WEEKLY CORNBELT UPDATE

PRESENTED BY FLANAGAN State Bank

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

Commodity market price drivers—

- **The Farm Futures January Planting Survey** shows corn and soybean acreage will shift across the U.S. this spring. Jacqueline Holland, grain market analyst for Farm Futures, says the shift might not be as much as what market prices are forecasting, "For corn acres, our survey respondents indicated that they will be planting 92.8 mil. acres of corn this spring. That is down by about 1.8 mil. acres from what got planted almost a year ago. Soybean acreage will be up by about 1.4 mil. acres to add 85 mil. acres. I think a lot of farmers are looking at prices right now and thinking that the market is trying to buy more and more soybean acres. This kind of one-to-one corn-to-soybean acreage shift tells us that that's not what's happening this year. There's a smaller shift. It's pretty much a one-to-one shift, and it's maybe not going to be the big soybean boom quite yet that I think the markets are calling for."

Farm Futures January 2024 Survey Results - 2024 Acreage Forecasts

	USDA - 2023 (ac.)	Farm Futures - 2024 (ac.)	Change - Acreage	% Change	Trendline Yields (bpa)	2024 Production (bu.)
Corn	94,641,000	**92,797,718**	-1,843,282	-1.9%	181	15,237,667,502
Soybeans	83,600,000	**84,952,964**	1,352,964	1.6%	52.0	4,360,926,682
Winter Wheat	36,699,000	37,262,428	563,428	1.5%		
Spring Wheat	11,200,000	9,055,165	-2,144,835	-19.2%		
Durum Wheat	1,676,000	1,676,000	0	0.0%		
Total Wheat	49,575,000	**47,993,592**	-1,581,408	-3.2%	49.5	1,887,061,250
Total Acreage	227,816,000	**225,744,275**	-2,071,725	-0.9%		

Source: USDA-NASS, WAOB, Farm Futures January 2024 Survey

The widely referenced new crop price ratio, which projects acreage expectations by dividing November 2024 soybean futures prices by December 2024 corn futures prices – the new crop contracts for both crops – determines the price favorability of each crop. For reference, the point at which the market can change direction from corn to soybean acres is at 2.40. A price ratio above 2.50 is a clear market preference for soybeans, while a reading below 2.30 expresses a strong market desire for corn acres. (It begins this week at 2.48)

- **Demand is the biggest problem** the corn market is facing, says market advisor John Heinberg with Total Farm Marketing. The problem is that the largest buyer, China, is moving more of its business to South America, "USDA has got them forecasted to bring in about 1 bil. bu. of corn over the marketing year. 47% of that is forecasted to come out of Brazil. So now they are basically replacing us very, very quickly as the corn supplier to that country and even on the global scale, the United States and Brazil both export about 27% of the global corn supply, individually, so US at 1 bil. bu., Brazil at 1 bil. bu. and the biggest factor in this now, that Brazil has been the provider of corn and China has limited our exports and that's one of the biggest reasons for the market prices and the concerns that we're seeing now is that China's looking for a different route to go and Brazil had those bushels at a cheaper price and they continue to be a strong buyer of those commodities from that country." The next few months are critical for U.S. corn exports, "January, February, March is our window to be the leader in the export market. The Brazilian market has kind of lost some of its supply. Argentina has been dealing with 2 years of job, but they have a record corn crop pot forecasted for this year coming at us, you know, so these next few months are vital, and we need to see those sales numbers really pick up as well as the shipment. Numbers for corn and then we must see what happens with that South American production, you know? So it's going to be a very interesting point over the next few, you know, few weeks here to see if we can get those numbers that we need that can help support price, you know, on top of our large supply that we're trying to work through at least that's what's forecasted." (Mid-West Farm Report)
- **The strength of the U.S. dollar** compared to currency in other countries is a big factor in successfully exporting American ag commodities. The Federal Reserve says it won't raise interest rates for now, and Mike Zuzolo of Global Commodity Analytics says that would typically be good news for U.S. exports, "Well, it should have a dampening effect on the U.S. dollar, and it should have a dampening effect on higher bond yields. Those were 2 major forces working against the commodity markets as we've come back from the WASDE report and generally speaking, as we've come back from the Christmas and New Year's holiday, the dollar is now breaking back. For the price action after the holiday, we saw the dollar rally sharply. I think it goes back to China, and it goes back to the U.S. dollar being a safe haven in case we do have deflationary pressure in China that's similar to what Japan experienced in the 90s. I think that's where the market is thinking this market's headed." If the dollar keeps strengthening against other currencies, farmers are likely looking at lower prices in the next few months, "What I see happening next is that this dollar continues to be bought as a safe haven, then we take out the report day lows from last Friday, which we did in wheat already. But if we do that and the corn and beans, then technically speaking, and from the way these funds tend to trade, another 5 to 8% lower is what I'm suggesting to clients and subscribers as a possibility for where we're headed next as we get into February and that base price for the new crop corn and beans." (NAFB news service)

