WEEKLY CORNBELT UPDATE

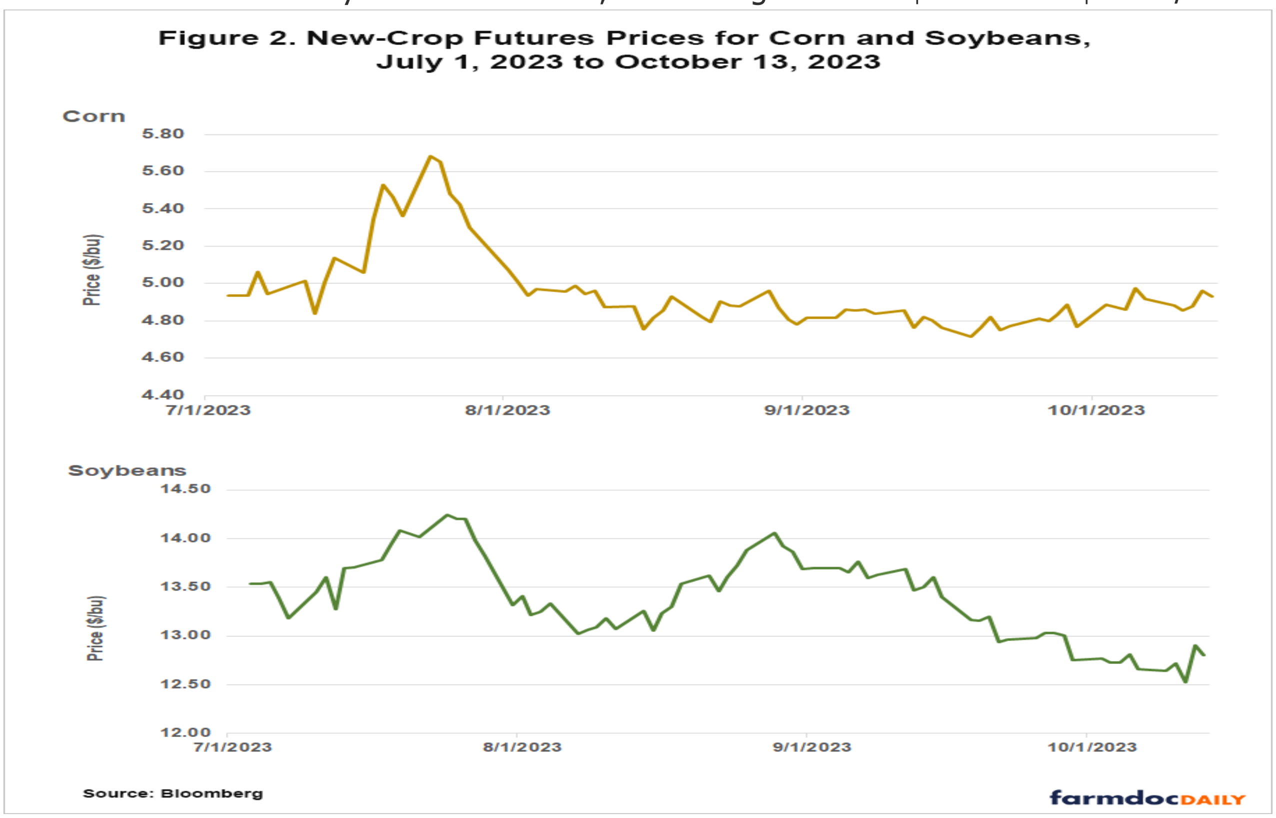
PRESENTED BY FLANAGAN State Bank

A weekly Cornbelt digest of marketing, economic, agronomic, and management information.

