WEEKLY CORNBELT UPDATE

PRESENTED BY FLANAGAN State Bank

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

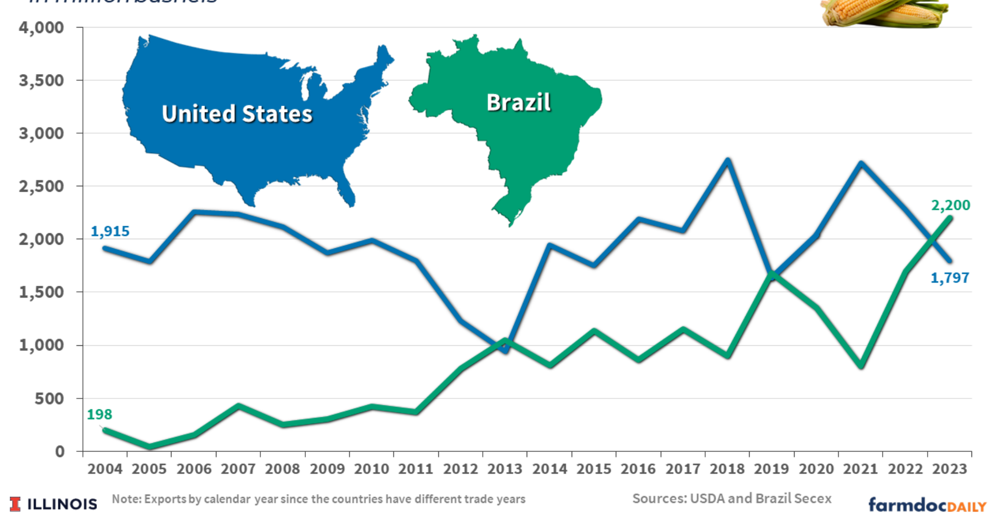
Commodity market price drivers—

- **Corn and soybean yields in Brazil keep falling.** Dr. Michael Cordonnier, South American

Crop Specialist, (left) says, "CONAB came out and lowered the soybean estimate for Brazil 92 mil. bu. to 5.31 bil. bu., and for corn, they lowered it 35 mil. bu. to 4.4 bil. bu. Now, the soybeans in Brazil were 55% harvested as of late last week, and the harvest pace has slowed down. They're now moving into some of the later-planted beans, and also, it's been wet in northern Brazil, so it's been slower a little bit. I left my Brazil soybean estimate at 5.37 bil. bu. As a comparison, USDA is 6.1 bil., so they're very high." He says the second corn crop in Brazil is almost completely planted, "That crop was 93% planted as of late last week, and the situation is sort of okay, but it's getting dry in south-central areas, and a new heat dome is developing over South Central Brazil. This is the 3rd one of the growing season. Temperatures are going to get really hot – over 100°F, and that area had been drying out already, so now it's going to get even drier going forward. An area to watch is the states of southern Mato Grosso, Mato Grosso do Sul, Parana, and Sau Paulo. Most of the corn right now is in vegetative development. If this heatwave lasts more than just a few days, I think it will have a negative impact on the safrinha corn." Prices are so low that some Brazilian farmers skipped the second corn crop and planted other commodities, "CONAB lowered the Safrinha corn acreage by 321,000 acres, and they think it's going to go down 8.3% compared to last year. Now, this is contrary to what normally happens. CONAB almost always finds more corn acres as the season progresses. Well, this year is just the reverse. They're finding less, and I think they'll find even fewer acres than this. I think you're going to be down 10-11%. They have the area down 8%. Prices are too low, and the farmers are opting to plant other crops like grain sorghum or sunflowers or cotton instead of safrinha corn. And my concern is that this may be the end of the rainy season." (NAFB News Service)