***Ag Economy*—**

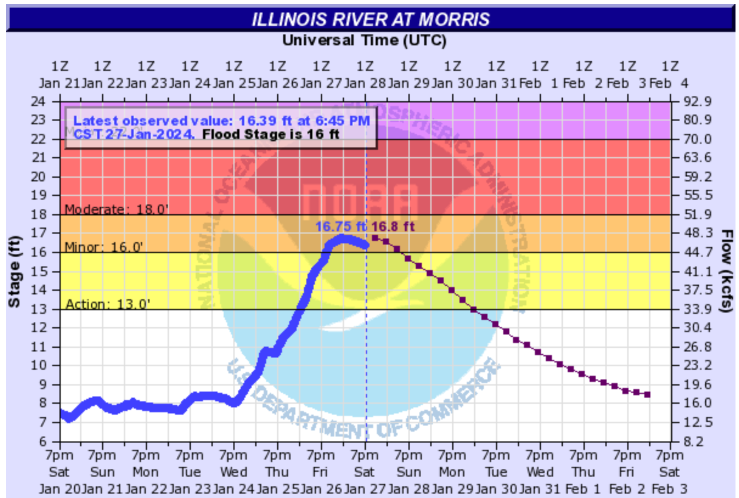
- **For a fifth straight month**, the overall [Rural Mainstreet Index (RMI)]() sank below growth neutral, according to the January survey of bank CEOs in rural areas of a 10-state region dependent on agriculture and/or energy. The region's overall reading for January rose to 48.1 from 41.7 in December. The index ranges between 0 and 100, with a reading of 50.0 representing growth neutral. "Higher interest rates, weaker agriculture commodity prices and a credit squeeze are having a significant and negative impact on Rural Mainstreet businesses and on Rural Mainstreet farmers according to one IL farm lender who indicated that unless crop prices improve, 2024 will not be a good year for area farmers," said Ernie Goss, director of the Rural Main Street survey. The region's farmland price index fell to a still strong 64.0 from December's 67.2. The farmland price index has remained above growth neutral for every month since November 2019. "Creighton's survey continues to point to solid, but slowing, growth in farmland prices. Approximately, 28.0% of bankers reported that farmland prices expanded from December levels," said Goss. The farm equipment-sales index for January sank to 47.9 from December's weak 49.5. "This is the seventh time in the past eight months that the index has fallen below growth neutral. Higher borrowing costs, tighter credit conditions and weaker grain prices are having a negative impact on the purchases of farm equipment," said Goss. "Input prices for 2024 are somewhat reduced from 2023, but cash rents are level. For a fourth consecutive month, several bankers voiced concerns over economic losses by pork producers in their area," said Goss. When asked about the share of farm clients facing generational transition, on average, bankers estimate that approximately 25% will face transition issues in the next decade. Furthermore, 19.2% expected transitioning farm clients to pose an economic opportunity for their banking operations with 65.4% expecting both opportunities and threats from this transitioning. Of those transitioning, bank CEOs expected 53.8% to transfer ownership to heirs, and 42.3% anticipate the sale to other farmers in the area. Bankers expect virtually no sales to farmers outside the area, including foreign buyers. The January RMI for IL climbed to 50.0 from December's 46.5. The farmland price index declined to 63.0 from 66.3 in December. U.S. Bureau of Labor Statistics (BLS) data indicate that over the past 12 months, the IL Rural Mainstreet economy expanded employment by 1.7%, while the IL urban area employment increased 0.8%.

