WEEKLY CORNBELT UPDATE

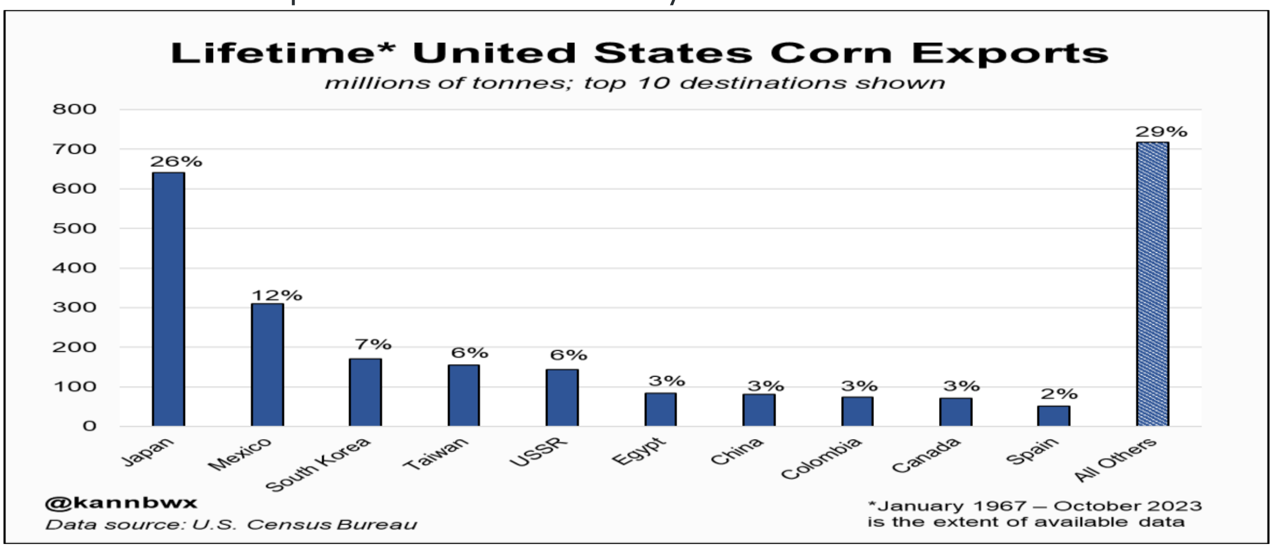
PRESENTED BY FLANAGAN State Bank

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

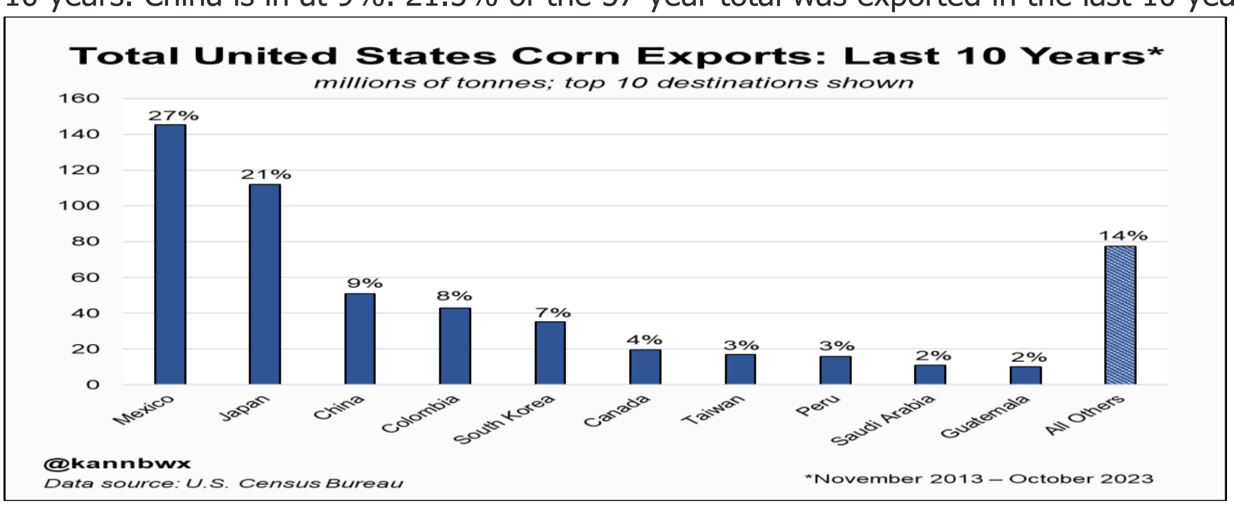
Commodity market price drivers—

- **As TV war correspondents say with increasing frequency,** "You may find the following to be quite disturbing." "Chicago corn recorded its biggest annual drop in a decade on Friday at 31%, while wheat lost 20% of its value, as easing supply bottlenecks in the Black Sea region and higher production added pressure on prices, according to Reuters. Soybeans were poised for their first annual decline in 5 years amid plentiful supplies from top exporter Brazil. The most-active wheat contract on the Chicago Board of Trade (CBOT) has fallen more than 20% in 2023, while corn is down over 30%. Soybeans have lost almost 14% this year, the biggest annual fall since 2015. Grain and oilseed prices, which rallied for the past several years, were pressured in 2023, as easing food supply worries on the opening of a new shipping corridor in the Black Sea region boosted shipments from war-torn Ukraine amid higher Russian output. Soybeans are being weighed down by record supplies from No. 1 exporter Brazil. In 2024, consumers could face tighter supplies amid adverse El Nino weather, export restrictions and higher biofuel mandates. Any disruptions to Black Sea supplies are likely to support prices. For Brazil, weather charts showed uneven showers in the week ahead in dry parts of central and northern Brazil before widespread heavy rain expected in early January. Argentine farmers made good progress sowing corn and soy crops following recent abundant rainfall, the Buenos Aires grains exchange said on Thursday, as industry groups prepare to fight