



# AG NEWSLETTER

RUSSIA/UKRAINE WAR THROWS A NEW WRINKLE INTO GRAIN MARKETING

Having a war anywhere can add plenty of uncertainty to the market. When the war happens in an agriculturally rich area like Ukraine, it can change the market dynamics. We have seen that play out already as July Chicago wheat rallied \$4.78/bu from February 18th through March 8th.



One big aspect to look at here is the lack of exports coming out of the Black Sea. There was still plenty of export potential for both Ukraine and Russia out of the Black Sea for the remainder of spring, and as wheat harvest picks up this summer, wheat exports would have picked up also. Now that there is a conflict over there, shipping has almost come to a standstill, and we do not know how long things will be shut down. This makes the rest of the world have to go to other destinations, like the U.S., for corn and wheat. China buys quite a bit of corn from Ukraine, so traders were obviously hopeful that China would have to come to the U.S. now. Ukraine also is the largest exporter of sunflower oil and sunflower meal. Well, if that isn't moving, it puts more demand on soybean meal and soybean oil to substitute.

The next thing to look at is how much will they plant this year. There has been plenty of talk from Ukraine that they may only be able to plant 70% of the expected area they normally plant. Two years ago, Ukraine had a drought, and they grew 30mmt of corn. This past year, they grew 42mmt of corn. If they only plant 70% of a normal crop and have good weather, that would once again only give them 30mmt of corn output. China came and bought the most corn they have ever bought from the U.S. when they only grew 30mmt. This illustration is to show how important this area is to world agriculture trade, and the disruptions we could see could have huge implications for grain prices.

(cont. pg. 2)

## APRIL 2022

### IN THIS ISSUE

War & Grain Market.....	1
Crop Insurance.....	3
Breakeven Analysis.....	4
Balance Sheet.....	5
Value of Tiling.....	6
Investing or Cash Building....	7
Ag Lending Team.....	8

### FSB LOCATIONS

301 W. Falcon, Flanagan  
403 State, Benson  
2401 E. Washington,  
Bloomington  
111 N. Fayette, El Paso  
500 S. Persimmon, Le Roy  
208 E. Gridley, Gridley

Lastly, you have to also consider the effects on world fertilizer prices going forward into 2023. Russia and Ukraine account for 15-25% of the world fertilizer trade. Brazil is fairly heavily dependent on Russia for all 3 fertilizers (N, P, and K). The U.S. is not directly affected by Russia, but if the rest of the world has to go elsewhere for what they need, the U.S. farmer will pay more. The U.S. does import the majority of our potash needs, but the bulk of that comes from Canada.

Marketing has always had 'what ifs' built in but with the war, we have a whole new group of 'what ifs'. This environment is very difficult to trade because we don't know from one day to the next what may happen. The volatility is high, but so are the daily swings in price. I will always come back to trying to market with what we know and letting the 'what ifs' play out as they will. What the farmer does know today is that costs are higher for 2022. You have higher costs, so you have a higher breakeven price you need. Hopefully, we are well above those levels today, but it will not take much of a market

adjustment, and we can be underwater in a hurry. With that, the use of options makes so much sense in this environment. Put options will provide a known floor on bushels that aren't sold. If the market drops, the puts will be there to protect you. If we continue to rally, that crop isn't sold yet, so you will get that higher price. If you want to make sales at these levels, you can buy call options to keep the upside open if we really take these prices even higher yet this summer. With the increased volatility, it is even more important now to manage the risk you have, both for the 2022 crop, but also the 2023 crop. I would be watching for ways to protect the 2023 crop by summer as well. If you manage risk based on what you know, the unknown will not hurt as much when it happens.

*Kent Stutzman*  
*Advance Trading Inc.*  
*kstutzman@advance-trading.com*  
*309-828-8404*





# CROP INSURANCE 2022 DECISIONS

The 2022 crop year is off to a roaring start! Crop Insurance projected prices have been set and both are in the top 2 of all time. The corn price is \$5.90/bushel (2nd highest of all time) and the soybean price is \$14.33/bushel (all-time high). This creates a unique opportunity to protect a profit even with rising input costs.