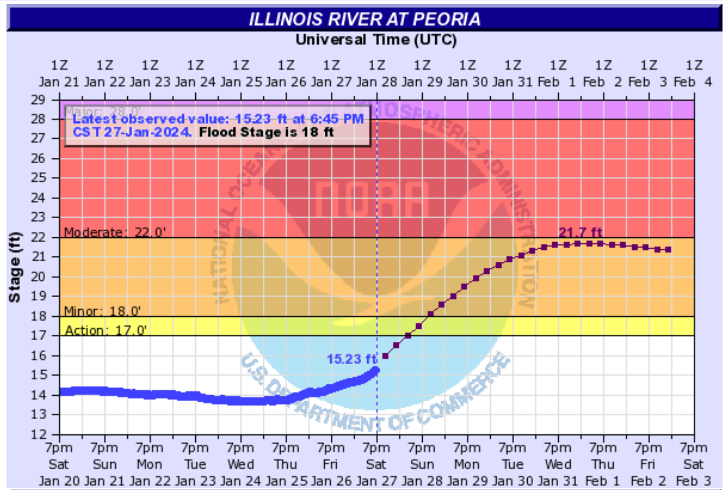
Table 2: The Rural Mainstreet Economy, January 2024

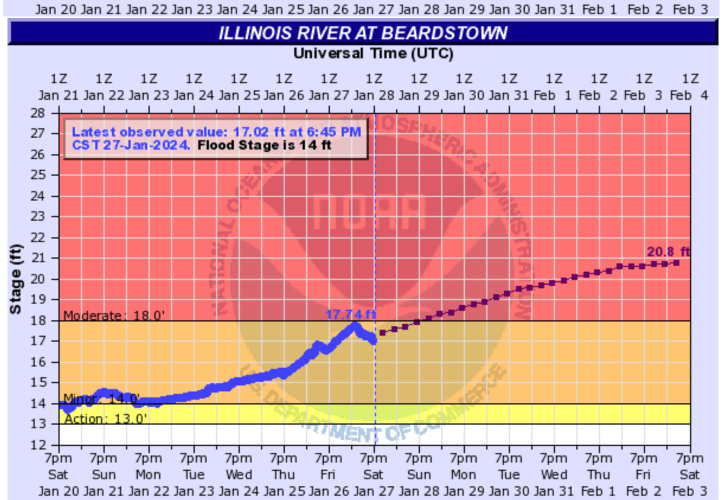
	Percentage of Bankers Reporting				
	6% to 10%	11% to 15%	16% to 20%	21% to 30%	31% to 40%
What percentage of your farm clients do you expect to face a generational transition during the next decade?	11.5%	19.2%	11.5%	23.1%	34.7%
	Percentage of Bankers Reporting				
	Threat		Opportunity		Both Threat and Opportunity
Do you view generational transitions on the farm as a threat or opportunity for your bank?	0%		19.2%		65.4%
	Heirs	Farmers in Area	Farmers Outside Area	Corporate Buyers	International Buyers
What will be the likely transfer of ownership of most farms?	53.8%	42.3%	0.0%	0.0%	0.0%

River and Flooding Issues—

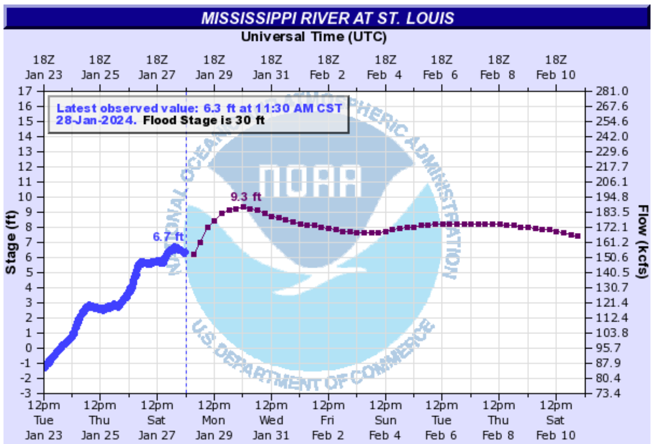
- **Recent rains, combined with melting snow** have contributed to flooding along the upper stretches of the Illinois River. US Geological water level gages indicate that Morris is the farthest upriver location with water levels approaching flood stage. As of 7 pm Saturday the river level had crested with minor flooding and was expected to recede. Down river at Seneca, the crest also seemed to have been reached early Saturday evening, at the lower levels of what is the action stage for emergency personnel. At the Marseilles Lock water levels reached into the minor flooding range with levels expected to recede Sunday. At Ottawa, water levels nudged the moderate flood stage on Friday and began to recede, earlier than levels further upriver. The USGS water gage at Starved Rock State Park indicated a potential flood threat going into early Sunday, but the water level began to recede during Saturday afternoon. At LaSalle, the river level approached the level considered to be moderate flooding late Saturday, and began to level off, with expectations of receding on Sunday with only minor flooding reported. Further downriver at Henry, water levels began to quickly rise on Friday, reaching the level of moderate flooding by Saturday evening. Projections indicated a potential crest on Tuesday, but the water level took a brief pause on Saturday evening. At Peoria, the crest is not expected until mid-week, with flooding at the moderate stage, if it reaches that much. Further downriver, the gage at Havana was on the rise Saturday in the range of minor flooding, with an expected crest late week in the moderate flooding range. The Beardstown gage reached the moderate flooding level on Saturday, and began to recede, but water levels were expected to begin to rise over the weekend and reach into the lower range of moderate flooding by next weekend.