government plans to hike export taxes on their produce. The exchange said in a weekly report that soybean planting is 78.6% complete after advancing 9.5 percentage points in 7 days, while corn planting has also progressed well and is now 69.9% complete. Commodity funds were net buyers of CBOT wheat futures contracts on Thursday and net sellers of soybean, soymeal, soyoil and corn futures, traders said."
- **"And now for better news→**

- **USDA data shows inspections of corn** for offshore delivery increased week-to-week while soybean assessments dropped during the week ending on December 21. Corn inspections during those 7 days rose to 78 mil. bu. That's up from the previous week of almost 38 mil. bu. and the 36 mil. bu. inspected during the same week in 2022. Soybean inspections fell to 39 mil. bu. from 52.5 mil. during the prior week. That's also down from the 65.8 mil. bu. inspected during the same week last year. Since the start of the marketing year, USDA has inspected 441 mil. bu. of corn, well ahead of last year. Soybean assessments are now at 820 mil., down from 1 bil. bu.
- **Those export inspections are loaded** and departing US terminals for overseas ports. Reuters commodity analyst Karen Braun reports where your corn has been shipped:
  - ✓ USA has exported 98 bil. bu. of corn in the last 57 years. Japan claimed a quarter of this, current top buyer Mexico accounts for 12% and China takes 3%. The top 10 destinations reflect 71% of all exported U.S. corn in the 57 years.



  - But it changes if you look at just the past 10 years: top 10 destinations now account for 86% of the total. Mexico and Japan have taken in 48% of U.S. corn shipments in the past 10 years. China is in at 9%. 21.5% of the 57-year total was exported in the last 10 years.