Every operation is different, and each has its own history, family or business relationships, cost structure, production practices, etc. However, the trend of crop insurance elections for 2022 has been clear for most producers. Since the inception of SCO (supplemental coverage option) and ECO (enhanced coverage option), each have been a major player in every crop insurance decision. As a reminder, SCO and ECO are county-based products that allow a producer to increase their County wide coverage to 86%(SCO) and 90% or 95%(ECO). SCO allows a band of coverage that begins where individual RP, RPHPE, or YP plans end and extends coverage up to 86%. ECO begins at 86% and covers a producer from 86% up to 90% or 95%.

Historically, in Central Illinois, an 80 or 85% revenue protection plan has been the decision most producers have to make. However, with 2022's extremely high projected prices it has not only driven up protected revenues per acre but also driven up the cost of coverage. A strategy that many have implemented is reducing individual coverage from 85% to 80% (while still covering an operations cost of production) purchasing the SCO County-based coverage up to 86% and then layering on the 95% ECO level of protection. Therefore, giving them 95% county-wide coverage and 80% individual coverage. Below is an example of this strategy keeping in mind both "coverage per acre" and "cost per acre" of each option. Using Mclean County corn with a 225 bushel APH.

## **Option #1: 85% Revenue Protection**

Coverage per acre-  $225 \times 85\% = 191.25$  bushel guarantee  
 $191.25 \times \$5.90$ (Projected Price)= \$1128 Guaranteed Revenue  
Premium: \$34.96/acre

## **Option #2: 80% Revenue Protection, 80-86% SCO, and 86-95% ECO**

Coverage per acre:  $225 \times 80\% = 180$ -bushel guarantee  
 $180 \times \$5.90 = \$1062$  Guaranteed Revenue  
Premium: \$17.00/acre

SCO: 80%-86%  
 $225 \times \$5.90 \times .06$ (band of SCO coverage) = \$79.65  
Premium: \$7.99/acre

ECO: 86%-95% (50% liability of ECO band)  
 $225 \times \$5.90 \times .09$ (band of ECO coverage) = \$119.50  
Premium: \$21.16/acre

Total Guaranteed Revenue for all 3= \$1261.20 Guaranteed Revenue  
Total Premium- \$46.15

In summary, a producer gets 95% coverage and picks up \$133 of coverage for an additional coverage for \$11.19/acre. Purchasing the 95% band of coverage gives a \$5.61 price floor for an additional \$.049 per bushel. Protecting that price and coverage may cost you much more thru an option strategy depending on its structure. These are some unprecedented times we are living in with high commodity prices, volatile markets, and global implications. Take the risk off the table and lock in these high prices and high guaranteed revenues using a subsidized insurance product.

Partnering with the right Agent/Agency that has the experience and knowledge to ensure your policy is set up correctly and the proper coverage is elected is very important. At Agsurance LLC, we understand the importance of protecting your way of life and managing risks that occur in each specific operation. We look forward to helping any operation that has further questions and wish each operation a safe and successful 2022.



