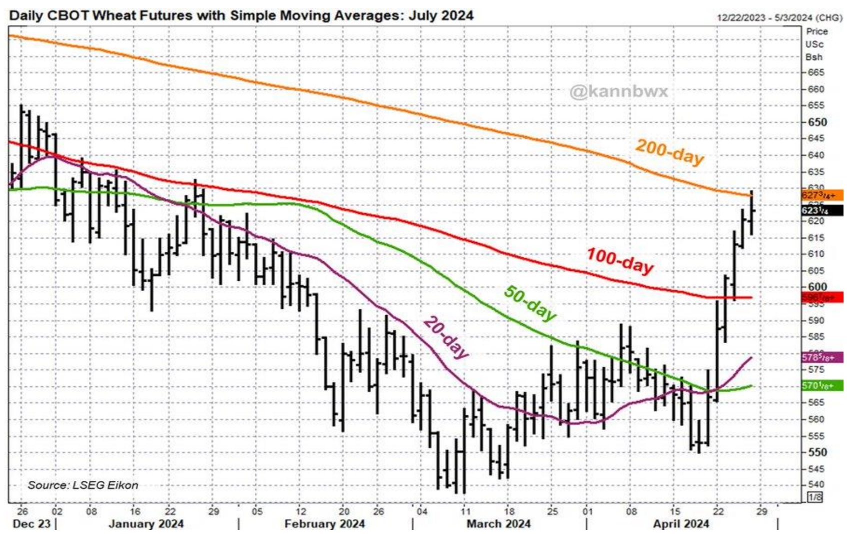
WEEKLY CORNBELT UPDATE

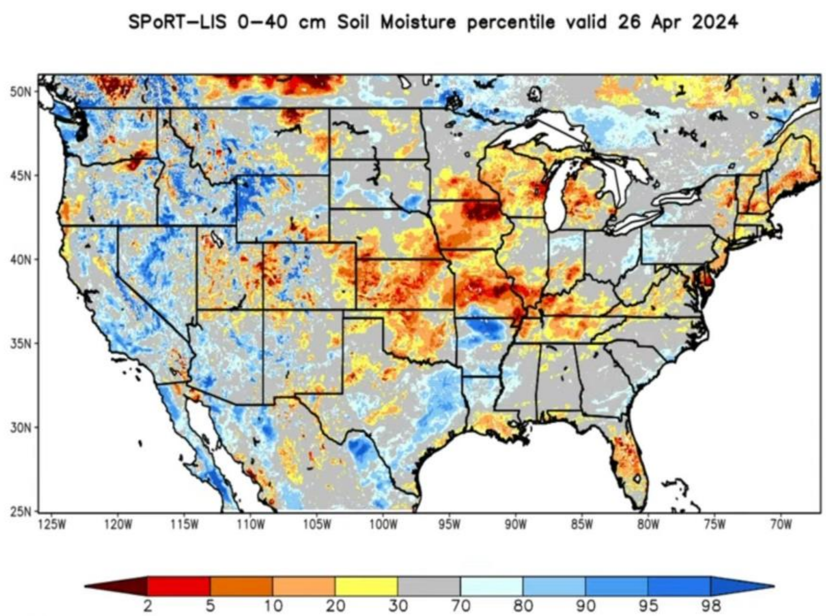
PRESENTED BY FLANAGAN State Bank

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

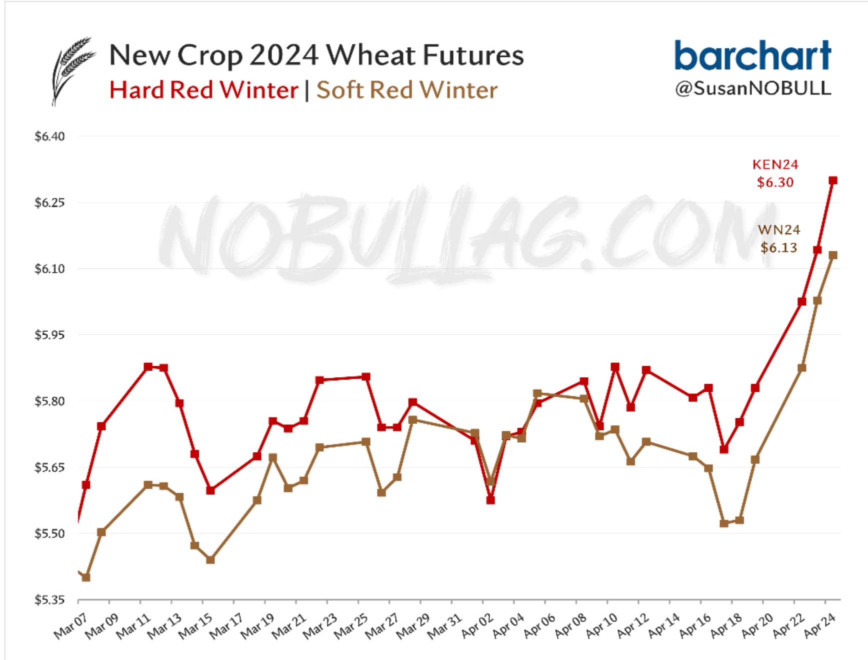
Commodity market price drivers—

- **What is driving the corn and soybean markets?** Wheat is driving the corn and soybean markets. Non-growers of wheat may not have paid much attention, but wheat growers have. July wheat is now above its 200-day moving average (top chart). For the soil moisture map, (bottom map) you can see the wheat areas grew more droughty over the last week. In Friday trade, Wheat bulls continued their assault on the heights (or at least foothills given the size of the decline in recent months) on Friday. Kansas City HRW continues to lead the way, with gains of 13½ to 14¼ on Friday and 64¾ for the week. Thursday's Drought Monitor showed 17.01% of Kansas is now in D2 (severe) drought, up 10.03% from the previous week. Of the whole state, 97.87% is covered in some sort of abnormal dryness.





- **The wheat market** has been on a bit of a hot streak in recent days as weather and geopolitics have markets heating up. July winter wheat futures have been up 6 days in a row, notching their longest winning streak since January. Both Chicago and KC futures are up more than 60 cents from last week's lows for gains of 11%. SRW growers in IL have a good marketing opportunity, suggests Susan Stroud of http://www.NoBullAg.



- **Friday's USDA grain export report** confirmed the sale of 8.5 mil. bu of corn to Mexico, 75% of that for the next marketing year. (That helps indicate the biotech issue may become resolved.) Corn export sales to all destinations were at a 10-week high at 51.2 mil. bu. USDA also reported the sale of 4.4 mil. bu. of soybeans to Mexico, most for 2025.