- **There may be some optimism** surrounding the pace of U.S. ag exports in the new year. Ben Brown, a MO agricultural economist, says the current pace of U.S. corn and soybean exports is changing, "We've seen kind of a rally here in the last few weeks, or I'm going to extend that into a month here, of a rather solid corn and soybean exports shipments and sales. China has been a premier buyer here as of late, one of our largest buyers, and that's positive news, I think, for both crops in our export shipments because that was the market that I think as we were heading into the year had the biggest question marks. If it materialized, we could see some stronger demand and help us work down some supplies." He's optimistic that the export pace may be about to pick up, "I think there are some reasons to be a little bit more optimistic than what we maybe were a couple of months ago about US export potential now, given that we could see a little bit of a break in the U.S. dollar here. That helps us out a little bit on the export potential, and then the South American supply is starting to dwindle. That's moving some competition or at least making U.S. products a little bit more price-competitive on the global market." Soybean exports typically slow at the end of the calendar year. While it's been exceptionally slow at the end of 2023, the pace is showing some signs of life, "Seasonally, we do usually see a peak in shipments or inspections of physical soybeans leaving the country usually in November, and then it just kind of starts dwindling till March as that South American crop comes on board. This year, even though we had seen some positive sales, our soybean pace has deteriorated. We've (recently) seen some better sales data, and that certainly has allowed us to pick up the pace a little bit on shipments. That gets us up a little bit to where we're still well behind the pace, but that's certainly helping us catch up."
- **2023 has been a volatile year in the markets.** Dan Basse, President of AgResource, says there may be a bit of a turnaround in the commodity markets during early 2024. But 2024 is a presidential election year, which can throw everything in the markets up in the air. Basse says that may not be 100% true, "I think during a presidential election year, they're not going to let commodity markets, stock markets, and everything fall apart. In other words, it's not in the best interests of politicians, and so, the Biden administration will keep spending, and the federal debt will go up even further from the $33.6 tril. where we are today. I do believe in the background of this, we have a falling U.S. dollar because of the large amount of U.S. debt, and with that dollar decline, every hedge fund that I have is looking for an opportunity. They want to have a little piece of commodities just because they think that they're getting priced low enough now that we can get some opportunities and a bounce going forward next year." He says don't forget about weather challenges, "I also want to highlight the weather concerns that are happening, and so if you think about Brazil, it's not in a good spot right now. Weather-wise. Brazil is the reason U.S. crop exports are down. As we look at China, it came out of COVID. We were hoping for more of a recovery than what we saw, but they're now starting to stimulate their economy, so there's some things happening. I'm pessimistic on net farm income because of high costs. I think we maybe lose another 3-4 % in 2024, but it's not because of the markets going down. I think a lot of that has happened already."

Ag Economy—

- **Creighton University's Rural Mainstreet Index** sank below growth neutral for a 4th-straight month in December. The region's overall reading for December rose to 41.7 from 40.4 in November. The index ranges between 0 and 100, with a reading of 50.0 representing growth neutral. "Higher interest rates and a credit squeeze are having a significant and negative impact on Rural Mainstreet businesses. Approximately 13.3% of bank CEOs indicated that their local economy was already in a recession while another 43.3% expect a recession in early 2024," said Ernie Goss, index coordinator. Jim Eckert, CEO of Anchor State Bank in Anchor, IL. said, "Most farm incomes in our area will be down this year, especially due to low corn prices. But most of our farmers are coming off of good years and will be all right." When asked to name the greatest 2024 economic threat for community banks, approximately four of 10 identified a downturn in farm income as the chief 2024 hazard. Confidence: Even though the confidence index climbed to 43.3 from November's record low 21.2, higher interest rates, deposit outflows and a slowing farm economy over the past several months continued to constrain the business confidence. The December RMI for IL climbed to 46.5 from November's 44.8. The farmland price index rose to 66.3 from 65.8 in November. The state's new hiring index increased slightly to 49.7 from November's 49.4. According to the International Trade Administration, the export of agriculture products from IL expanded from $2.9 bil. for the 1st 10 months of 2022 to $3.6 bil. for the same period in 2023 for 23.6% growth. Farming and ranching land prices: The region's farmland price index increased to 67.2 from November's 66.7. "Creighton's survey continues to point to solid, but slowing, growth in farmland prices. Approximately, 41.4% of bankers reported that a downturn in farm income was the greatest threat to community banks in 2024," said Goss. Farm equipment sales: The farm equipment-sales index for December was unchanged from November's weak 49.5. "This is the sixth time in the past seven months that the index has fallen below growth neutral. Higher borrowing costs and tighter credit conditions are having a negative impact on the purchases of farm equipment," said Goss. "For a third consecutive month, several bankers voiced concerns over economic losses of pork producers in their area," said Goss. According to the International Trade Administration, the export of agriculture products from the region declined from $14.1 bil. for the first 10 months of 2022 to $12.0 bil. for the same period in 2023 for a 14.7% slump.