# 2022 PROJECTED BREAKEVEN ANALYSIS

Customer's Name: TODAY'S PROJECTION

Date: 3/15/22

	CORN	SOYBEANS	Total Acres
Full Share Acres	1	1	2
5 year Avg. Yield	213	64	

Expenses	TOTAL EXPENSE	CORN		SOYBEANS	
		Total	Per Acre	Total	Per Acre
Labor	\$ 65.00	\$ 34.00	\$ 34.00	\$ 31.00	\$ 31.00
Repairs	\$ 68.00	\$ 40.00	\$ 40.00	\$ 28.00	\$ 28.00
Rescue	\$ 55.00	\$ 25.00	\$ 25.00	\$ 30.00	\$ 30.00
Cash Rent	\$ 380.00	\$ 190.00	\$ 190.00	\$ 190.00	\$ 190.00
Seed	\$ 203.00	\$ 134.00	\$ 134.00	\$ 69.00	\$ 69.00
Fertilizer	\$ 308.00	\$ 221.00	\$ 221.00	\$ 87.00	\$ 87.00
Chemicals	\$ 149.00	\$ 69.00	\$ 69.00	\$ 80.00	\$ 80.00
Custom Hire	\$ 22.00	\$ 14.00	\$ 14.00	\$ 8.00	\$ 8.00
Fuel	\$ 45.00	\$ 27.00	\$ 27.00	\$ 18.00	\$ 18.00
Taxes	\$ 6.00	\$ 3.00	\$ 3.00	\$ 3.00	\$ 3.00
Insurance	\$ 50.00	\$ 30.00	\$ 30.00	\$ 20.00	\$ 20.00
Utilities	\$ 6.00	\$ 3.00	\$ 3.00	\$ 3.00	\$ 3.00
Supplies	\$ -	\$ -	\$ -	\$ -	\$ -
Drying	\$ 23.00	\$ 23.00	\$ 23.00	\$ -	\$ -
Storage	\$ 14.00	\$ 10.00	\$ 10.00	\$ 4.00	\$ 4.00
Lime	\$ 22.00	\$ 11.00	\$ 11.00	\$ 11.00	\$ 11.00
Light Truck	\$ -	\$ -	\$ -	\$ -	\$ -
Professional Services	\$ 10.00	\$ 5.00	\$ 5.00	\$ 5.00	\$ 5.00
Other	\$ 30.00	\$ 15.00	\$ 15.00	\$ 15.00	\$ 15.00
Interest	\$ 24.00	\$ 15.00	\$ 15.00	\$ 9.00	\$ 9.00
Building Lease	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Total</b>	<b>\$ 1,480.00</b>	<b>\$ 869.00</b>	<b>\$ 869.00</b>	<b>\$ 611.00</b>	<b>\$ 611.00</b>

**Operating Cost per Bushel** *per Acre* **\$ 4.08** **\$ 9.55**

Living	\$ 68.00	\$ 0.16	\$ 0.53
Taxes	\$ 52.00	\$ 0.12	\$ 0.41
Term Debt	\$ 364.00	\$ 0.85	\$ 2.84
Depreciation	\$ -	\$ -	\$ -

**Break Even Price** **\$ 5.22 per bu.** **\$ 13.33 per bu.**

**Additional Income:**

Govn't Payments	\$ -	\$ -	\$ -	\$ -
Custom Work	\$ -	\$ -	\$ -	\$ -
Specialty Corn	\$ -	\$ -	\$ -	\$ -
Specialty S/B	\$ -	\$ -	\$ -	\$ -
Off-Farm Income	\$ -	\$ -	\$ -	\$ -
Other	\$ -	\$ -	\$ -	\$ -

**Adj Breakeven Price** **\$ 5.22 per bu.** **\$ 13.33 per bu.**



- Individual  
 Partnership  
 Corporation

## Balance Sheet

(Agricultural)

Phone (cell): \_\_\_\_\_

Name: \_\_\_\_\_

Address: \_\_\_\_\_

To: *Flanagan State Bank*

Statement Date: \_\_\_\_\_

Current Assets		Current Liabilities(due within 12 months)	
Cash	\$ -	Accounts Payable (to whom, maturity, purpose)	
Savings and CDs	\$ -		\$ -
Crops or Feed For Sale (elevators & bins)	\$ -		\$ -
	\$ -		\$ -
	\$ -	Current Portion IT Debt (to whom, maturity, purpose)	
	\$ -		\$ -
	\$ -		\$ -
	\$ -		\$ -
Priced/Contracted Grain	\$ -	Current Portion LT Debt (to whom, maturity, purpose)	
Acct. Recv. owed to you	\$ -		\$ -
Prepaid Expenses	\$ -	Accrued Interest	\$ -
Cash Invested on growing crops	\$ -	Notes Payable	\$ -
Government Payments	\$ -	Credit Cards	\$ -
	\$ -	Taxes-Income & Real Estate	\$ -
Marketable Stocks and Securities	\$ -	Cash Rent Due for Growing Crop	\$ -
Other Current Assets	\$ -	Other Current Liabilities	\$ -
Total-Current Assets	\$ -	Total-Current Liabilities	\$ -
Intermediate Term (IT) Assets		Intermediate Term (IT) Liabilities	
Cash Value Life Insurance	\$ -	Portion of loans more than 12 Months On:	
Machinery, Equipment, Trucks	\$ -	<sup>9</sup> Machinery and Equipment	
	\$ -		\$ -
Non-farm vehicles	\$ -	<sup>9</sup> Vehicles	\$ -
	\$ -		\$ -
Stock/Securities - not readily marketable	\$ -	<sup>9</sup> Household / Furnishings	\$ -
Household Furnishings and Equipment	\$ -	<sup>9</sup> Life Insurance Premiums	\$ -
Recreational Equipment	\$ -	<sup>9</sup> Total Credit Card Debt	\$ -
	\$ -		\$ -
Other Intermediate Assets	\$ -	Other Intermediate Liabilities	\$ -
Total -Intermediate Assets	\$ -	Total-Intermediate Liabilities	\$ -
Long Term (LT) Assets		Long Term (LT) Liabilities	
Farm Real Estate		Real Estate Mortgages (except those under CURRENT section)	
	\$ -		\$ -
	\$ -		\$ -
	\$ -		\$ -
Other Real Estate	\$ -		\$ -
	\$ -	Total-Long Term Liabilities	\$ -
Personal Residence	\$ -	<b>TOTAL LIABILITIES</b>	\$ -
	\$ -	<b>Present Net Worth (Assets less Liabilities)</b>	\$ -
<b>TOTAL ASSETS</b>	\$ -	Total Liabilities and Net Worth	\$ -