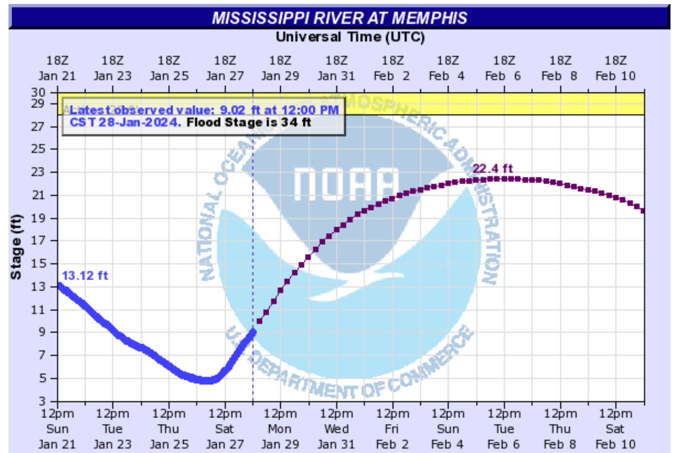






- **In a positive note,** the Mississippi River Channel is full, where barges have been restricted on loading for the past 2 years. That means grain can move southbound to Gulf ports for export. And without loading restrictions, freight rates will be lower and the grain basis at river terminals will be more friendly. All that is needed now is export demand. At St. Louis (left) the river channel is project to reach above the 9 foot level on Tuesday, and remain steady for the remainder of the next 10 days. At Memphis, (right) water levels are projected to rise well above necessary to allow full barge movement without loading restriction or dredging needed.





Weather—

- **Milder weather** spread over IL last week says [State Climatologist Trent Ford](). "Temperatures this week ranged from the low teens in northern IL to the high 20s in southern IL, between 3 and 8°F below normal. January to date has been 1 to 6°F below normal. Some of the more intense low temperatures recorded over the past week include -21°F in Altona and -19°F in Moline. This past week was another fairly wet one across most of the state. 7-day totals ranged from just under half an inch in far northwest IL to nearly 3 inches in parts of central and south-central IL. After a very dry end to 2023 the precipitation has come in a big way. Virtually all of the state has had 150 to 300% of normal January precipitation already. This month is already the 6th wettest January on record in Paducah, and – given the forecast – will likely end as a top 4 or 5 wettest on record. Consequently, topsoils are much wetter than just a few weeks ago, and water table levels across the state have started the long climb toward normal conditions. Because of the effects of months of drought in 2023, the latest Drought Monitor map still has some moderate drought across south-central IL, but conditions are greatly improved since the year began. In fact, as is often the case in IL, we've swung a bit too much the other way, with several streams expected to reach minor to moderate flood stage in the coming days. The Illinois River at Havana has risen by 3-4 feet in the past week and is forecasted to rise another 3-4 feet by next Friday as snow continues to melt with warmer temperatures and additional rain. Speaking of that warmer weather, our warming trend is expected to continue into next week. Widespread highs in the 50s will greet us mid-week, and finally the fog will lift, and we'll see that big ball of burning hydrogen once again. Much of the state still has 4 to 8 inches of soil frost as of Friday morning, causing lots of standing water and runoff now."

