WEEKLY CORNBELT UPDATE

PRESENTED BY FLANAGAN State Bank

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

Commodity market price drivers—

- **Commodity markets continue to watch crop progress** in South America and crop specialist Michael Cordonnier says farmers there are losing some potential harvest to weather conditions, "In Brazil, the problem is they had very hot, dry weather in October, November, and early December, and that really impacted the early-maturing soybeans. And to give you an idea, in Mato Grosso as of last Friday, the soybeans were about 6.5% harvested, and the average yield thus far was 35 bu. per acre. That's about 20 bu. less than what was anticipated, and it was all because of the hot, dry weather during pod fill. About 40% of the soybeans in Mato Grosso are early maturing, so the hot, dry weather sped up the growth cycle for the soybeans, reduced the yield, and delayed the planting." Farmers in northeast Brazil recently finished planting their soybeans, 1 or 2 months behind normal. Forecasters are lowering their soybean yield predictions, "I lowered my Brazil soybeans to under 5.5 bil. bu. All the private estimates have been lowered due to the poor yields of the early-maturing soybeans. Now the soybeans nationwide were 2.5% harvested, and that's going to pick up now with drier weather and more later-developing soybeans maturing, so this has been a historic loss for soybeans in Central Brazil." Despite the yield loss, South America will still produce a lot of soybeans, thanks in part to improved numbers in Argentina, "If you look at all of South America combined right now, the soybean production has gone up about 660 mil. bu. from last year. But there's a big caveat here. I have Brazil soybeans, 5.5 bil., and some of the losses in Brazil are being made up by good increases in Argentina. Last year, Argentina had a terrible year. Their soybean production was like 920 mil. bu. This year, I have them at 1.9 bil. bu., so some of the losses in Brazil are being made up by Argentina." Cordonnier's current estimate for Brazil's corn is estimated to be 4.5 bil. bu. Argentina's estimated corn is 2.2 bil. bu. Paraguay's soybean estimate is 365 mil bu., and Paraguay's corn is estimated at 200 mil. bu. (NAFB News Service)

- **How will the 2024 election process** impact the grain market? If this would be a traditional election, it could be a recovery in the grain market, says Market Minute advisory service.

Corn	Front Month (Jan. 1)	Front Month (Dec. 31)	Price Change YOY	Price High	Price Low	Rally to Highs from Jan. 1	Avg. Rally from Jan 1
2020	$3.87 3/4	$4.84	$0.96 1/4	$4.84	$3.00 1/2	$0.96 1/4	$1.52 3/4
2016	$3.59 1/2	$3.52	-$0.07 1/2	$4.39 1/4	$3.10 3/4	$0.79 3/4	
2012	$6.62	$6.98	$0.36	$8.43 1/2	$5.51	$1.81 1/2	
2008	$4.56	$4.06 3/4	-$0.49 1/4	$7.73	$3.05 1/2	$3.17	
2004	$2.45 3/4	$2.04 3/4	$0.41	$3.35	$1.93 1/4	$0.89 1/4	

- **The January WASDE report** showed a record increase of estimated global corn carryout in 2023, when one digs deeper into the report. Mike Zuzolo, of Global Commodity Analytics, says he expected the corn number to be higher than initially predicted. However, the boost in international corn production was surprising, “The global corn number was something that I was expecting to drop pretty substantially because of the damage already done when it came to Brazil's corn. On top of that, while Argentina looks like they are setting themselves up for a very good if not near-record crop in corn and beans, the ability of Argentina to offset the losses that I think have accrued from the weather that's already occurred in Brazil is something I think the trade and the USDA have not priced in at all, and that's where I do scrutinize those numbers.” The increase in China’s corn production is surprising because the Asian nation appears to be importing a large amount of corn, “To see the USDA increase the world corn ending stocks by around 510 to 550 mil. bu., and China to be 475 mil. of that roughly, and us to be essentially the balance of that with our yield increase, that's a real head-scratcher for me.” Zuzolo, a long-time market analyst, says the markets need to start paying more attention to the details in these reports, “If you looked at USDA’s line items and the world minus China, those ending stocks did not change at all. And this is what I'm saying now. What we learned in 2023, and will continue in 2024, is the trade does not scrutinize the commodity markets as it used to, and I think that's an excellent example, as is the increased hostilities in the Middle East and crude oil that’s been losing value, not gaining value. This has got to change in order for us to see a different commodity trend in 2024.” (NAFB News Service interview)