Commodity market price drivers—

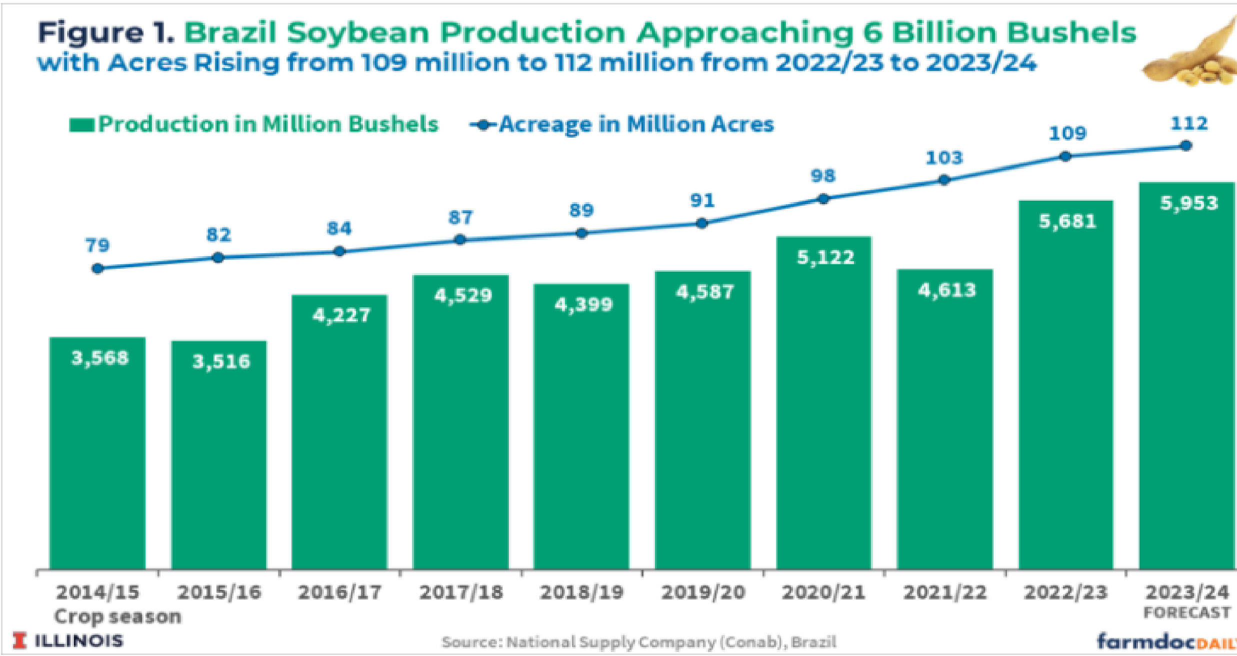
- **Low water levels along the Mississippi River** are impacting grain marketing in several different ways. Primarily the low water is causing transportation disruptions for agriculture, as the river saw record low levels earlier this month. The lower levels mean less product can flow along the river. American Farm Bureau Economist Danny Munch explains how farmers can buffer against transportation disruptions like this one, "One of the big options is looking at grain storage. When farmers have a sufficient storage capacity close to where they're growing, it means they can have a place to offload harvest if downstream transportation options are too expensive or unavailable, as they're in many places right now. On-farm storage allows them to have almost full control over when they want to market those goods. So, they can really track transportation prices and other market factors before making the ultimate decision to sell or ship their product." USDA data shows the United States has 25.4 bil. bu. of grain storage capacity, "When you look at total current stocks as well as expected harvest, that number is 23.12 bil. bu. So, comparing those 2 numbers we have about a 2.2 bil. bu. surplus of grain storage, which means we have a little bit of wiggle room, which is good during these low river conditions. It's not uniform across all states, though, so depending on the state you're in, some product is going to have to find another way to move." The decision to store grain for longer periods of time does require some financial considerations, "High interest rates increase the cost of storage and elevators, which means farmers might receive lower bids for their crops. Farmers also have large sums of money tied up in grain inventory based on the capital that they borrowed for the season's expenses, and that can be paid back when they sell their product. So, if they choose to store the product, those farmers are on the hook for more interest payments, and continue to have all that capital tied up, but obviously weighing the costs and benefits is important for each individual farmer. Finding an alternative to river transportation for excess crops will likely be necessary. Long-term risk management plan discussions for commodity growers should include on-farm storage availability, a great but costly way to hedge against current and future transportation risk. Additional on-farm storage capacity provides farmers more control of product marketing and a leg up on the ultimate price they receive for their crop."

- **What did the October WASDE report tell you?** IL Farmdoc ag economist Joe Janzen says, "The report reaction serves as further evidence that market conditions differ by crop: the corn market is adequately supplied, and corn prices are comparatively low and stable. The soybean market remains tight with relatively high and variable prices. Going forward, the corn market offers sellers low prices in the near term, but comparatively strong and stable returns to storage. The soybean market is more uncertain, particularly as the situation with low Mississippi River system water levels crucial to soybean export movement is being resolved." And Janzen says those factors," suggests there are 2 basic market conditions: 1) high stocks with low, stable prices and 2) low stocks with high, volatile prices. Last week's report reaction suggests the corn market is in former condition while the soybean market is in the latter one. New-crop futures price dynamics since summer 2023 confirms this idea. Figure 2 shows prices for the December 2023 corn futures and November 2023 soybean futures contracts; each represents the value of crop at and after the current harvest. Since the sharp rally observed in late July, corn futures have traded in a narrow range between $4.70 and $5.00/bu. Soybeans have shown considerably more movement, fluctuating between $12.50 and $14.00/bu."