- **"Brazil has enhanced its capacity** to compete in export markets by increasing production, improving grain transportation logistics, and boosting trade relations with major importers – most recently reaching an agreement with China on phytosanitary requirements for corn trade. The United States and Brazil account for almost 60% of world corn exports, followed by Argentina and Ukraine, which account for another 30% of international trade in corn." [IL Farmdoc Ag Economists]() examine the last 20 years of Brazilian and American corn exports and provides perspective on acreage and supply in the current crop season in Brazil and the coming 2024 crop season in the United States. In the last 2 decades, Brazilian corn exports have increased elevenfold, from 198 mil. bu. in 2004 to 2.2 bil. bu. in 2023 (see Figure 1). In contrast, U.S. corn exports have not exhibited significant growth, averaging 1.967 bil. bu. since 2004. The Brazilian increase occurred mainly in the last 10 years, coinciding with Brazil's significant increase in second-crop corn (called safrinha), planted in January-February and harvested in June-August each year. Currently, the second crop corn accounts for about 75% of total corn production in Brazil. The growth in the safrinha in the Center-West and Northeast states is an opportunity for Brazil to double its corn production in the coming years. Over the last two decades, Brazilian corn acreage has increased by 67%, from 30 mil. acres in 2005 to a projected 50 mil. acres for 2024. Meanwhile, the corn planted area in the U.S. has fluctuated between 80 and 95 mil. acres. The growth in Brazilian corn acreage is mainly explained by the land use change in the 21st century and the possibility of harvesting 3 crops in the same year. Continued increased production of safrinha corn, a result primarily of the conversion of degraded pastureland into cropland, should continue to increase the planted area in Brazil in coming years, depending on market conditions. More export market competition appears likely in a situation where both Brazil and the US have ample supply. In 2024, global corn stockpiles are poised to reach their highest levels in five years. Corn stocks above historical averages in the United States and Brazil have driven down prices, discouraging Brazilian and American farmers from expanding corn plantings for the year. Despite the limitations of lower global corn prices, Brazil's exports should remain robust, keeping up the high competition with U.S. corn trade. This strong competition is unlikely to be temporary, considering all the factors affecting the situation."

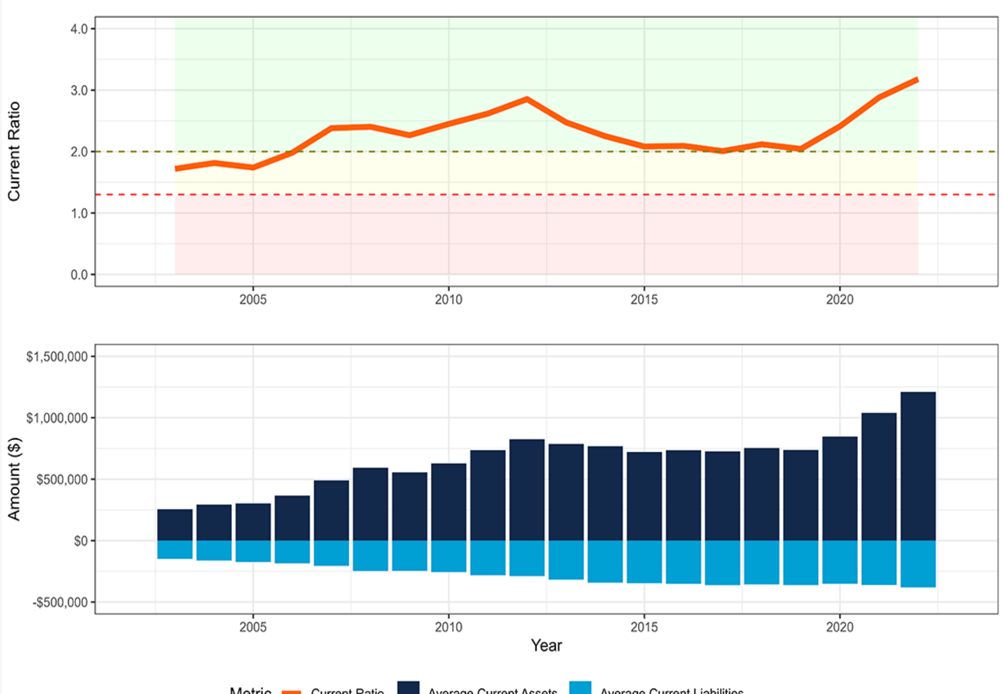
Figure 1. Total Corn Exports by the United States and Brazil
in million bushels