- **When do you market your grain?** Before harvest? After harvest because you will know how much you have to sell? After January 1 because of tax implications and not wanting more than one crop in a calendar year? IL Farmdoc ag economist Joe Janzen studied the grain marketing practices of thousands of farmers participating in Farm Business Farm Management. While he found a combination of grain marketing practices, he says it was evident they could have helped themselves by selling grain at times of better market prices ahead of harvest. His analysis is captured in this short video. His detailed research can be found here, and here, and here.

- **Speaking of tax implications** when marketing grain, Brad Zwilling says some farmers who are preparing their income tax filing are getting surprised about how much money they will owe this year on their federal and state tax returns. Zwilling says more than the normal amount of grain was sold in 2023 because of higher prices that farmers were able to capture, and that is raising a bit of financial stress on some farms within the Farm Business Farm Management program. His observations are reflected in this short video.

- **A couple quotes on marketing** seemed to stand out last week:
  - ✓ "The mood has been good for the most part. In all honesty, one of my main goals is to help everyone understand the situation we're in, embrace it and then get our heads wrapped around how we're going to tackle our challenges. 2024 could be tough to navigate, but I still think it won't be as tough as 2023 due to cheaper costs of production." –Matt B.
  - ✓ "The real issue now is the low price of corn. No one wants to sell. They will not believe one when you tell them to sell. Had a farmer complaining about price and I told him to sell 6 months ago. He said, 'Yes you did.' Farmers will make worse selling decisions as they become better off financially. We are living off 2 very good years. Thus, they do not want to make a decision. This will only lead to a bad outcome." –Jerry R.
  - ✓ "Bearish chart patterns have a hold on the markets, with a fundamental spark needed to turn things around. Traders had hoped the USDA would provide this spark last Friday, however that was not the outcome."—Dale P.

Ag Economy—

- **Federal Reserve Board Governors** gather Jan 30-31 to discuss interest rate adjustments they believe necessary to continue toward a soft landing for the US economy. Fed economists at each of the district banks prepared analyses of their local economies, including agriculture:
  - ✓ **Chicago Fed:** District net farm income was above average for 2023 according to contacts, helped by stronger than expected crop yields. However, expectations for 2024 farm income were lower, as prices started the year below break-even levels for many commodities. Corn and soybean prices edged down during the reporting period while wheat prices were up a bit. Cost changes for crop production inputs were mixed. Dairy, hog, and cattle prices decreased. Contacts felt District farms generally ended 2023 in strong enough financial positions to weather whatever 2024 brings.
  - ✓ **St. Louis Fed:** Agriculture conditions have worsened slightly since our previous report, as ongoing droughts continue to effect crop and livestock conditions. Of the District states reporting data through the end of December, the percent of winter wheat rated as fair or better was down only 2% relative to last year. Total wheat acreage in 2023 expanded significantly compared with 2022, returning to 2021 levels. Conditions in TN, where drought is the most extreme, declined more dramatically; the percent of TN winter wheat rated fair or better fell 22 points during the reporting period, ending at just 76%. While drought conditions improved slightly in TN over the reporting period, the extent of moderate to severe drought increased throughout the northern areas of the District.
  - ✓ **Minneapolis Fed:** District agricultural conditions were unchanged since the last report. Contacts across the region gave differing reports about farm incomes. Contacts generally agreed incomes were down substantially from a year ago, though some indicated they were stronger than expected.
  - ✓ **Kansas City Fed:** Agricultural economic conditions in the Tenth District were steady through December, but softening farm income and credit conditions remained a concern. Crop prices were stable over the past month, ending 2023 considerably lower than a year ago. Profits narrowed the past year alongside the moderation in prices, particularly in areas where yields were impacted by drought. Corn and soybean yields increased slightly from last year in NE and parts of KS but remained below the 5-year average in all District states. Despite some recent volatility, cattle prices were strong alongside low inventories and supported profitability for cow/calf producers. Many District contacts cited ongoing pressure from elevated production costs and higher interest rates as major factors for the outlook of the farm economy in 2024.
  - ✓ **Dallas Fed:** Drought conditions continued to recede, and contacts noted generally good soil moisture and an expectation for better crop production prospects this year with El Niño conditions forecasted through the spring. Agricultural prices were down across the board over the past 6 weeks.