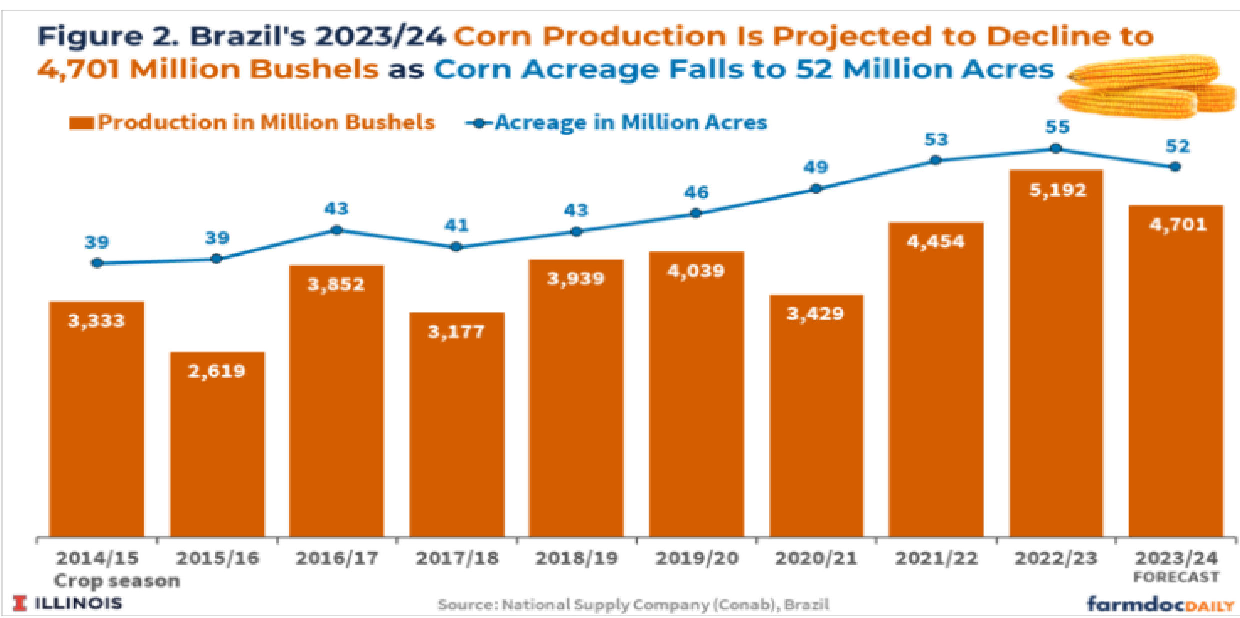


Janzen concludes: "We should continue to observe a wider trading range for soybeans, which represents both an opportunity and a threat for farmers considering whether to sell or store after harvest. Prospects for soybean exports appear good and barge rates on the Mississippi River have declined in the past two weeks. In contrast, significant rallies are unlikely for corn. Forward corn bids show modest returns to post-harvest storage from both futures carry and basis appreciation. Corn and soybean sellers must choose which market condition suits their preference for risk."

- **In the wake of US corn and soybean prices**, “Farmers in Brazil are expected to plant more soybeans and less corn in the 2023-2024 crop season.” That is the projection of Brazil’s CONAB agency and IL Farmdoc ag economists. “The reason? Producers find corn prices unattractive relative to soybeans. In addition, the El Niño weather pattern has adversely affected the outlook for corn in Brazil.”



The 2023/2024 soybean crop is projected to be a record 5.953 bil. bu., an increase of 4.8% over the previous harvest. Brazilian soybean acreage is expected to grow 2.5% to 112 mil. acres, according to Conab.