Farm Economics—

- **As many farmers are struggling** with an adverse economy, IL farm operators are reporting numbers that may give them an edge with better than average liquidity. That is the finding of [IL Farmdoc ag economists and Farm Business Farm Management staff](). What they did to calculate their finding, "In our analysis, we report the annual average current assets and current liabilities of grain farms in IL. We then use these values to calculate the implied current ratio. This approach will also allow us to discuss the relative changes in current assets and current liabilities driving the current ratio trends." Figure 1 shows the average current assets, current liabilities, and current ratio of IL farms. The liquidity of IL farms has substantially improved over the years. From 2003 to 2006, the current ratio of the average IL farm was in the cautionary range, but there was a gradual improvement in liquidity during this period. The average current assets of farms increased by 43.39%, from $255,691 to $366,635, while average current liabilities increased by 24.41%, from $148,711 to $185,007. As a result, the current ratio increased by 15.12%, from 1.72 to 1.98. In conclusion, our current ratio analysis of IL grain farms using data from the IL Farm Business Farm Management (FBFM) indicates a substantial improvement in liquidity over the past 2 decades. The average current assets of farms have increased significantly, outpacing the growth in current liabilities, resulting in a rise in the current ratio. However, there have been periods of decline in the current ratio, particularly from 2012 to 2015, where average current assets decreased while average current liabilities continued to increase. Nonetheless, the current ratio of the average IL farm has remained *strong* since 2007, and the onset of the COVID-19 pandemic coincided with a further increase in liquidity. As we move into the 2024 growing season with projected lower farm incomes, these higher current ratios will help farmers offset the lower prices. Careful monitoring of this ratio is needed to help understand the liquidity of the farm operation.

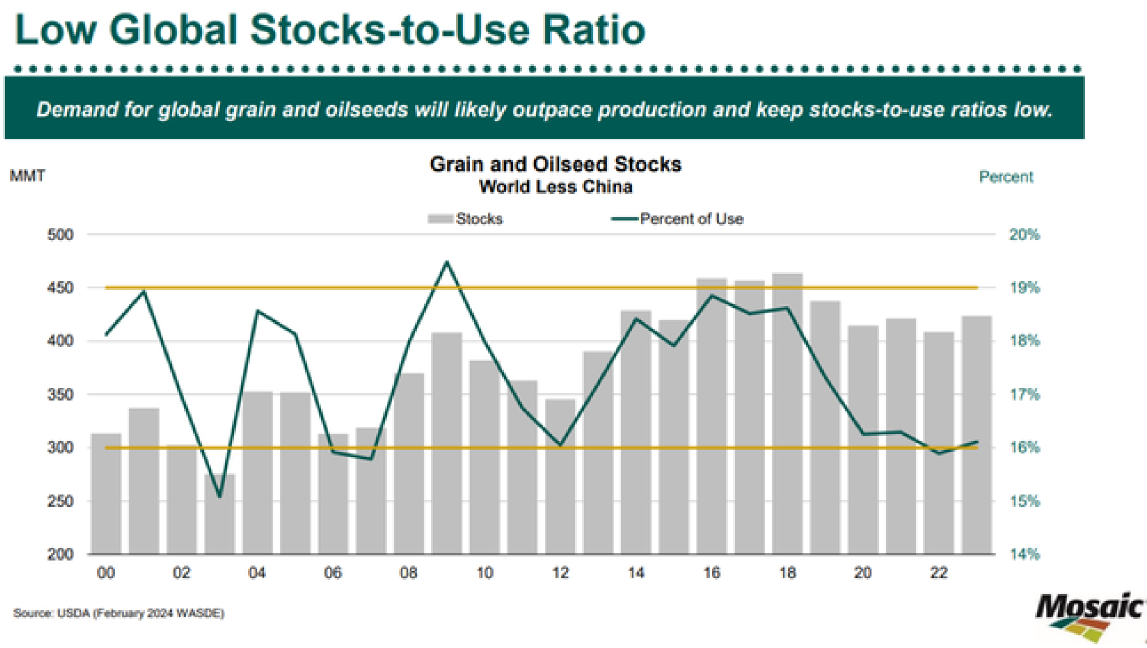
Figure 1. Average Current Assets, Average Current Liabilities, and the Current Ratio of Illinois Farms