- **The agricultural economy faces some headwinds** heading further into 2024. Roland Fumasi, Head of RaboResearch Food and Agribusiness – North America, says things are taking a step back after a few productive years, "When you look at the last two crop years, growers had some record pricing, really, really strong. It's the positive aspect of it. Balance sheets are in pretty good shape, which is going to allow, on average, out there to withstand some of the pain that we're seeing. Now you look at corn and soybean markets very, very depressed, and even more depressed after last week's WASDE, so there's going to be a little giveback of that cash build-up over the next two to three years, but people should be able to withstand it after two very successful years." He says most farmers have some liquidity left after multiple years of high prices, "As of today, I would say yes, even when you look back at the beginning of 2023 when we were in that previous crop year, prices stayed pretty strong through the first half of last year. So, it's just in the second half of 2023, and currently where we've seen the markets get depressed. As of today, the average producer out there is in pretty good shape in terms of their balance sheet. Unfortunately, there's going to be some time here where this pain is probably going to last a bit." Farmers are holding a lot of commodities on-farm, which means they're going to have to get sold some time, so prices will likely drop, "I think about on-farm stocks being at record highs. At some point here in the coming months, we've got to make room for the crop late this year." Other countries also have a lot of stocks on hand, which isn't promising for overseas demand, "It's a supply-side issue when you think about the consecutive record years that Brazil had. Keep in mind - this doesn't get talked about a lot- China had a record corn crop. You think about that, and you think about the U.S. crop being a lot stronger last year than what a lot of people were originally anticipating. Yields just got revised upward, which didn't surprise us." (NAFB News Service interview)

FSA, Risk Management and Crop Insurance—

- **USDA's Risk Management Agency** is part of USDA's policy to expand the availability of food in the US and world, and is changing policies and procedures to benefit the practice of double cropping. The RMA term is "following another crop (FAC)," but the effort will help enable agricultural producers to produce two crops on the same land each year, such as spring-planted soybeans or grain sorghum following the harvest of a crop such as winter wheat. Such coverage in some counties required farmers to go to extra measures to get permission. Now there is a blanket written agreement (BL) that covers a lot of uncertainty, which your crop insurance agent can provide. RMA says, "FAC (Following Another Crop): A planted crop following: 1. A perennial hay crop that was harvested in the same calendar year; and 2. A crop (other than a cover crop) that has reached the headed or budded stage prior to termination, regardless of the percentage of plants that reached the headed or budded stage; Termination means growth has ended. A crop that follows a cover crop that meets the criteria outlined in the Insurance Availability section of the Special Provisions is considered NFAC. The BL agreements available in IL do not provide coverage for organic or specialty type soybeans. Coverage can be requested through the traditional written agreement process."