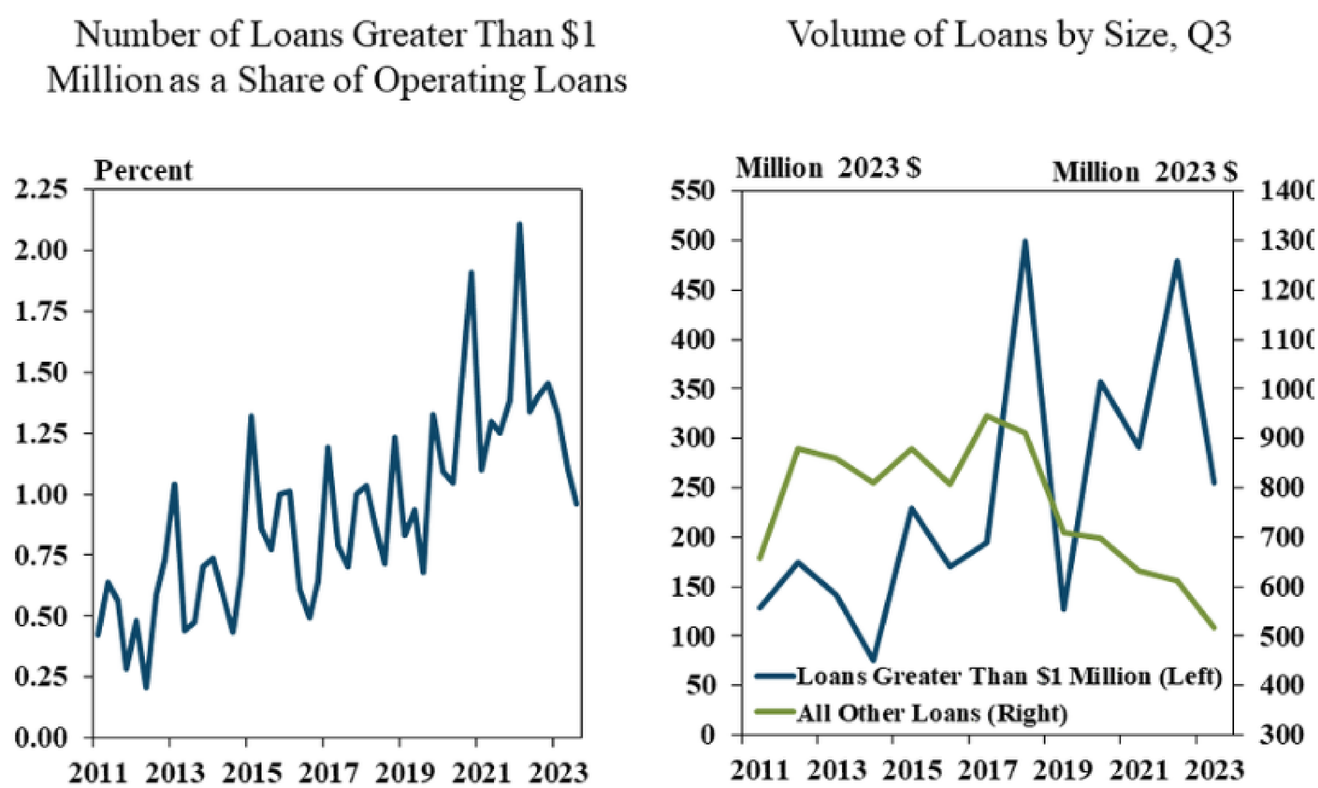
Although Chinese interest in U.S. corn has slowed significantly in the past year, the lower projection of the Brazilian harvest and the greater supply of corn in the United States will potentially allow plentiful U.S. supplies to regain a share in global trade.

***Ag Economy*—**

- **Federal Reserve Board members** will meet Oct. 31-Nov. 1 and are expected to hold interest rates steady. Last week they reviewed the US economy, including the ag economy.
  - ✓ **Chicago Fed:** Projected farm income in the District for 2023 remained well below 2022 levels, as lower crop prices offset positive news from early harvested acres. Notably, corn and soybean prices continued to fall, while yields were coming in above earlier expectations, which had been pessimistic due to the ongoing drought. Cattle prices moved higher, but growth slowed some. That said, one contact reported that except for beef, many animal operations were experiencing below breakeven prices. Egg prices were flat, while dairy prices were mostly higher. Prices for agricultural land showed signs of softening, especially for ground of lesser quality. Rising interest rates stretched farm finances given high debt levels of many operators.
  - ✓ **St. Louis Fed:** Overall agricultural activity has remained stable since our previous report, though contacts' outlook for future conditions was mixed. Corn yields across the District fell slightly below 2022 levels, while soybean yields hovered slightly above. Corn production increased relative to this time last year, but soybeans decreased. Low water levels meant that barges needed to float at a lower weight, which raised shipping costs. Due to elevated storage and transport costs, some contacts stated they planned to leave their crop in the field rather than harvest.
  - ✓ **Minneapolis Fed:** District agricultural conditions strengthened slightly since the previous report. Drought conditions moderated in parts of the District but persisted in the eastern and northern regions. Industry contacts reported that early indications of crop production were better than expected, given weather conditions. However, farm incomes decreased from a year earlier in the third quarter, according to preliminary results of the Minneapolis Fed's survey of agricultural credit conditions.
  - ✓ **Kansas City Fed:** Conditions in the Tenth District farm economy softened alongside further declines in commodity prices and prolonged drought. As harvest began in some areas, at least one third of corn and soybean acres were in very poor condition, raising concerns about yields and revenue. Dry conditions across the nation also reduced water levels in the Mississippi River, disrupting barge traffic along many gulf port routes and heightening concerns about freight costs and export activity. Cattle prices continued to be supported by low inventories, but drought also constrained hay supply in many areas, raising costs for ranchers. Interest rates were another key concern cited by agricultural contacts, as producers faced significantly higher financing costs.
  - ✓ **Dallas Fed:** Drought intensified across much of the District over the past six weeks and crops continued to suffer from excessive heat. Grain prices fell notably, with wheat hitting its lowest price in 2 years. Pasture forage conditions were poor to very poor, and ranchers were still supplemental feeding, which is unusual for this time of year.