Environment, Regulatory, Climate issues etc.—

- **Do you have one of those "rare" IL farms** with some timber, possibly native, or planted several generations back? USDA is encouraging timber owners to consider the forest management incentive within the Conservation Reserve Program. FSA Administrator Zach Ducheneaux says, "Through the Forest Management Incentive, USDA's Farm Service Agency provides an additional forest improvement tool to producers participating in the Conservation Reserve Program. This incentive enhances the Conservation Reserve Program's environmental benefits and helps protect our country's natural resources." The Forest Management Incentive is available to participants with active CRP contracts with forest cover that are not within two years of expiring. The incentive is a payment to eligible CRP participants who properly completed authorized forest management practice activities to improve the condition of resources, promote forest management and enhance wildlife habitat. Forest management practices include brush management, herbaceous weed control, prescribed burning, firebreaks, development of early successional habitat and forest stand improvement. CRP FMI payments are equal to the lesser of the CRP participant's actual cost to implement the practice or 85% of the NRCS National Payment Scenario rate for the applicable NRCS technical practice. A CRP participant may be eligible for more than one CRP FMI payment if multiple approved forest management activities are performed according to the conservation plan.

Trade and International Issues—

- **Agricultural organizations and economists** have frequently pointed to the ag trade deficit that was unheard of until a couple years ago. Now, US agriculture is exporting $10 bil. less than is being imported, and calls grow louder for a strong trade program. But the deficit could get worse say economists with a proposed 10% tariff on all products imported into the US. Criticism of the policy has been relatively bipartisan. The Tax Foundation think tank highlights that such a tariff would effectively raise taxes on U.S. consumers by more than $300 bil. a year, along with triggering retaliatory tax increases by international trade partners on U.S. exports. The plan was advocated by former President Donald Trump "during an interview last year with Fox Business' Larry Kudlow, his former White House economic advisor, saying "it's a massive amount of money. It's not going to stop business because it's not that much," he claimed, "but it's enough that we really make a lot of money." During his first term in office, Trump triggered a trade war with China by unilaterally slapping $250 bil. worth of tariffs on goods imported from China, which the American Action Forum estimated have cost Americans an extra $195 bil. since 2018. In the American Action Forum's November report, policy analysts concluded that in the most likely scenario that trading partners impose retaliatory tariffs, a new 10% duty on all goods imported to the U.S. would "distort global trade, discourage economic activity, and have broad negative consequences for the U.S. economy." Economists explain that foreign companies exporting products to the US do not pay tariffs, but tariffs are collected from US importers at the time products enter the US.

2024 Farm Bill and Appropriations Deadlines--

- **Agriculture groups and farmers** are eager to see Congress pass the next Farm Bill, as the current extension ends at the conclusion of the fiscal year in September. Speaking on Agriculture of America this week, Sen. John Thune, R-SD (right), says the industry needs the certainty of a full-term bill, "We need to get a 5-year bill in place, people in production, agriculture needs certainty and you can't just operate on extensions of the existing bill, you know, with time for reset, things have changed. You had way higher input costs, fuel, fertilizer, interest rates are significantly higher. So, the average farm loan out there, they're paying a lot more and servicing that debt. And you got, you know, weakening commodity prices. So, we need attention to that and to making sure that we have good policies in place." However, Thune says the effort has stalled because of a difference in priorities, "The chair of the Senate Ag Committee, Debbie Stabenow, D-MI, so far, has been unwilling to consider moving the resources around within the Farm Bill in order to strengthen the producer safety net, and we think that that should be the focus of the Farm Bill ought to be about farmers, and unfortunately, too often that Democrats here, at least in the Senate, are making it about issues. Like climate, environmental policy, the nutrition title. (American Ag Network)

- **New Farm Bill policy disagreements** on top of spending bills and other fights are adding more hurdles to passing a Farm Bill this year. Senate Ag Committee Chair Debbie Stabenow, D-MI, (left) proposed moving funds away from ARC and PLC reference prices to crop insurance, "We have over 130 different crops that use crop insurance extremely effectively, and it's paid out immediately when there's a disaster. We have 22 crops that utilize the commodity title, ARC and PLC, also important. But it's delayed in the payout, usually by a year." Driving her point further, Stabenow says many PLC crops already benefit from reference price 'accelerators' in the '18 Farm Bill, "If we only continue current law, over half the commodities that get PLC, will see a 10-15% increase, currently. And so, to me, we should be focusing on those who aren't." Politico later reported Stabenow's plan would force producers who want to enroll in the new crop insurance offering to opt out ARC and PLC. Ag Committee ranking member John Boozman, R-AR, said his staff is looking at the idea, but other Republicans and some Democrats are not thrilled with forcing farmers to choose. The American Farm Bureau continues to argue for both an increase in reference price support triggers and crop insurance improvements.