- **Farmers who sign up with the PLC farm program**, which allows them to obtain the supplemental crop insurance option, should beware that the USDA's Risk Management Agency has issued new answers and explanations to accompany the SCO program. SCO program participants should review the new RMA information sheets to avoid an "Oooops!"
  - ✓ A Frequently Asked Questions (FAQ) providing detail on the interactions between these RMA and FSA programs: Agriculture Risk Coverage/Price Loss Coverage Interaction with the SCO/STAX Programs
  - ✓ Updated Fact Sheet for the SCO program: Supplemental Coverage Option for Federal Crop Insurance National Fact Sheet

Farm Management and Finance—

- **Updated crop budgets** from IL Farmdoc Ag Economists show IL farmers are likely to lose money on their cash rented acres this year. Nick Paulson created an article for farmdoc Daily which details the declining returns in the face of lower current and projected prices for corn and soybeans, "So, for 2023 we are looking at a $4.80 price. That's a slight adjustment down from what we had in August and then the larger adjustment down to $4.50 for the corn price. Soybeans it is a similar story. $12.90 price for 2023 and then the big adjustment down for

Table 1. 2024 Corn and Soybean Budgets for Northern, Central, and Southern Illinois

	Northern		Central-High		Central-Low		Southern	
	Corn	Beans	Corn	Beans	Corn	Beans	Corn	Beans
Total non-land costs	**$816**	**$494**	**$812**	**$517**	**$806**	**$498**	**$812**	**$567**
Operator and land return	**$179**	**$288**	**$210**	**$311**	**$157**	**$273**	**$48**	**$100**
Land costs (cash rent)	318	318	363	363	292	292	207	207
Farmer return	**-$140**	**-$30**	**-$154**	**-$52**	**-$135**	**-$20**	**-$160**	**-$107**
Breakeven price to cover:								
Non-land costs	$3.69	$7.26	$3.58	$7.18	$3.77	$7.43	$4.25	$9.78
Total costs[1]	$5.13	$11.94	$5.18	$12.22	$5.13	$11.79	$5.34	$13.34
Corn-Minus-Soybean Returns	-$110		-$102		-$116		-$53	

2024 to $11.50. And then the other side of the story, big picture, is that we have production costs which increased significantly with the high returns we had in 2020, 2021, and 2022 and historically those production costs are pretty sticky, and they don't drop as quickly. We tend to see a lag, a longer lag, in adjustments downward in those costs." The Farmdoc Daily article posted by Nick Paulson shows the lower price projections coupled with the lagging costs produce average net per acre losses of more than $100 per cash rented acres in the majority of IL. (WILL Radio interview)

- **Farmers will have to make Farm Program decisions** by March 15. There is still time to gather your thoughts and make the ARC and PLC decision before visiting the local FSA office. IL Farmdoc ag economists say there is a new wrinkle in the works this year, resulting from higher prices the past several years, which raised the average payment price. "For the first time, the effective reference prices in 2024 for corn ($4.01) and soybeans ($9.26) will be above statutory references prices ($3.70 for corn, $8.40 soybeans). Wheat's effective reference price will remain at the statutory level of $5.50. Those effective reference prices are well below 2024 ARC benchmark prices: $4.85 for corn, $11.12 for soybeans, $6.21 for wheat. ARC-CO will trigger larger payments when county revenues are driven by low yields, while PLC payments may be larger with moderately low prices and higher yields, as well as in scenarios with extremely low prices. Payments from either PLC and ARC-CO remain relatively unlikely for corn, soybeans, and wheat, even with lower prices expected for 2024. There is a higher likelihood of ARC-CO triggering payments on corn and soybean base acres given the higher benchmark prices compared with PLC's effective reference prices. However, PLC may be attractive if an individual is concerned about corn and soybean prices falling below $3.75 and $9.00 per bushel, respectively. In addition, producers interested in using the Supplemental Coverage Option (SCO) insurance program will want to enroll in PLC. Decisions are made for each Farm Service Agency (FSA) farm unit. PLC and ARC-CO are commodity-specific and can be mixed and matched on the same FSA farm or across different FSA farms (i.e., PLC for one commodity, ARC-CO for another on the same FSA farm or using different programs for the same crop on different FSA farms). High commodity prices in recent years have implied low likelihoods of payments. The likelihood of payments being triggered remain low for 2024. However, lower projected prices for corn, soybeans, and wheat in 2024 combined with higher prices now impacting effective reference and benchmark price calculations increase the likelihood of payments and introduce additional uncertainty into the program decision for 2024. An updated 2024 version of the Excel-based Farm Bill What-If Tool is now available, and can be directly downloaded here. The calculator can be used to compare payment scenarios for the PLC and ARC-CO programs for individual farm scenarios. The tool provides a tabular comparison of PLC and ARC-CO payments across a range of MYA price and county yield levels. The bottom line:

  ✓ ARC-CO will trigger larger payments when sufficiently large yield losses occur and/or prices are not sufficiently below the effective reference price. Given the ARC benchmark prices for 2024, ARC-CO payments have a higher likelihood of being triggered than PLC for corn and soybean base acres.

  ✓ PLC will trigger larger payments when prices fall below a commodity's effective reference price. PLC payments would exceed ARC-CO payments in scenarios where yields are not sufficiently low to trigger large ARC-CO payments. PLC also has an advantage in very low-price scenarios where ARC-CO payments hit the 10% of benchmark revenue cap.

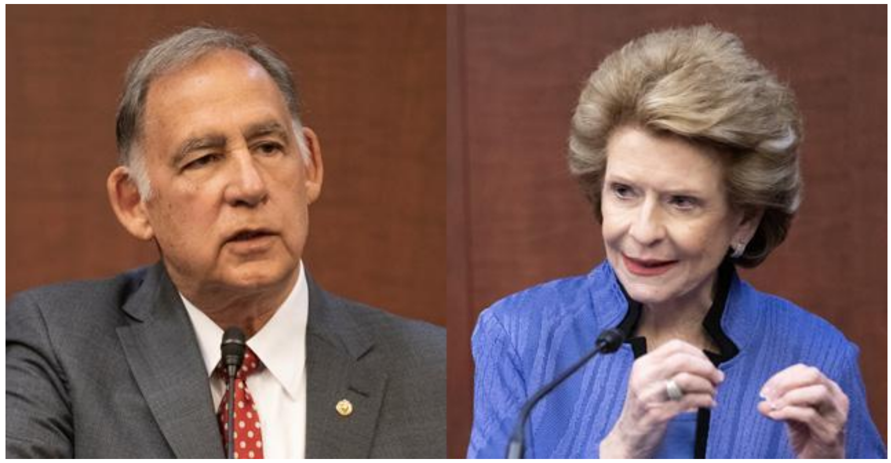
2024 Farm Bill and Appropriations Deadlines--

- **Congress has "kicked the can down the road,"** again to keep the government open, but in the process, likely produced more delays in writing a Farm Bill and more frustration among Ag members. "No progress" is how Sen. Joni Ernst, R-IA (left), described Farm Bill efforts almost 4 months after the last Farm Bill expired and was extended by 1 year. That as House and Senate lawmakers extended temporary funding until March 1 to keep USDA and other federal agencies open. Sen. Ernst was asked about the impact of continued fights over full-year spending bills on the Farm Bill, "Exactly, I mean it will affect the Farm Bill. It will affect everything else, so we need to get our work done, but you know what the problem is. Chuck Schumer's not allowing us to bring these appropriations bills across the floor of the Senate." The Senate just passed just 3 of 12 full-year spending bills, the House 7, while defeating USDA's FY 2024 appropriation over a mail-order abortion pill rider and farm and other cuts. Ag Democrats are also frustrated. Senate Ag Chair Debbie Stabenow, D-MI, (right) said, "There've been many delays, as it relates to the churning and the chaos." With more to come as House Speaker Johnson faces renewed pressure from Freedom Caucus conservatives to fight the Senate over social policy and border immigration riders. And fights continue for scarce Farm Bill dollars. Sen. Ernst said about Secretary Vilsack's focus on CCC funds as a solution, "I don't know that that's the magic bullet. But he may know more than I do. I hope he does. But they need to sit down at the table together between Chairman Stabenow and ranking member Boozman. And Stabenow, in her final year before retiring, insists a Farm Bill can get done this year before the need for another extension. (Berns Bureau Washington)