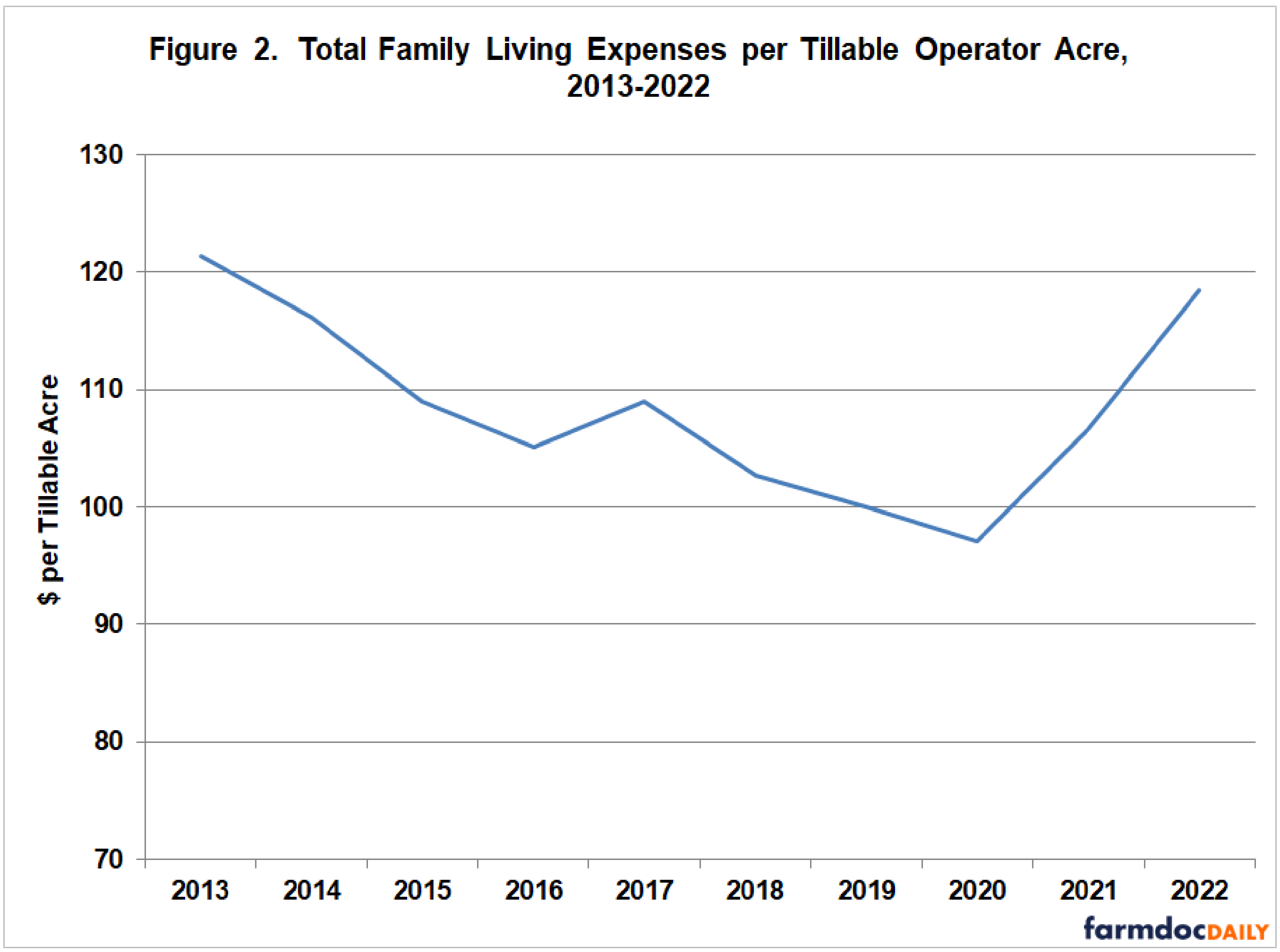
- **Farm lending activity slowed** further in the third quarter alongside a drop in operating loan volumes. The number of new non-real estate farm loans was flat compared to a year ago, while the average size shrank almost 20%. The amount of operating loans over $1 mil. dropped notably. The Kansas City Fed says lending has softened alongside significant increases in farm loan interest rates that have put considerable upward pressure on financing costs. The farm economy has moderated in recent months as profit margins thinned alongside lower commodity prices and elevated expenses. Credit needs have increased for many borrowers because of high input costs, but strong liquidity built up in recent years has also allowed many producers to supplement additional loan advances. Higher financing costs have prompted farmers with enough liquidity to limit debt usage, but any softening in farm finances could reduce reserves and increase loan demand. While the farm economy has recently shown moderation due to narrower profit margins driven by commodity prices and increased expenses, credit needs have risen for many farmers, mainly due to high input costs. However, many producers have been able to supplement their financial needs with savings amassed during previous profitable years. The Kansas City Fed also reported that the average interest rate on various types of farm loans, after rising for nearly two years, has reached the highest level since 2007, standing at 8.34%. This surge in financing costs may have prompted farmers with substantial liquidity to limit their debt usage.