Table 2: The Rural Mainstreet Economy, December 2023

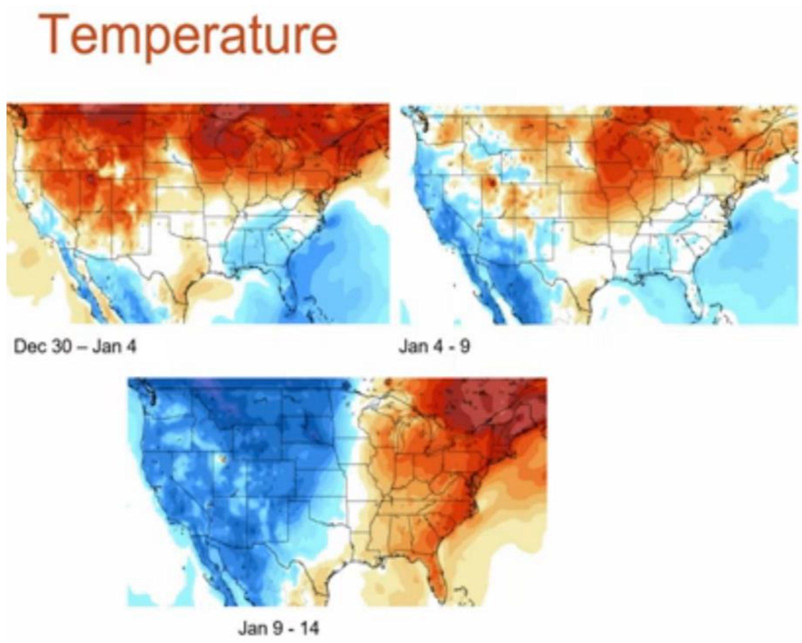
	Percentage of Bankers Reporting			
	Down 5% - 10%	Down 1% - 4%	Little or No Change 0%	Moderately Higher 1% - 4%
Your bank's farm loan delinquencies over the past six months are:	3.6%	3.5%	82.2%	10.7%

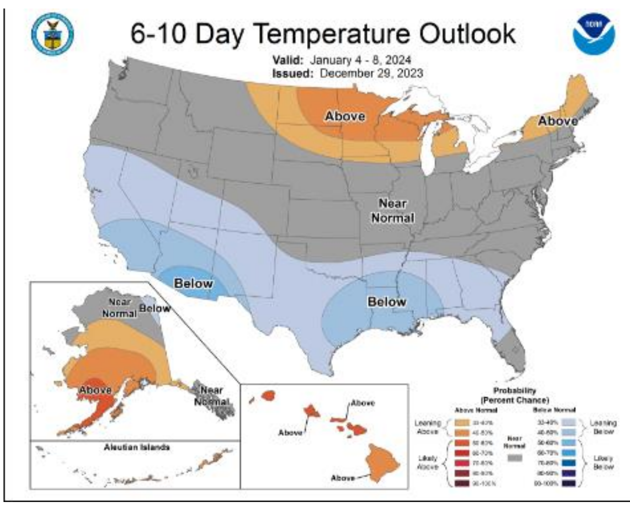
	Percentage of Bankers Reporting				
	Farm Loan Delinquencies	Hiring Talent	Rising Interest Rates	Drought Conditions	Downturn in Farm Income
What will be the biggest economic challenge for agriculturally dependent community banks for the next 12 months:	3.5%	6.9%	20.6%	27.6%	41.4%

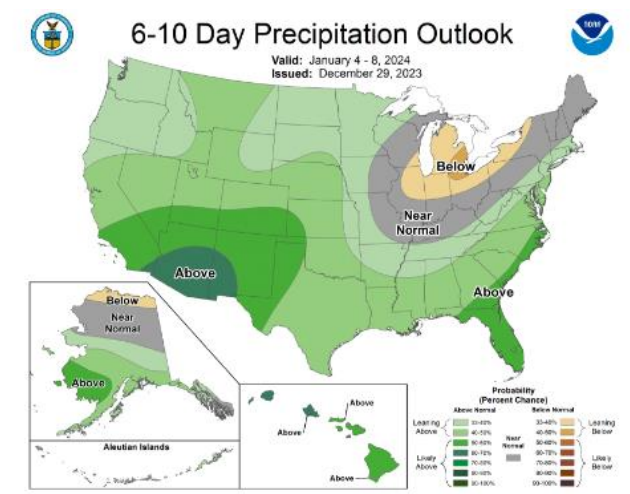
	Percentage of Bankers Reporting				
	Already in Recession	Modest Recession	Soft Landing	Hard Landing	No Recession Now or in 2024
Your U.S. recession assessment for 2024	13.3%	43.4%	40.0%	0.0%	3.3%