United States Net Export Sales

Week ended April 18, 2024; million tonnes

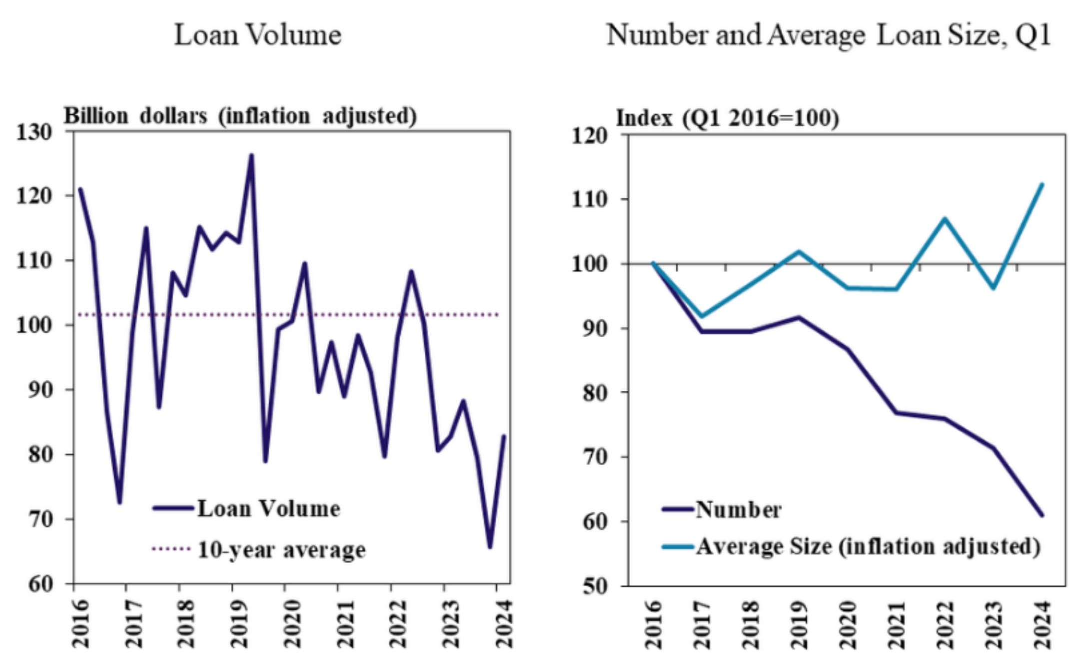
@kannbwx	Trade 2023/24	**Actual 2023/24**	Trade 2024/25	**Actual 2024/25**
Wheat	(0.1) – 0.1	**0.082**	0.1 – 0.4	**0.372**
Corn	0.4 – 0.9	**1.300**	0.025 – 0.35	**0.262**
Soybeans	0.3 – 0.6	**0.211**	0 – 0.3	**0.120**
Soymeal	0.1 – 0.4	**0.308**	0 – 0.05	**0.035**
Soyoil	(0.005) – 0.01	**0.016**	0 – 0.01	**0**

Data sources: U.S. Department of Agriculture; Reuters

Farm Economics and Lending—

- **Banks are doing "land office business"** with farmers wanting operating loans, says the Kansas City Federal Reserve's economics staff, which conducted a national survey of bankers. Non-real estate farm lending activity at commercial banks picked up slightly in the first quarter of 2024 alongside an increase in the average size of operating loans. According to the Survey of Terms of Lending to Farmers, the volume of new non-real estate farm loans was about 2% higher than a year ago and farm operating loan volumes increased more than 10%. The uptick in operating loans likely reflects increased financing needs arising from lower commodity prices, high input costs, and softening farm income. Loan volumes grew despite a smaller number of loans reported in the survey, suggesting that financing needs may be concentrated in operations with smaller cash buffers or those that want to preserve working capital. Despite growth in non-real estate loans, average interest rates on agricultural loans remained relatively high. For crop producers, increased financing costs could dampen profitability this year and may be particularly challenging for highly leveraged borrowers. In the cattle industry, higher interest expenses could also limit profits and put a dent on cattle herd rebuilding. Larger average loan sizes boosted non-real estate lending in the first quarter of the year. Loan volumes increased substantially for the first time since 2022 but remained below the average volume of the last decade (Chart 1, left panel). Larger loan sizes more than offset the smaller number of loans distributed in the first quarter of 2024, boosting the volume of non-real estate loans (Chart 1, right panel). A large portion of the increase in lending activity was attributed to operating loans. The growth in operating loans in the first quarter of the year staunched the trend of reduced loan volumes reported in 2023. Loans used to finance operating expenses, farm machinery and equipment brought the volume of non-real estate loans slightly above the levels observed in the first quarter of the previous year.