Chart 2: Farm Operating Loans by Size



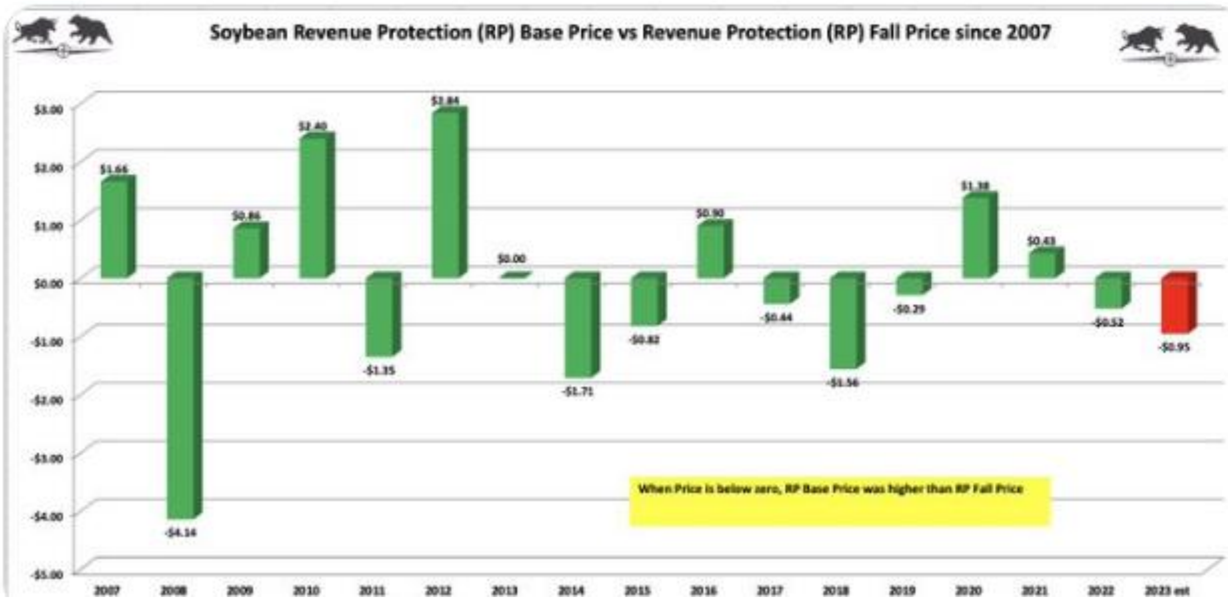
Farm Management and Budgeting—

- **What does it cost your family to live?** Depending on the number of individuals, their ages, activities, and habits, it could vary widely. However, [Brad Zwilling of IL Farm Business Farm Management]() tallied the expenses of 1,329 families participating in FBFM and reported 2022 non-capital living expenses averaged $7,600 per month, with a $91,404 yearly total. He says that was a 6% increase over 2021 and did not include $7,432 for capital expenses. Taxes, social security, and non-farm income are not included. Zwilling says, "Total family living expenses (expendables plus capital) were divided by tillable operator acres for 2013 to 2022. $108 was the 10-year average of total family living expense per acre. If we compare this to the 10-year average of net farm income per acre of $174, then 62% of the net farm income per acre is family living expense. If we look at the average year over year change for the last 10 years for family living per acre, the annual change was 1.9% per year. The 5-year annual change per year would average 0.5%. Therefore, as you work on your crop budgets, keep in mind that a $118 per acre family living is equal to a 54₵ per bu. price change on 220 bu. per acre for corn."