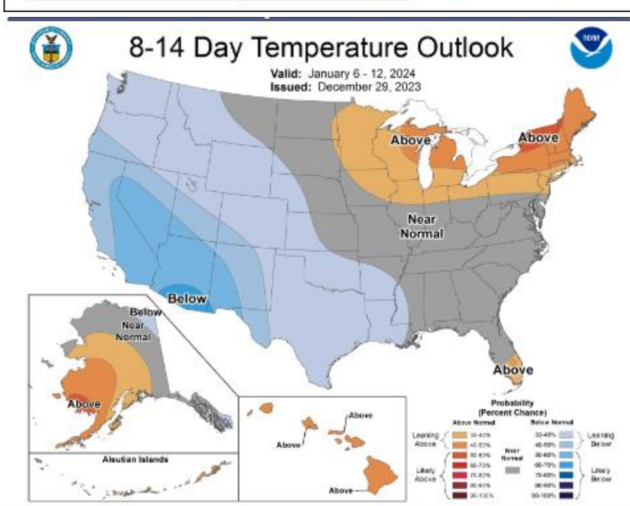
Weather—

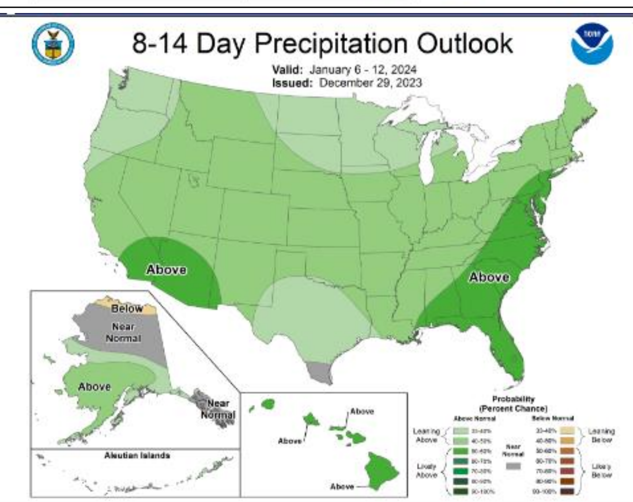
- **A mild weather week** with seasonal temperatures will start the calendar for 2024, says Blue Water Outlook. Scattered areas of snow are in the Cornbelt, but nothing of significance outside of SD. The Upper Great Lakes region basked in warmth of upwards of 25°F above averages from MN across to Lake Michigan, and unusually warm temperatures in the upper Midwest. Much of that will continue in the Central Cornbelt toward mid-month.