Source: Illinois FBFM

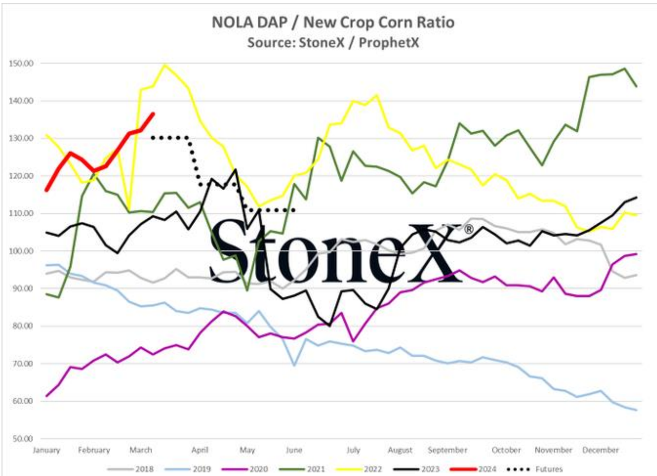
Seed, Fertilizer, Chemical Inputs—

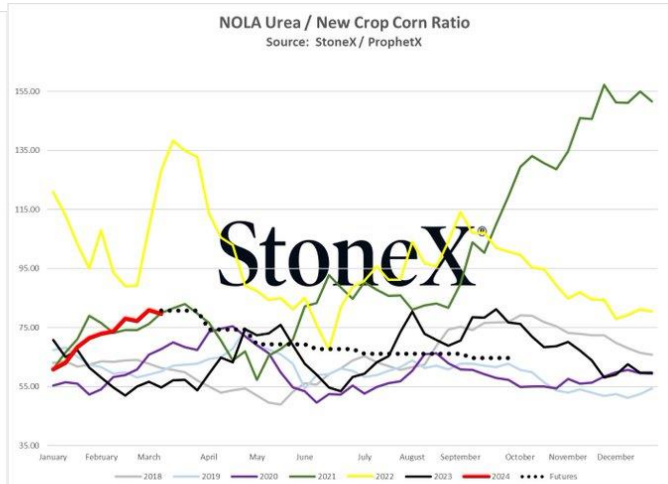
- **Will fertilizer prices rise with spring demand?** [USDA's latest production cost report](#) shows increases for anhydrous, urea, DAP, MAP, and potash. However, they are 19% lower than last spring, particularly after the substantial drop in nitrogen pricing. Farm Futures economist Jacqueline Holland says, "During that period, December 2024 corn futures prices fell 16% lower. Assuming an average yield of 200 bushels per acre, that would result in a per acre revenue loss of $178/acre, leaving 2024 per acre corn revenues at $938/acre. The lower commodity prices have largely offset accompanying decreases in lower fertilizer costs. This means that [margins will remain tight](#) during the 2024 growing season – likely the tightest farmers have endured since the 2019/20 marketing year. With tighter profit margins penciling out for 2024, farmers will need to anticipate fertilizer producers' next moves to ensure their own profitability. Supply chain considerations will also need to be made and crop price economics will inevitably play a role in farmers' 2024 acreage decisions. Nutrien expects to see that trend begin to reverse during the 2023/24 marketing year, which should encourage higher crop yields. Mosaic noted that aggregate grain and oilseed consumption continues to outpace production, which should sustain farmer demand for crop nutrients throughout the upcoming growing season. CF Industries echoed Mosaic and Nutrien's expectations