Risk Management and Crop Insurance—

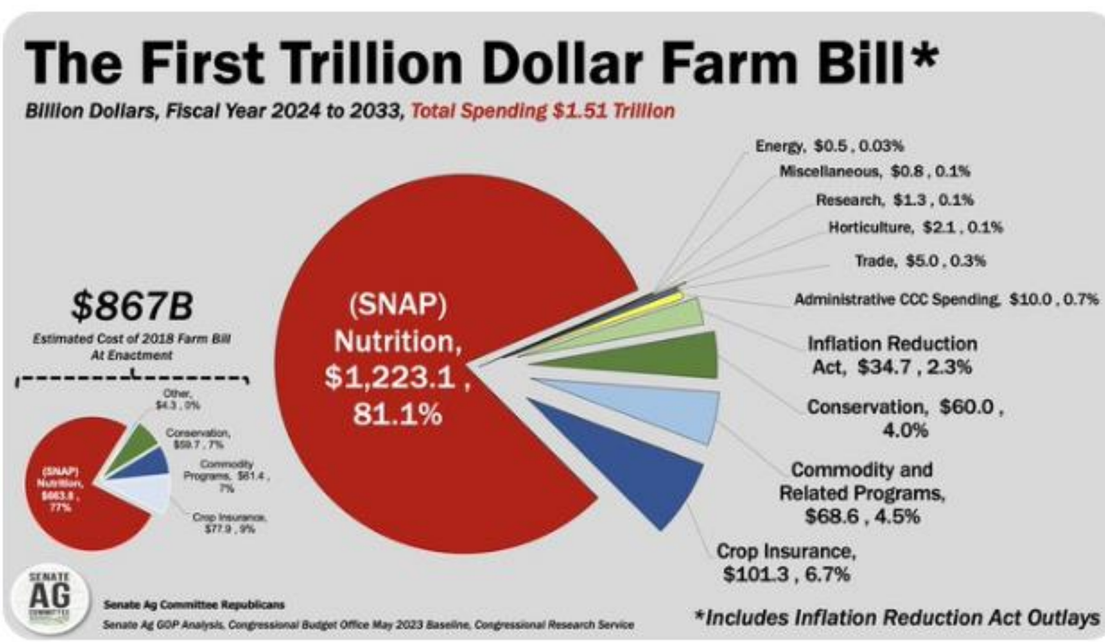
- **Soybeans may be at a profitable price level,** but they are 95₵ down from the spring guarantee, which is one of the bigger differences in the past few years. That is a 6.9% drop from the $13.76 spring price. It is not nearly the $4.14 drop recorded in 2008, but much closer to the $1+ drops in 2011, 2014, and 2018. Like beans, there have been 4 years when corn has dropped more than $1 under the spring price. AgriSource also reports the Revenue Protection fall price, through Oct. 20, and 64% of the month, is $4.91 for corn, compared to the $5.91 spring price.



To sum up, we are 75% of the way through the October harvest averaging period for corn revenue insurance with an average price near $4.91, exactly $1 below the Feb price. And the same for soybeans. Nov beans staged a 22₵ rally last week, closing back above $13 on Friday. October's average thus far is $12.82, and like corn, is nearly $1 less than the spring price of $13.76.

Farm Bill Issues and Battles--

- **Although the Farm Bill expired September 30,** the House Agriculture Committee is nowhere near announcing a replacement. In the past week, Chairman Rep. Glenn Thompson, R-PA, gave the Democratic minority a list of potential cuts being considered, which would provide funds for other priorities of committee members. Most of the cuts were Democratic priorities, including, the climate-related programs in the Inflation Reduction Act, the Thrifty Food Plan that determines the level of benefits under the Supplemental Nutrition Assistance Program (SNAP), the Conservation Reserve Program, and limits on the Agriculture secretary's use of the Commodity Credit Corporation, USDA's line of credit at the Treasury to make payments to farmers. Those proposals total about $50 bil. over 10 years but were not acceptable to the Democrats. With only a handful of working days before the end of the calendar year, the House has not indicated whether a Farm Bill will be proposed, or whether an extension of the expired bill will be proposed. IL Farm policy Specialist Jonathan Coppess says it may be just as easy to take the farm program that expired in 2023 and attach a 2028 expiration date to it. He says farmers will be getting higher ARC and PLC prices because of the natural progression of the formulas for setting them.
- **The first real deadline** if no Farm Bill is in place, are several programs where the program rules will be reset to the ones used in the 1940s, says Kevin Semlow of IL Farm Bureau. Not all members of Congress share Chairman Thompson's optimism and there appears to be behind the scenes chatter including the word "extension." However, there is still hope that the Farm Bill can be completed this year. The ranking House Agriculture Committee member Rep. David Scott, D-GA, said his aim is to have a bipartisan Farm Bill and encouraged this process when the new speaker is elected to continue. We also continue to call for a Farm Bill to be approved before December 31, 2023."
- **One of the major GOP concerns** is the cost of the legislation. Instead of being $150 bil. per year for 5 years, the Congressional Budget Office requires a 10-year horizon, and that pegs the Farm Bill at $1.5 tril. over 10 years. To get an idea of how much different titles in the Farm Bill cost, the Senate GOP's ag economist John Newton breaks it down for you.