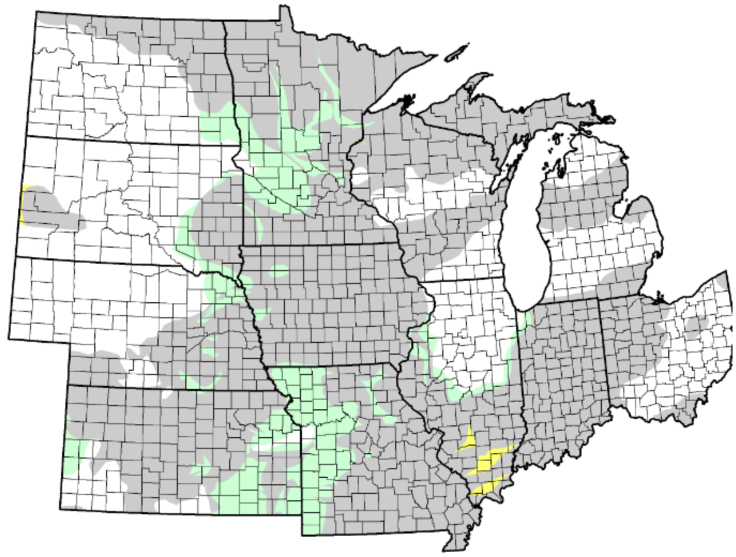


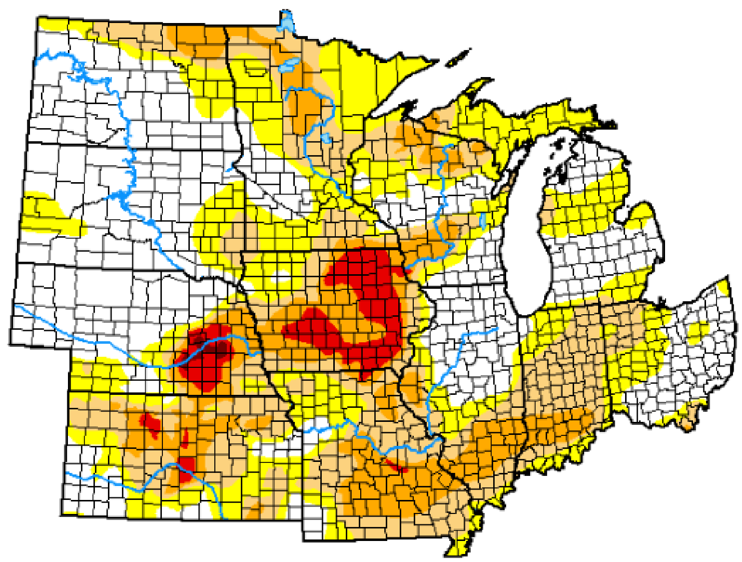






- **Average temperatures were well above normal** across the Midwest, says the [Drought Monitor](), with temperatures ranging between 10 to 25°F above normal this week. Much of the region also observed above-normal precipitation this week, especially along the western portions of the Midwest where the heaviest amounts totaled between 2 to 4 in. of rainfall and ranged between 1 to 3 in. (300% to 600%) above normal. Above-normal precipitation helped to alleviate longer-term precipitation deficits and improved soil moisture and streamflow impacts, resulting in improvements to abnormal dryness and all drought categories (top map). A broad 1-category improvement was made across western MO, while additional improvements were made in parts of western MN, northwest IA and western IL. Meanwhile, dry conditions continued to affect southern parts of IL last week, where precipitation is as low as 25% of normal for the month (bottom map). Degradations were supported by precipitation deficits, short-term SPI/SPEI timescales, streamflow, soil moisture and groundwater data. The water table levels in Carbondale (Jackson Co., IL) and near Rend Lake (Jefferson Co., IL) are below normal, with both at or near record-low levels. Based on these short-term indicators, Moderate drought to severe drought was expanded in southern IL. →

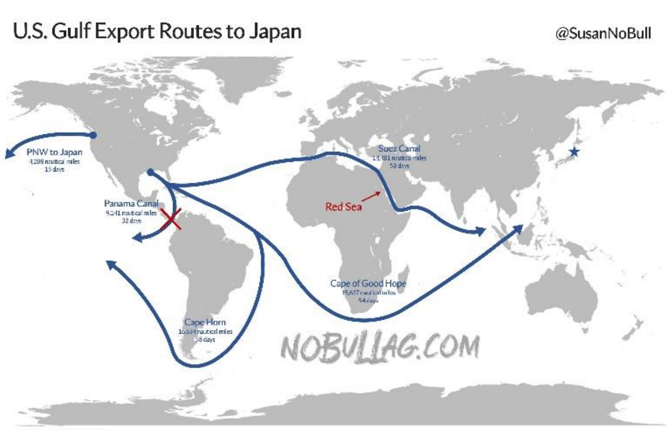




- **Elsewhere, dry conditions continued** across parts of the South while heavy precipitation fell across OK and parts of central and eastern TX. Large parts of TX and OK received between 2 and 5 in. of rainfall, which is 300 to 600% above normal. Average temperatures in the Midwest were well above normal, as many as 10 to 25°F higher than typical temps. Much of the region also received above-normal precipitation, especially along the western parts of the region where the heaviest amounts reached 2 to 4 in. of rainfall, anywhere from 1 to 3 in. above normal. The above-normal precipitation helped alleviate longer-term precipitation deficits in the region. Heavy precipitation fell over much of the eastern High Plains, where rainfall totals were greater than 600% of normal. Exceptional drought was improved in eastern NE. Precipitation fell in most of the Southeast while the western U.S. remained status quo.