- **How would that CCC plan work?** Vilsack insists the $30 bil. Commodity Credit Corporation fund is a silver bullet and told a farm audience recently, "The ARC payments and the PLC payments and the CRP payments all come from the Commodity Credit Corporation, so they've done it in the past. They just need to get to a point where they understand and appreciate, that is the easiest and simplest and best way to get a Farm Bill done." House and Senate conservatives want limits on CCC use for things like climate smart programs but seem flexible otherwise. Ag Senator Chuck Grassley (Left)—hospitalized this week with an unspecified infection--introduced the USDA Spending Accountability Act, "Secretaries of Agriculture, both Republican and Democrat, have used excess funds in the CCC, for their own agenda. It's become one of the costliest tools in the farm safety net. Importantly, it will stop USDA from undermining the role of Congress, in writing the upcoming Farm Bill." And save some $8 bil., half of which Grassley would spend on deficit reduction, but the rest for farm programs. Senate Ag Chair Debbie Stabenow with Ranking Ag Republican John Boozman asked Secretary Vilsack last year for trade promotion help from the CCC, "A large part of that is already the way we fund the Farm Bill, so it's not that there's additional." Vilsack later announced use of $2.3 bil. in CCC funds for export promotion and international food aid, "The decision that we're making and the decision we were asked to make by Senators Boozman and Stabenow is designed to provide some additional boost, at a time when it is challenging for the drafters of the Farm Bill to provide the resources necessary to meet all of the demand." (NAFB news bureau)

- **Sen. Ag Committee Chair Debbie Stabenow**, D-MI, wrote a letter to her colleagues on their work to write a new Farm Bill. She outlined several proposals for strengthening the farm safety net in the new bill. While calling the 2018 Farm Bill a "strong foundation" for American farmers, she also says, "The 2024 Farm Bill is an opportunity for the Committee to make improvements, modernize dated elements, and address emerging challenges American farmers face." Her vision for modernizing the safety net centers around principles like programs being targeted to active farmers, providing farmers choice and flexibility, and sending them timely assistance. She also says officials need to expand the reach of programs to help more farmers and address the emerging risks farmers face. "Crop insurance is a key tool to meaningfully advance each of those goals," she said in the letter. "Farmers want better affordability and a more straightforward and streamlined process."

- **Sen. Ag Committee ranking member John Boozman,** R-AR, did not directly respond to the Stabenow letter to the rest of the committee. However, both Stabenow and Boozman, (right and left in picture, respectively) received a letter earlier this month from committee members representing states that suffered from drought. The [17 senators expressed the need for a Farm Bill] that provided help from climatic forces that had increased drought and fostered fires in forests and rangeland. They said, "A changing climate has further altered the natural pattern of droughts, making them more frequent, longer, and more severe…..The farmers and ranchers in our states are counting on a multi-year Farm Bill that provides support to conserve water, improve watershed scale planning, upgrade water infrastructure, protect land from erosion, and create long-term resiliency on changing landscapes for growers in drought-affected regions."



✓ **Required urban support for the Farm Bill could be threatened.** Urban votes would be lost if farmers want cuts to the SNAP food program, but farm price supports raised, as is indicated in a poll of 605 farmers by Agri-Pulse. 59% wanted cuts to the Supplemental Nutrition Assistance Program, which would occur if GOP members of Congress succeed in transferring $30 bil. from food aid programs to other parts of the Farm Bill. The support for higher reference prices reflects a concern about softening commodity markets, said Bill Northey, a former IA agriculture secretary who served as USDA's undersecretary for farm production and conservation during the Trump administration. Northey said farmers who say SNAP should be cut, should see that the cost "has just exploded on the feeding programs on SNAP from 5 years ago" and know that it accounts for more than 80% of projected Farm Bill spending. But he also noted that a new Farm Bill that cuts nutrition assistance likely would not pass. Rural members of the House number only 35 and need 200 urban colleagues to pass a Farm Bill.