs of production. ABA says that total farm expenditures will crack the $300 billion mark for the first time ever in 2011 – to $307.5 billion. But in spite of this, farm business balance sheets as a whole continue to improve due to record farm income and rising farmland values. In fact, the farm "debt:asset" ratio as an aggregate is projected to fall 60 basis points, to just 10.7 percent in 2011.

But don't panic if your own debt:asset ratio is higher than that. Remember, the aggregate numbers include a lot of farmers with little or no debt and they pull the figure quite low. The important thing to monitor is the DIRECTION your R:A ratio is going. Here's a couple other benchmarks to compare yourself with to "take the pulse", you might say, of your farm financial situation compared to farmers in general:

- Total farm sector debt is expected to grow slightly in 2011 (less than 1 percent).
- Farm real estate debt is actually expected to FALL by just under 1 percent.
- Non-real estate debt rises by an average of 2 percent in response to rising production costs.

As for repeated rumors/fears/etc. that farmland is the next real estate "bubble" that might burst, farmers are not becoming over-leveraged like they did during the "roaring 70s" because underwriting standards for farm real estate loans are very conservative. And good bankers regularly "stress test" farmer loan portfolios to see whether loans will still cash flow even under some disappointing production or price scenarios. As a borrower, you should welcome such tests for your own peace of mind as well.

Doane's MARKETING MENTOR

CORN
Corn prices are down 30 to 50 cents in response to the June 30 USDA reports indicating higher-than-expected acreage and stocks. Ultimately, we expect final acreage, particularly harvested acreage, to be revised down by 1 million acres or more. Also, the sharp decline in prices since early June has sparked buying interest from importers. News that a deal to end the ethanol blenders credit on July 31 didn't spark much market reaction because ethanol is still priced at a 40+ cent discount to gasoline, which favors continued blending. But without the credit, blenders will be quicker to curb blending as the spread narrows. Look for the corn market to establish a broad trading range as the crop moves into pollination with support for December futures near the recent low at $5.75 and resistance at $6.50.

SOYBEANS
On average, each summer there is at least one rally in the November futures that lifts the contract by 75 cents to one dollar, if not more, from a low reached on June 1 or later. In the other cases, the average closing price gain was 109 cents. The median or middle price gain was 84 cents. A few years were modest with gains of 40 to 60 cents. The soybean crop is in good shape nationally, having rated above average at 66 percent good to excellent on July 3. Warmer and drier weather has been considered a good thing for the crop, but that sentiment will change if it lasts throughout July and into August. Soybean traders are closely monitoring each new update of the weather forecast models. Prices now rally on hot, dry outlooks, but set back when relief appears.

WHEAT
The big break in prices through June finally attracted commercial buyers and fund traders convinced the break was overdone. However, Russia has returned to the export markets after lifting its ban on grain exports July 1 and Egypt, the world's top wheat importer, has recently changed its policy to include Russian wheat in its export tenders. In the central Plains, the winter wheat harvest is wrapping up. In the soft red wheat belt, harvest is moving ahead with good yields reported. Spring wheat crop condition ratings improved to 70 percent "good to excellent" by mid-July which is right on the ten-year average. However, with the late planting, spring wheat development is well behind normal at 13 percent headed versus 52 percent on average. The highs are most likely behind us for this season.

SORGHUM
Sorghum acreage, at 5.345 million acres, is down 1 percent from 2010 and down 5 percent from prospective plantings. Compared to a year ago, Kansas is expanding sorghum acreage while Texas is cutting back. Drought in Texas may be responsible for a 300,000 acre decline in acreage from 2010, to 1.6 million. Modest cuts are noted in other states facing extreme dryness including Colorado, New Mexico and Oklahoma. On the other hand, producers expanded sorghum acreage in Kansas to 2.5 million acres, up 150,000 from last year. Nationally, 26 percent of the crop is rated poor or very poor. Based on the June harvested acreage estimate, production will likely drop well below 300 million bushels, down from 345 million. While the summer price high is almost certainly in place, falling yield prospects could still spark at least a partial rebound.

CATTLE
While cash fed cattle have held steady near $112 per cwt into early July, prices were up about $7 from the low in early June. The cattle market has been surprisingly strong since then. The sell-off into early June was probably overdone, so some bounce back was to be expected. But it's been a robust rebound considering it's had to move against the seasonal pattern and despite increased supply. The outlook for the economy remains uncertain, but export demand has continued strong. We believe the summer low is firmly in place. There's typically some seasonal pressure on prices developing into late July or early August, but if feedlot placements are down sharply again in June, those seasonal setbacks may be limited as traders focus instead on the outlook for much tighter supplies this fall and winter.

FEEDER CATTLE
The CME feeder cattle index peaked at $136 in early April and fell to near $123 in late May. The decline from the spring high is in line with all but the most extreme seasonal setbacks. A modest recovery in deferred cattle futures and lower corn prices in early July helped support feeder cattle values. Can feeder cattle rebound into the fall? While the drought in the southern Plains and the threat of another weather driven rally in the corn market are clear risks, the corn crop condition ratings are improving and early summer weather looks favorable for the crop. Deferred fed cattle are expected to firm as fed supplies begin to tighten through the summer and fall. Also, feeder cattle supplies will be lower with the drought and aggressive pace of marketing through the first four months of the year, not to mention lower feeder cattle supplies at the beginning of the year.

HOGS
Hog futures prices have struggled back following the big drop when the USDA's Acreage and Grain Stocks reports were released in late June. Cash prices also declined over the same period. For most of the last three months traders have been worried about soft pork demand. With the threat of economic collapse in Greece and the continuing lackluster growth in the U.S. economy, concerns about demand will probably continue. Exports remain a bright spot for the market, but they may not be able to push hog prices back up much more. After all, even with the early July declines, cash hog prices were still just 7 percent below the record high and nearly $20 per cwt above year ago levels. If cash prices in the fourth quarter come in close to the $86 indicated by the December futures contract at this writing, they will be about $22 per cwt above the 2010 level. And typically, cash prices decline by between 15 percent and 20 percent from early July levels to mid-November.

MILK
The farm-level all-milk price in May was pegged $21.00 per cwt by USDA, up $1.40 from April. This was the highest price on record other than when prices were above $21 per cwt the second half of 2007. Milk prices are expected to remain strong the next couple of months before easing this fall. Production growth is slowing, but cow numbers continue to increase. Dairy slaughter the first four months of the year was up 7.2 percent from last year but ample supplies of replacement heifers more than made up for the increased slaughter. Milk production growth in May was up 1.3 percent compared to the average monthly increase of 2.2 percent the previous four months of 2011. High feed costs have limited the growth in output cow. Cheese exports are running 68 percent ahead of year-ago levels. The most bearish "wildcard" for milk if the U.S. economy and risk that production will begin to outpace consumption again.