Transportation —

- **The U.S. Customs and Border Protection** has reopened the Eagle Pass and El Paso rail crossings into Mexico. Ag groups like the National Corn Growers Association were happy with the move but cautioned the agency against making similar decisions in the future. "This is certainly a welcome relief," says [NCGA President Harold Wolle](). "We hope this serves as a cautionary tale against rail shutdowns in the future." He also says rail is a key mode of transportation for U.S. ag exports into Mexico. [U.S. Wheat Associates and the National Association of Wheat Growers]() were also relieved the shutdown ended. "These rail corridors are essential gateways to many loyal flour millers and food customers in Mexico who rely on the interconnected U.S. and Mexican rail system for a reliable source of high-quality U.S. wheat," they said in a statement. "We trust CBP will take the steps needed to avoid future rail closures."
- **Grain traders are challenged** with the cost of global transportation that is impacting cost to buyers and income to grain producers. [World Grain]() reports, "Starting with the tangibles first. What is clear is that as the new year approaches, the cost of shipping has risen. The IGC Grains and Oilseeds Freight Index was up 19% year-on-year on Dec. 12. The Argentina, Australia, Canada Europe, United States, Black Sea and Brazil sub-indices also reported increases in the range of 14% to 34% over the same period. Much of these gains came in the fourth quarter. The IGC Grains and Oilseeds Freight Index hit 177 on Dec. 12 after sinking to a 52-week low of 117 in July. "As Panama Canal authorities [have restricted transit capacity]()due to prolonged drought conditions, a range of dry bulk trades have had to re-direct via the Suez Canal or the Cape of Good Hope," a transportation specialist said. "This is most critical for the US Gulf to Asia trades, which are also currently at their seasonal peak. The effect has been to drastically reduce the capacity of the fleet serving those trades, by approximately 30%. Of course, shipping via the Suez Canal also is becoming more difficult due to Yemen-based Houthi rebels launching missiles and drones at vessels sailing through the Suez Canal and the Red Sea. The missile and drone attacks underway on international shipping threaten far more disruption to global trade, not least because the Suez Canal offers the best alternative for shippers between Asia and the Americas while the Panama Canal is short on capacity. The part of Yemen controlled by the Houthis is on the Bab al-Mandab Strait, which is a narrow strait between Africa and the Arabian Peninsula that forms the southern entrance to the Red Sea and the Suez Canal, a thousand miles away. Ships passing through it are highly vulnerable.



- **The Suez Canal issue** is just the latest in a barrage of transportation issues that shot holes in grain basis levels back home. Logistics are a major part of the basis, and transportation issues can make up a major part of logistics. During the China trade conflict in the Trump administration, US grain was not westbound, and thousands of containers piled up at West 

Coast ports with shipping companies refusing to sail. Shipping fees rose 10-fold before settling back down and freight resumed. The Cornbelt is in its second fall of having difficulty getting grain down the Mississippi and Ohio Rivers because of the drought, which has slowed barge traffic and raised barge fees that eat away at the river terminal premium basis typically offered to farmers. Now, even with grain making it to Gulf terminals, ocean freight becomes expensive because of restrictions in the Panama Canal due to water levels too low to accommodate the typical traffic, and restrictions at the alternative route through the Suez Canal trying to get US grain to the oriental customers. With avoidance of a Suez transit due to safety, avoidance of Panama due to traffic restrictions, and high costs of barge freight on the rivers, farmers have been reluctant to sell, and buyers are reluctant to offer high enough prices to unlock grain bin doors. Subsequently, the grain economy is in a bind until a number of unrelated issues independently disappear.