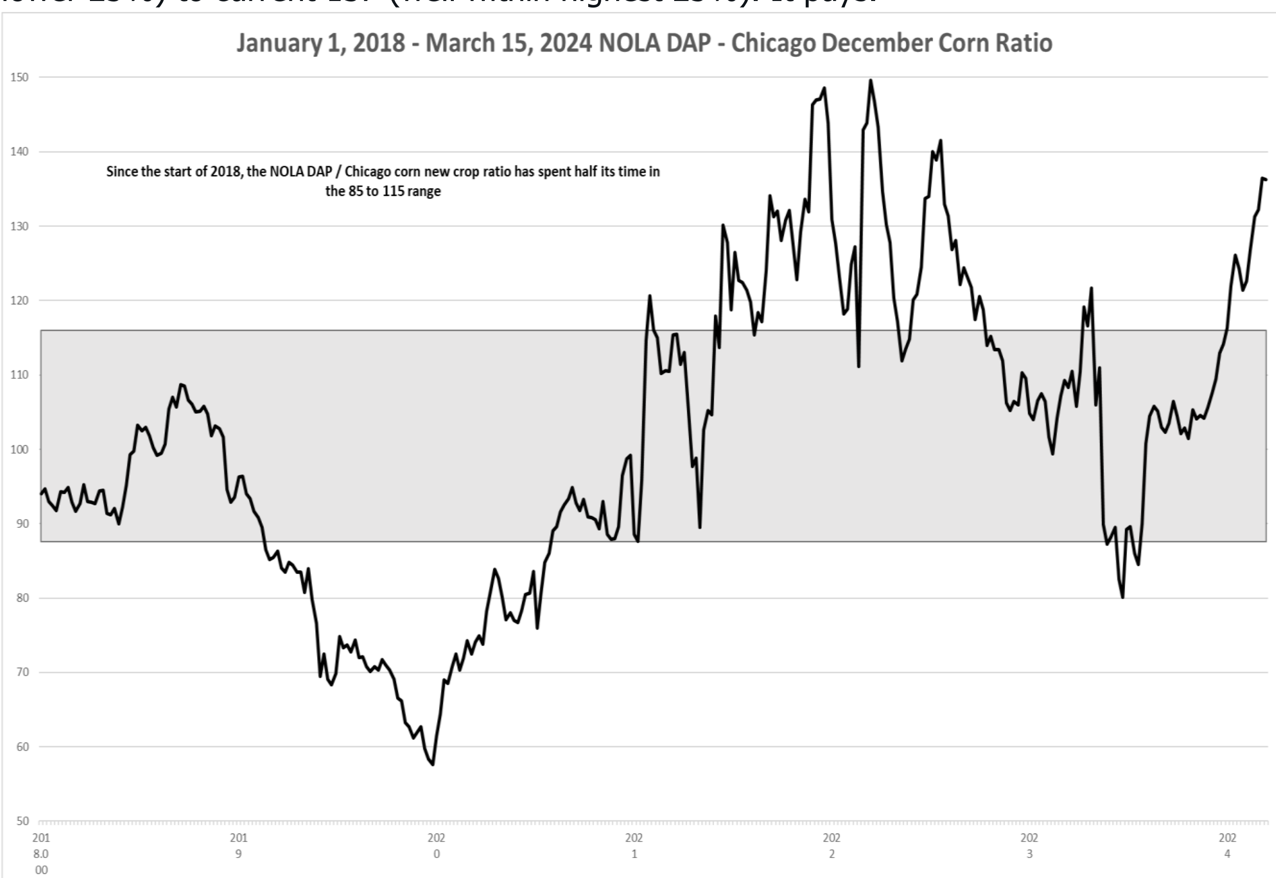
that [fertilizer volumes consumed by farmers](#) will continue to grow over the next year – especially in Brazil – but that limited urea exports by China will keep the market tight. "There will likely be more price elasticity during the summer 2024 reset period," Josh Linville of StoneX forecasted. He notes that fertilizer producers are not likely to make significant changes to production schedules beyond immediate restocking needs during that period. Tighter fertilizer inventories mean that retailers will likely be running truckload to truckload this spring, so Linville advises talking with your ag retailer early and often about 2024 planting and application plans.

- **Should you purchase fertilizer based on its price**, or its price ratio with corn? [Josh Linville, head of fertilizer for StoneX] suggests the ratio approach works saying "The $690 per ton DAP price (left) is a ratio of nearly 150 with Dec corn at $4.69 per bu. In this scenario, a farmer is spending 70 more bushels of corn for the same ton of DAP by locking in ahead. The urea ratio (right) is 84. Not as crazy as phosphate, but that is still 36 bu. for each ton of urea."