For purpose of securing credit from time to time, this statement is furnished and is certified to be true and correct. I (or We) agree to notify said Bank promptly of any material change herein.

SIGNATURE \_\_\_\_\_

DATE \_\_\_\_\_

SIGNATURE \_\_\_\_\_

DATE \_\_\_\_\_

For our best directions to filling out your balance sheet for your lender please visit our website. Go to [www.flanaganstatebank.com/ag-newsletter/](http://www.flanaganstatebank.com/ag-newsletter/) and click on the April 2021 and page 4 has our 'best practices' for filling out your balance sheet.

# WHAT IS THE VALUE OF TILING?

In the world of farming, producers are always looking to maximize every aspect of their farm business. We have found that drainage tile has been a great way to maximize equipment and acres. Using existing equipment to install drainage tile yourself in the off-season can maximize labor, equipment, and acres.

Drainage tile has been around for over 150 years in the United States. Tile functions the same as it did many years ago, but with today's modern technology, tile can be installed very easily and cost-effectively. Drainage tile is simply the best way to grow more bushels on less acres. By removing excess water from the soil profile, the drainage tile is creating a better growing environment for the crop and producing better yields. Drainage tile is a high output, low input investment that provides a return year over year for many years.

The obvious benefit to drainage tile is historically the improved yields. We noted a 6.7BPA soybean yield increase on a farm in 2021 that was freshly tiled on a portion of it. A driveway cuts through the farm providing a nice comparison as the north portion was tiled but the south portion was not. We managed the field exactly the same except for the tile. We will continue to monitor that tiled area year over year to see the benefits. A hidden benefit of drainage tile is the ability to do field work earlier because the farm is drier. Being able to plant a field of beans a week earlier can result in a nice yield bump. In an organic cropping system, this is incredibly important for crop emergence, weed control passes, etc... Wet areas of a farm lead to high weed pressure. Returns on commercial cropland are not as quick but still is a very positive ROI. Tile does provide a very quick ROI as it is an asset that starts working immediately, and works 24/7.

## *Working Together:*

A neighborhood tile project usually brings producers to work together to make a project happen. This has been a very positive experience to work alongside a neighbor and get to know them better. It helps build trust and relationships. Just get started:

If you have a wet farm, just get started! If your ideal drainage spacing is 50' but that is not affordable right now, then consider installing the tile at 100' spacing and come back in at a later time and split those tiles at 50'. Installing tile in sections as it is affordable is also a great way to tile. Get the mains installed and then come back each year and tile a section till the farm is done. An old farmer saying is 'you pay for tile each year whether you have it or not.' I think any farmer would agree that this is true!

## *Do It Yourself:*

Tile has a great ROI and is exponentially faster if you can install it yourself. We had an interest in drainage tile and wanted to be able to install tile ourselves. In the fall of 2019, we started tiling our own acres. This has been beneficial as it can be done in the off-season and can utilize some equipment that is already on the farm. A few of these pieces of equipment are items that may already be on your farm, and some are specific to drainage tile. We learned AgLeader SMS Water Management through hands-on learning, YouTube, and online help videos from AgLeader. We aim to have wheat in our crop rotation each year so we can tile after the wheat is harvested and then have a few projects lined up for the winter months.