Technology —

- **Precision agriculture** has come a long way in recent years and will continue to develop quickly. Matt Olson, Precision Ag Manager for John Deere, says off-farm folks might not know how much automation there is on American farms today, "A lot of people that are on a farm don't realize how much automation is taking place on the farm. When we look at the past ten years, we've accelerated the amount of automation of these machines. So, as the automotive industry talks about how they have self-driving cars, we've had self-driving tractors since 2002. The farmer had to be in the cab, but that tractor or combine or sprayer drove itself to the field to maintain that production that the farmer was looking at." It's easier than ever for busy farmers to stay up on the latest in precision agriculture, "The farmer has got a lot on their plate, right, and they've already made a lot of investment in precision ag. They're using auto track, they're using section control, so they have the foundational technology that they need. I want them to think about how they can get new value from what they already have without even needing to buy a whole lot of new things. A lot of the updates, a lot of enhancements are software-oriented, so they're easy for a farmer to get their hands on, try it, experience the value, and make the decision whether or not that's something that they want to invest in." There's a lot of opportunity ahead in the field of precision ag.

- **As agriculture looks to 2024**, AgriThority, a Kansas City company, put together its top 10 trends for the new year. The company is seeing some consistency from prior years but some emerging trends as well. The first is a push for more biologicals and biostimulants, comparing them to what seed treatments were in the 1990s. The biostimulant market should reach $6.8 bil. by 2028. They say climate-smart farming will get smarter as measurements behind the carbon market continue maturing. AgriThority says precision ag will continue evolving with the onset of AI. They do note that regulations are not evolving at the same rate as innovation in agriculture. The company's top ten also says sustainability isn't going away, plus soil health will continue evolving. Artificial intelligence will likely be more present in agriculture next year. They call 2024 a "shakeout year" as companies will make moves for the future as competition increases.

Food and Nutrition—

- **Whether real or inflation-adjusted**, yearly food spending in the United States increased steadily from 1997 to 2022, except in 2008 and 2009 during the Great Recession and COVID in 2020, says USDA. Food spending includes food at home, described as food intended for off-premises consumption from retailers like grocery stores. Spending also includes food away from home, described as food bought at outlets like restaurants or cafeterias. Total food spending increased 70% from 1997 to 2022. Food spending totaled $1.81 tril. during 2020. Between 1997 and 2022, food at home spending increased at a slower rate, 53%, than food away from home at 89%. Total food spending increased on a yearly basis by 7.2% in 2021 and 4.5% in 2022. Food away from home spending drove the overall increases in food spending. Food at home spending rose 4% in 2021 before falling 2% in 2022.

Agribusiness—

- **Bayer was victorious in a CA trial** initiated by a man who claimed he had developed cancer from long-term exposure to the company's Roundup weed killer. Reuters says that ended what had been a 5-trial losing streak for the company in trials over similar claims. Bayer said the verdict was handed down by a jury in a CA Superior Court late last week. In a statement, the company says the verdict was "consistent with the evidence in this case that Roundup does not cause cancer and is not responsible for the plaintiff's illness." Lawyers for plaintiff Bruce Jones didn't immediately respond to requests for comment. Like most plaintiffs in other Roundup lawsuits, Jones claimed the product caused him to develop a form of cancer called Non-Hodgkin Lymphoma. Around 165,000 claims have been made against the company for personal injuries allegedly caused by Roundup, which Bayer acquired by purchasing Monsanto in 2018.

- ✓ **The ag equipment market** began a downward trend a year ago. Dealers say that 2024 might be their roughest year since COVID in 2020. The "Dealer Business Outlook and Trends Report" shows a combination of recovering inventories, high interest rates, and a general economic downturn that has dealers preparing to weather a storm in 2024. The new survey showed a significant drop in optimism in dealers' new and used whole goods revenue forecasts, while parts and service revenue forecasts hit record highs. The dealers aren't facing the kind of equipment shortages that dampened their optimism in the previous report, but price increases remain a factor despite falling from 2022 peaks. There is some degree of optimism remaining based on healthy farm financials and solid commodity prices. However, the question of how much cash farmers will bring into the new year remains in question. Revenue projections are negative as demand declines.