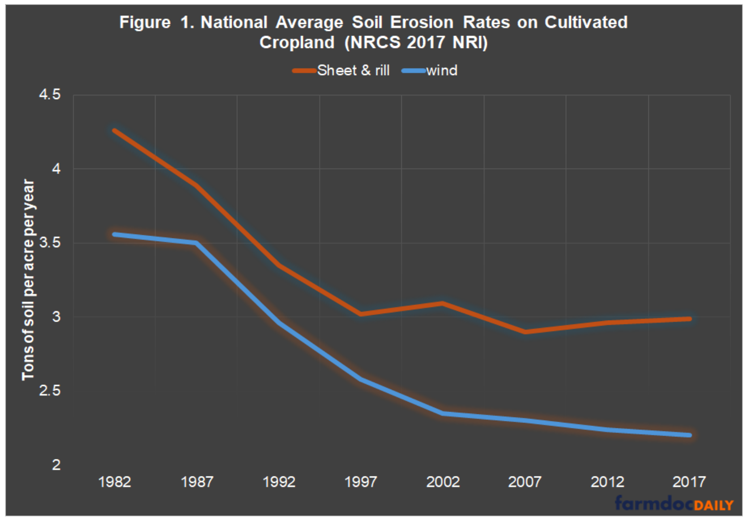


- "Below graph is the NOLA DAP/Corn ratio. Since summer '23, we went from 80 (well within lower 25%) to current 137 (well within highest 25%). It pays."

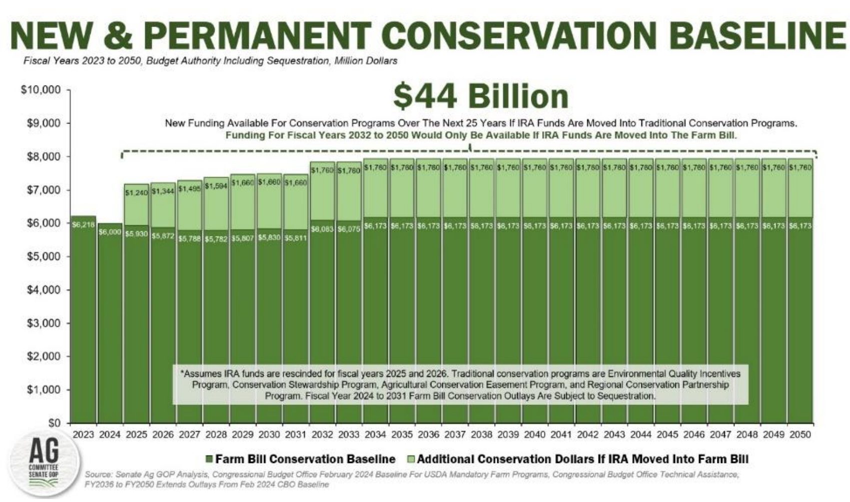


Conservation Policy and Funding. —

- **Discolored water in rural areas** usually is an indication that it has picked up soil particles somewhere and carried them out of a field and into the flow of water. Erosion is not planned but may be tolerated more than most farmers would admit, until they realize the cost of it. IL Farmdoc Ag Policy Specialist Jonathan Coppess says, "A substantial expansion of acres under production in the 1970s and early 1980s led to a second economic crisis and problematic increases in soil erosion. In the Food Security Act of 1985, Congress enacted landmark soil conservation policy that included the Conservation Reserve Program (CRP) and conservation compliance. (A prior) study preceded major changes in farm policy enacted in the 1996 Farm Bill, including decoupling farm program payments and enactment of the Environmental Quality Incentives Program (EQIP). The 2017 National Resources Inventory (NRI) reported a 35% decrease in overall soil loss within the last 4 decades, attributing reductions to valuable conservation efforts and adoption of more sustainable farming practices. Figure 1 illustrates the national average soil erosion rates for cultivated cropland in each NRI from 1982 to 2017 from water (sheet and rill) and wind. To understand the cost of soil erosion, we need to understand the impact on corn yields and the estimated economic and energy costs. The initial study estimated yield losses beginning with 7.7% for corn, while other researchers found almost 8.8% corn yield loss at lower levels of erosion (15 cm of topsoil removed) and 19.6% at high rates of erosion (30cm soil removed). Similar research for IL soils (8 sites, 7 soil series) found yield losses that ranged from 5% to 13% and as high as 24%; the highest yield losses were found for those fields with "root restricting subsoils" or soils with fragipans or clay pans that inhibited root growth and penetration. Farmers can, to some degree, reduce the risk of yield losses from soil erosion with fertilizers, but that also costs the farmer and may not offset yield losses completely. As all farmers know painfully well, fertilizer costs have increased substantially since the early 1990s and have risen dramatically since 2020. For context, the Conservation Reserve Program (CRP), which has been the only conservation program in continuous operation since that time, has averaged $1.68 bil. each fiscal year and the national average erosion rate in 2017 was 4.63 tons of soil per acre per year. Not investing sufficiently in soil conservation has costs as well. Adjusted for inflation and reduced average erosion rates, soil erosion could cost $113.92 per acre per year in losses, 75% of which are borne by the farmer. Critical components of the loss estimates are the potential for reduced crop yields, presented here as a risk from soil erosion, and costs of increasingly expensive fertilizers to compensate for erosion's risk to crop yields."