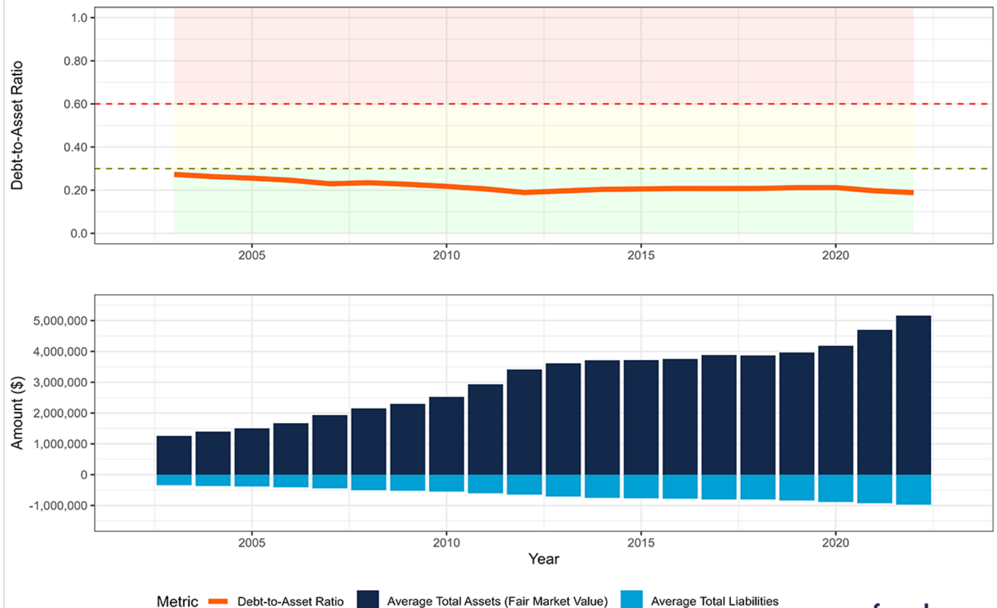
Chart 1: Non-Real Estate Farm Loans



The Business of Farming—

- **How is the solvency of your farm,** based on your debt to asset ratio? That question is raised by IL [Farm Business Farm Management staff] by dividing the value of a farm's total liabilities by its total assets, and measures a farm's ability to pay off all of its liabilities with its total assets. According to the Farm Financial Scorecard developed by the [Center for Farm Financial Management], a farm with a debt-to-asset ratio that is greater than 0.6 is categorized as *vulnerable*, a ratio between 0.3 and 0.6 is categorized as *stable*, and a ratio that is less than 0.3 is categorized as *strong*. Figure 1 shows the average fair market value of total assets, the average total liabilities, and the debt-to-asset ratio of IL grain farms. Over the past 2 decades, the debt-to-asset ratio for IL grain farms has shown a downward trend. The combination of lower prices and higher operating expenses led to lower net farm incomes, resulting in less operating cash. As a result, farming operations had to increase their operating debt. This shift pushed the debt-to-asset ratio up slightly and increasingly higher over the years, peaking at 0.212 (*strong*) in 2019 and 2020. Over the past 2 decades, grain farms with smaller gross farm returns have consistently maintained a stronger solvency position compared to their larger counterparts. In 2003, the debt-to-asset ratio of *small* grain farms was 0.232 (*strong*), compared to 0.336 (*stable*) and 0.483 (*stable*) for *medium*-sized and *large* farms, respectively. During the first half of the period from 2013 to 2022, the debt-to-asset ratio weakened across all 3 farm size categories before eventually improving, mainly due to lower prices and accrual net farm incomes. Small farms saw their ratio increase from 0.127 (*strong*) in 2013 to a peak of 0.136 (*strong*) in 2019, before improving to 0.114 (*strong*) in 2022. During this period, the average total assets of small grain farms increased by 33.24%, while average total liabilities increased by 19.14%. Some of the differences in farm size and debt-to-asset ratios can be attributed to the age of the farmer. Typically, younger farmers have smaller farm sizes and much higher debt-to-asset ratios. However, projections for 2024 suggest that lower prices, as well as the potential for higher operating loan balances and accrued interest, may increase debt-to-asset ratios. →

Figure 1. Average Total Assets, Average Total Liabilities, and the Debt-to-Asset Ratio of Illinois Grain Farms