Biofuels--

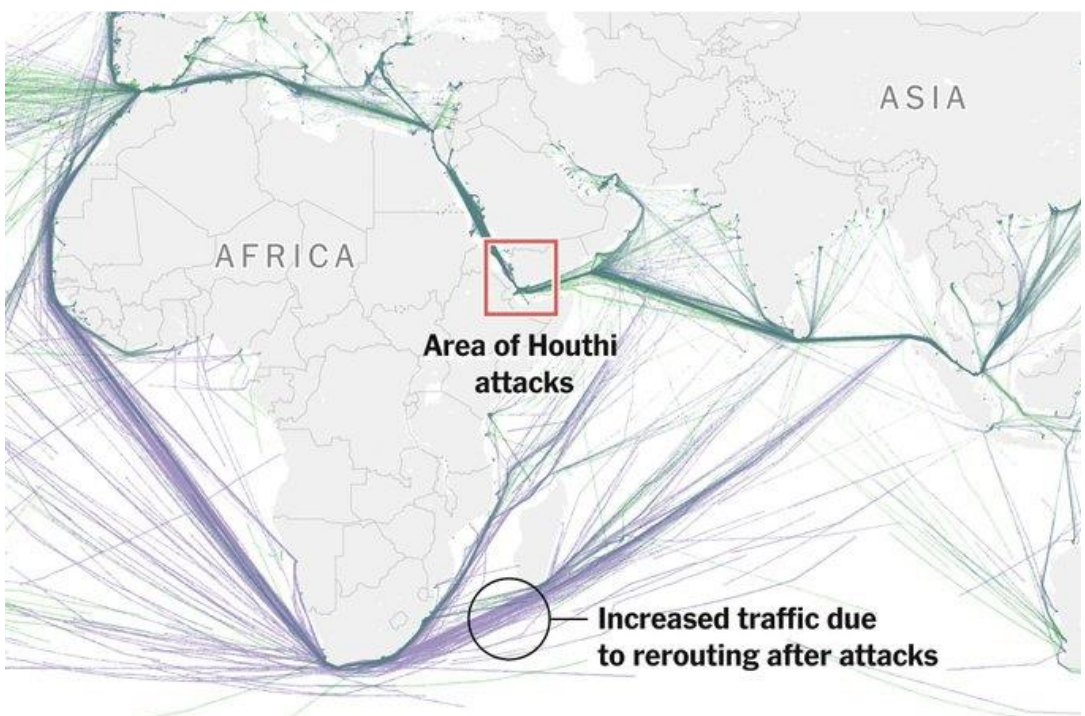
- **The world's first sustainable aviation fuel plant** opened this week in Georgia, setting the stage for a huge new market for ethanol and farmers. Amid the loss of more than 437 thousand farms since 1981, Secretary Vilsack told those at the grand opening of LanzaJet

Freedom Pines Fuels in Soperton, GA, "This company, this project, this industry, provides a ray of hope to reverse that trend." Vilsack says the new industry holds the promise of some three bil. gallons of ethanol demand by 2030 and 36 bil. by 2050, with much of the credit going to farmers, "The fact that this facility is taking and using ethanol is a reflection of a number of dreamers and warriors, decades ago, who saw the opportunity to convert corn and soybeans into a variety of fuels." And Vilsack called the grand opening a celebration not just for the U.S. and its farmers but for the world, "And why is that? Because, at the end of the day, if we're going to mitigate the consequences of a changing climate, the transportation sector has to get to a net-zero future. In order for it to get to a net-zero future, aviation has to get there, as well." And Vilsack says the airlines have sought and encouraged SAF production amid last year's first-ever trans-Atlantic flight by Virgin Air using 100 % sustainable aviation fuel. USDA and the Departments of Energy and Transportation have also teamed up to jumpstart the industry. Treasury issued interim guidance last month that allows emission modeling favorable to SAF tax credit eligibility. "The plant, which received US government funds, plans to use biofuel made from both traditional raw materials, including American-grown corn, as well as from advanced technologies, The plant is a step toward President Joe Biden's stated goal of production of "at least 3 bil. gals. of overall SAF production annually by 2030" in the United States, Bloomberg reported. That 3 bil. gal. goal is part of the U.S. government's broader goal of producing 35 bil. gals. of SAF per year by 2050. →