## *Our Tile Equipment Lineup:*

- CNH540 QuadTrac – pulls drawbar tile plow
- SoilMax Gold Digger plow with 4", 6", and 8" boots
- AGLeader 1200 monitor with RTK & SMS Water

## *Management Software*

- CAT 420D backhoe, 4x4, extend-a-hoe
- CAT 262B skid steer for covering up dig holes
- John Deere 835I Gator with full RTK for marking out tile lines, topography maps
- Wayne's tandem axle stringer cart with wireless brake remote control
- O'Connell Super Closer – 4 disc trench closer
- Maverick – 650' 3/8 fiberglass/plastic composite copper rod tile locator

## *Advantages:*

- Triple payoff through appreciation, depreciation, and asset improvement
- Improved yield = Improved APH
- Dry field = plant earlier
- Better plant nutrient uptake
- Work with neighbors to benefit all

## *Disadvantages:*

- Creates a lot of work in the off-season
- Labor-intensive work – 5 person crew is ideal
- Outlets can be a challenge depending on slope, down stream tile size, etc...

## *Derek Stewart*

### *Stewart Family Farms*

*309-264-7700*

*Stewartfamilyfarms336@gmail.com*

# INVESTING TODAY OR CASH BUILDING UP?

Many people around find themselves with cash these days. It's been a crazy couple years with COVID, government payments, high asset prices, etc. Now inflation is the biggest enemy along with the uncertainty of what is going in in eastern Europe.

But what do you do with the cash now? It's such a tough question to answer, but many people are asking it. With inflation at very high levels, one of the best ways to beat it is to invest in stock funds.

First of all, there are two important determinants of what you will do with your money: 1) how you feel about risk, and 2) when you see using the money.

## *Risk*

How you personally feel about, and handle risk is a major factor. Many people go right into buying individual stocks. This should be done with caution. Your risk is much higher if you buy stocks because you have market risk and individual company risk. If you don't understand this, you probably shouldn't be investing on your own. You may have too much stock in your account if you get very nervous or don't sleep at night when the market is going down. Just like you don't diagnose yourself if you have a serious injury, you can do harm to your financial future by taking action without counsel from a professional.

## *Time Horizon*

The other important facet is when you might use the money. If you will likely need the money in the next year or two, you don't want to invest all of it in stocks. If you could see leaving it invested awhile, then a mixed portfolio of stock and bond funds is an option. The longer the time horizon, the bigger % of the money should be in stocks. Money earmarked for retirement should be significantly invested in stocks if retirement is still years away.

## *Types of Accounts*

Besides know the investing options, you also need to understand what type of account you should use. Traditional IRA, SEP-IRA, Roth IRA, regular brokerage account, or trust account are some options. This is going to depend on many things, so it's best to consult a true professional for sound advice.

## *CAPS Financial Group*

CAPS Financial Group is affiliated with Flanagan State Bank. CAPS is a 100% fee-only firm, so we don't sell things for commissions of any kind. You pay us a fee to look out for your best interests; you can feel at peace that you aren't getting sold something. Matthew Schwerin is a CFA charterholder, so you know you are dealing with a true professional, not a salesperson.

*Matthew Schwerin*

*(630) 247-0033*

*mschwerin@nsinvest.com*



2401 EAST WASHINGTON  
BLOOMINGTON IL 61704

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PAID  
ROCKFORD, IL  
PERMIT NO. 1

AG LENDING TEAM



**RICH RITTER**  
Gridley  
rritter@fsbfamily.com  
309-747-3600



**DAVID WYSS**  
Flanagan  
dwyss@fsbfamily.com  
815-796-2264



**SARAH HOERNER**  
LeRoy  
shoerner@fsbfamily.com  
309-962-4707



**LOGAN WEBER**  
Benson  
lweber@fsbfamily.com  
309-394-2785

[www.flanaganstatebank.com](http://www.flanaganstatebank.com)