- **Despite the angry politics in the House,** some members of Congress are attempting to address the issues for which they were elected, and to the benefit of farmers, part of that effort is toward the Farm Bill. Rep. Ashley Hinson, R-IA, (right) says, "What I can tell you is that we are still moving forward with the farm bill," she said Friday morning. "Actually, some of the conversations Thursday were about some of the policies we have bipartisan agreement on and trying to figure out the mechanisms for paying for those." She says the House needs to get back to its policy priorities. "Kevin McCarthy was a great speaker," Hinson said. "He delivered results for us, and I do think he should still be our speaker. The only ones who suffer from this are hardworking people across the country, not the politicians playing games up here." Hinson says she remains optimistic a Farm Bill can happen soon.

Agri-Politics and Legislative News—

- **Sens. Chuck Grassley, R-IA, (left) and Cindy Hyde-Smith, R-MI**, (right) along with 15 Senate GOP colleagues, are challenging the EPA to abandon its proposed mitigation measures targeting 11 rodenticides. In a letter to Environmental Protection Agency Administrator Michael Regan, the senators urged Regan to consult the businesses and individuals who rely on rodent control products when developing rules that affect their operations. "As written, the proposed mitigation measures will place severe restrictions on product users and result in crop damage and livestock loss, jeopardize the safety of the food supply, weaken public health protections, and make it more difficult for people to protect their homes and properties from rodents," the letter says. The EPA's proposed mitigation measures would classify most rodent control products as restricted-use pesticides and require users to become licensed, state-certified applicators. It would prohibit surface application methods for protecting crops and require growers to conduct carcass searches for two weeks after application. After the EPA proposed the mitigation measures, the USDA **issued a memo** in opposition. It cited the benefits of rodenticides and lack of evidence supporting a need for EPA's rules, as well as survey data illustrating concerns among rodenticide users and crop advisors.

Commodity Organizations—

- **How are issues pushed into legislation** in the Congress, or the IL General Assembly? The most successful way is through "caucus action," such as the Congressional ethanol caucus that has been operating for a couple decades. Now the IL Soybean Association has revealed its success in pushing biodiesel into legislation has been through the creation of the Sustainable Fuels Caucus in Springfield. ISA's Director of Government Relations Andrew Larson says "Coalitions bring opportunity, opportunity we will need as the state continues to move forward with green energy initiatives. Biofuels are a part of the solution, not just for our domestic energy needs, but to the market needs our farmers are relying on us to create. Every time there is a conversation at the state or federal level where domestic energy is discussed, we want to be there. We look forward to this coalition serving as a vehicle of development for our farmers and the state's energy future." This caucus isn't just about biodiesel though – it is about promoting all forms of sustainable fuels. Last January, Governor JB Pritzker signed into law the $1.50 per gal. SAF purchasers' credit, to help drive demand for both corn and soybeans in IL. Because of this first and only in the nation incentive, industries are looking to expand SAF production in IL, which will benefit our environment, economy, and growers.
- **The National Corn Growers Association** announced a new round of research grants to help farmers manage aflatoxin issues. Proposals not exceeding the $100,000 per year limit—will be accepted by the Aflatoxin Mitigation Center of Excellence no later than Wednesday, November 15, 2023. The competitive grants program offers research grants for projects focused on solving profit-robbing aflatoxin issues for farmers. The program was developed by a consortium of southern state corn checkoff boards to provide a unified approach to funding projects affecting growers across the region. NCGA serves as the management structure to leverage more dollars for solving aflatoxin issues and to build strong regional teams, which would be highly competitive for federal, public, and private funding. Visit NCGA.com.

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Flanagan State Bank has had experience and produced results in tough Financial Times and our motto is "Farming with a Future." Our lenders will approach every farmer with a "how can we help you" attitude we will work to provide adjustments and solutions all while doing our best to improve your current situation. We will work together alongside you to get back and stay on track financially. We cannot grow and be profitable as a bank without our customers which means we succeed when our customers succeed.