- **Will there be enough money in the next Farm Bill** for conservation? John Newton, ag economist for the Senate GOP members on the Ag Committee says yes, because they have worked out a long term way to fund conservation, with a "historic investment ."What John Newton and the Senate GOP members have up their sleeve is "moving Inflation Reduction Act funding into a bi-partisan Farm Bill. Over the next 25 years this additional investment in conservation spending could be more than $44 bil. and 3 times larger than the expiring resources provided by the IRA. Any discussion about "protecting IRA resources" that does not begin with prioritizing additional baseline for the conservation title risks missing out on this investment." Newton has calculated "The Inflation Reduction Act of 2022 (IRA) provided more than $17 bil in new funding authority for climate-smart agriculture and forestry activities (CSAF) like cover crops through existing U.S. Department of Agriculture (USDA) programs such as the Environmental Quality Incentives Program, Conservation Stewardship Program, or the Regional Conservation Partnership Program. Because the IRA prevents USDA from entering into any agreement that extends or disburses any funds after September 30, 2031, there is a looming conservation cliff for all IRA-related conservation activities. This could represent a nearly 30% increase in the conservation title's available funding into perpetuity. This could allow Congress to respond to requests for additional resources to address local conservation needs. While disagreements remain regarding climate requirements currently in the IRA, Senate Republicans stand ready to reach a bipartisan consensus to protect these funds. Congress has a historic opportunity to help farmers improve soil health, enhance water quality, and quantity, reduce greenhouse gas emissions, and sequester carbon while also improving the economic and environmental sustainability of the farm now and for generations to come.



Farm Bill and Farm Policy—

- **The federal appropriations process** could pave the way for other pieces of legislation of

  important, like the Farm Bill. Rep. Frank Lucas, R-OK, (left) a former House Ag Committee Chairman, says, "There are so many things like the Farm Bill, reauthorizing the Weather Act, NDAA (National Defense Authorization Act), there are so many pieces of legislation that have to have spending allocation numbers to be written. Current committee chair Glenn Thompson, R-PA, says he is ready to go with a markup, but we have to know where we are financially." There are changes that Lucas says producers would like to see in the Farm Bill, "Many of my producers in a variety of crops would like to make adjustments for reference prices. Think about the inflation since 2018, think about the trade war effect on our producers, think about the COVID effect on our producers. The safety net, no matter how well structured it was in the 2018 Farm Bill does not reflect the cost of inputs right now or what it's done to most of the grain commodity prices. We need some extra money." The question becomes, is there enough time to complete the Farm Bill? "Bear in mind, we're not rewriting the Farm Bill as we did in 2012 and 13, and 14, it's a tweaking. We can do that. We just need some money so we can address reference prices and some of those issues. And if we get our work done in the House, or when we get our work done in the House, I think that will motivate the Senate. They just need to pass something and then we'll take a House-passed bill and whatever they pass, we'll go to a conference committee, we'll do it the way historically legislation has always been put together, especially Farm Bills, and we'll work out our differences." Despite the challenges, Lucas says he feels like there can be a 2024 Farm Bill, "Absolutely. You've got a situation where you have an incumbent president running for reelection. I've never known an

  incumbent president who didn't have the biggest ceremony imaginable when they were signing a Farm Bill. We get it to the White House, it'll be signed. Sen. Debbie Stabenow, D-MI, (right) Senate Ag Committee Chair is not running for reelection, she's vacating her seat. So, this is her legacy bill. In the House, we just know that the Farm Bill must be brought up to date to reflect what producers are dealing with, and that gives us a huge incentive. So, everybody has a very enlightened self-interest." (Radio Oklahoma Network)