- **But there is a problem here.** Sustainable Aviation fuel requires ethanol that has a low carbon score, such as ethanol from a plant that captures all the carbon dioxide from the refining process and either pumps it deep into the earth or converts it into another marketable commodity. DTN reported, "Monte Shaw, executive director of the IA Renewable Fuels Association, said during a press conference Wednesday that the only feasible way for IA ethanol producers and others across the country to lower carbon scores is through the wide adoption of carbon capture technologies. Standing in the way in recent months is public opposition to various carbon pipeline projects." SAF has to be 50% less carbon intensive than fossil-based jet fuel to qualify as SAF. Since US ethanol does not qualify, *Brazilian will be used*.

Transportation—

- **Captains, not wanting to go down with their ship**, are avoiding the Houthi Havoc in the Red Sea where commercial freighters are targets for their missiles and piracy. Grain ships diverted from the Suez Canal due to war zone attacks, are increasing in number, preferring to sail around the Southern tip of Africa. Shipping analysts said Friday that another 16 grain-carrying vessels were diverted from the Suez Canal this week. Total diverted cargo was estimated at 150 mil. bu., up from 114 mil. bu. last week. 266 mil. bu. normally transits the Suez and Red Sea monthly. Attacks persist despite US strikes. January's transit expected at 90 mil. bu., down from 250 mil. bu. in Dec 2023 and 240 mil. bu. in Jan 2023. Alexander Karavaytsev, a senior economist with the International Grains Council, said according to IGC estimates, re-routing from the EU and the Black Sea countries via the Cape of Good Hope at the southern tip of Africa "adds around 10 to 15 days to the journey time and around $6 to $8 per tonne to freight costs." He noted that additional costs are directly correlated with marine fuel prices, which account for about 20% of total voyage expenses, which, in turn, depend on crude oil prices. Karavaytsev said that with reports of rising demand for marine fuel at ports around Africa, the resulting increase in fuel prices will add to higher freight costs on the alternate routes. "With any likely shift in purchases by Asian and African buyers, Argentina and Australia are termed to be well-positioned to absorb some additional demand, as their harvests have now been largely finished. Brazil is also said to be offering some competitive prices, although mostly for feed quality supplies." "The impact of Panama restrictions has been most evident for grains and oilseeds exports from the US Gulf, with some shipments diverted to alternative routes, including the Suez Canal," he said. "This was the case for US soybeans, with volumes via the Suez spiking in recent months, before plunging more amid elevated security risks and seasonal trends."



- **The other canal pinch point remains in Panama.** Authorities late in 2023 planned to cut ship transits from 36 to 18 per day because of low water levels within the canal operating area. But, on January 16, authorities announced an increase from 22-24 daily transits. However, the number paled to the canal's typical 36-40 daily movements. A typical shipment through the Panama Canal takes U.S. grain approximately 32 days to reach Japan. National Corn Growers economist Krista Swanson said with the backups the Suez Canal is the next best pathway but takes shipments nearly 50 days. However, major shipping organizations are bypassing the Suez Canal and vying for alternative, longer routes after Houthi attacks in the Red Sea. The detours around the tip of Africa are expected to take 54 days or more. "Now we're looking at close to doubling the number of days at sea," Swanson said. "Which really makes it more expensive to get grain to the destination." IL Corn Director of Exports and Logistics Collin Watters said longer export routes drive up transit costs on U.S. grain shipments. Grain freight costs from the U.S. to Japan via the Panama Canal increased in August through December by more than 22% compared to early 2023—a 62% rise from pre-coronavirus rates. Economist Susan Stroud reported the Red Sea detours alone have increased shipping transit fees by 5-15%.

And finally, this—

- **Any organization that publishes an annual report,** but would like to see the epitome of annual reports, should keep a copy of this one. Many annual reports are assembled by high priced PR companies and cost hundreds of thousands of dollars. This annual report did not come from Madison Avenue and did not have a 7-figure cost. Its value is not only in the appearance, the data, the pictures, and the ingenuity, but the message it carries about the height, depth, width, and breadth of the organization. All 37 pages are replete with information you did not know and would never have imagined. Please spend some time perusing this fascinating report, pass it on to your email family, and save it in your computer. And hopefully you will not be surprised to see what organization published it!