- **Secretary Vilsack says there won't be a new Farm Bill** until there's "flexibility" in ways to fund one, and the political will to do it. Vilsack (below) told the National Farmers Union that lawmakers need to look outside the Farm Bill for farm safety net funds to avoid hurting popular conservation and nutrition programs, "It becomes a bit difficult to see the pathway to a Farm Bill unless folks say, how do we use all of the tools—not just the Farm Bill—how do we use all of the tools." Including the politically controversial Commodity Credit Corporation (CCC). "The CCC is a resource that's available, and every year, virtually every year, there's money left over in that CCC fund." But some in the GOP charge Vilsack, and even the Trump Administration, used CCC as a 'slush fund' for pet projects. Still, Vilsack says the CCC fund, Inflation Reduction Act conservation dollars, current SNAP and WIC funding, in concert with a Farm Bill may be the only answer, "I think the attitude is that until we see that kind of flexibility, it's going to be difficult, and there's going to be a standstill, and then, some people think, well, an extension of the existing Farm Bill is better than a bad bill." Politico quoted Senate Ag Committee Chair Debbie Stabenow, D-MI, as saying just that at a recent White House event, but Sen. Chuck Grassley, R-IA, says Stabenow told him her comments were taken out of context. Stabenow's quote on limiting anti-hunger programs in a new Farm Bill: "I'm not going to do it, so if that means we continue the policies of the 2018 Farm Bill, then that's ok." (Berns Bureau Washington)

- **The USDA spending bill** President Biden just signed for the rest of this fiscal year limits the Ag Secretary's discretion in spending funds from the Commodity Credit Corporation—USDA's financing institution. The Ag spending bill requires the Secretary to give Congress 15-days' notice and spending details before transferring $100 mil. or more from the CCC. The provision is based on the earlier "USDA Spending Accountability Act," led by Sens. Roger Marshall, R-KS, Mike Braun, R-IN, and Chuck Grassley, R-IA. "We should not have a slush fund that is outside of the appropriation process, which doesn't give Congress control of the purse strings." Republicans charge the CCC's been used for politically driven pet projects. BUT Senate Ag Committee Chair Debbie Stabenow, D-MI, pointed to Vilsack's earlier approval of a bipartisan request to use CCC funds for trade promotion, "A large part of that is already the way we fund the Farm Bill. So, it's not that there's additional." And the earlier GOP bill would use half its $8 bil. estimated 10-year savings for market development and research, the other half for deficit reduction. But Republicans criticize the CCC's use for climate programs and other Democratic priorities and say even the Government Accountability Office has ruled USDA should have asked Congress first. (Berns Bureau Washington)

Farms and Farm Families

- **City kids at a high school in Decatur, IL**, are acting like farm kids where huge vo-ag and FFA enrollment is heart-warming. At Dwight D. Eisenhower High School, pigs are being raised in a greenhouse, where gardening would normally be the curriculum. Students applied for and received a $1,200 grant to buy pigs, and materials to make a pen, and equipment for water and feed. And keeping pigs inside city limits at the school is covered by "educational purposes" exemptions to zoning regulations. When the weather warms, they will be hauled to a Howard Buffett-funded Living Science Farm for the summer. With promised meat processing through a teacher's arrangement, the pigs will be converted to pork and donated to the Good Samaritan Inn's, free lunches, where hundreds of local residents are fed daily. The IL Pork Producers Assn. is covering the processing charges for the meat, a savings that will help the program recycle for another year! The hog manure is being used for fertilizer in the greenhouse for plant propagation. Great idea for many vo-ag students to utilize their education to benefit the local community.

For more than 110 years, Flanagan State Bank has been helping farmers and serving our communities. In good times and in bad, we have always been there and always will be. With the same name for over a century and the same family ownership since the 1930s we provide stability financial soundness and people you can count on when you need them.
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.