Source: Illinois FBFM

- **While the solvency of farms has been increasing**, how have the trends compared to size of farms? IL Farmdoc ag economists looked again at the records of 5,500 members of the Farm Business Farm Management Association, to discover the differences.
  - ✓ "Between 2003 and 2013, the financial position of *small*, *medium*-sized, and *large* grain farms improved considerably. The share of *small* grain farms with a debt-to-asset ratio of less than 0.15 increased from 31.60% to 56.10%, while the share of small grain farms with a ratio between 0.15 and 0.30 decreased from 26.00% to 19.80%. *Medium*-sized grain farms with a ratio of less than 0.15 and between 0.15 and 0.30 increased from a share of 14.20% and 23.90% to 39.70% and 30.60%, respectively. *Large* farms also showed a significant strengthening of their financial position, with the share of farms with a debt-to-asset ratio of less than 0.15 increasing from 5.56% to 26.00%. At the same time, the share of *large* grain farms with a ratio between 0.15 and 0.30 increased from 5.56% to 32.70%. These improvements occurred during a period of substantial increases in grain prices, higher ending inventory values, and farm incomes.
  - ✓ Grain prices and farm incomes declined from 2013 to 2019. During this period, the solvency of grain farms in IL weakened, with *medium*-sized and *large* farms experiencing the largest declines. For example, the share of *small* grain farms with a ratio less than 0.15 fell from 56.10% to 54.50%, *medium*-sized farms fell from 39.70% to 35.60%, and *large* farms fell from 26.00% to 17.90%. The share of farms with a ratio between 0.15 and 0.30 also fell across all sizes, but the declines were more modest. However, the share of farms with a ratio between 0.45 and 0.60 increased across all sizes. For example, the share of *small* grain farms increased from 7.14% to 8.38%, *medium*-sized farms increased from 8.42% to 9.65%, and *large* farms increased from 9.17% to 16.30%.
  - ✓ The solvency of these farms has since improved. Grain prices rose sharply shortly after the start of the COVID-19 pandemic due to trade-related disruptions and rising energy and fertilizer costs. *Medium*-sized and *large* grain farms experienced the greatest improvement in their financial positions compared to their smaller counterparts. For example, the share of *small* grain farms with a debt-to-asset ratio of less than 0.15 increased from 54.20% in 2020 to 58.50% in 2022, while the share of small grain farms with a ratio between 0.15 and 0.30 decreased from 19.60% to 18.60%. On the other hand, *medium*-sized grain farms with a ratio of less than 0.15 increased their share from 38.80% to 49.40%, while the share between 0.15 and 0.30 decreased from 28.40% to 24.30%. *Large* farms with a ratio of less than 0.15 increased their share from 20.40% to 32.30%, while the share between 0.15 and 0.30 increased from 33.60% to 34.20%.
  - ✓ Most importantly, the ratio of farms with *strong* (less than 0.15; 0.15 to 0.30) debt-to-asset ratios has increased over time, strengthening their solvency. This trend has been most prominent in larger farms. Interestingly, as the farm size increased, the share of farms with a ratio of less than 0.15 decreased. However, when looking at the other ranges of debt-to-asset ratios—0.15 to 0.30, 0.30 to 0.45, and 0.45 to 0.60—the shares of farms in each range increased as the farm size increased.

Farmland issues and Land prices—

- **Do you own farmland that is locked into your family?** Are you farming land owned by someone else? Is that absentee owner a person or an institutional entity? If it is the latter, that may be the future of farmland ownership, which is a strong hint from an academic viewpoint about farmland ownership. A [research paper](), written by Univ. of IL land specialist Ailie Elmore and President Steve Bruere of Peoples Co. of Clive, IA, explores the transition of farmland toward ownership by institutional entities, looking for investment assets. While farmland may, indeed, have more stability than the stock market, it brings with it a jolt that may farm operators may wish their operation had a seat belt. The report concludes with a look at the future: "So, what is the long-term outlook for investing in farmland? After setting the sun on their 10-year farmland funds, many institutions have offloaded their agricultural asset management groups and are resorting to a more traditional investment thesis by investing in fixed income or other alternative asset classes to achieve their diversification goals. The recent run-up in land values also has fund managers concerned about relatively high acquisition prices. Asset managers may be asking themselves "Why would I invest in farmland when I can get a treasury bill at 5%?" But the question they should be asking themselves is "How can optimize my farmland portfolio?" Even though treasuries and fixed income have experienced relative increases over the past 4 years, farmland shows stronger levels of performance that have kept up with the inflation rate without the volatility of equities. While we know that past performance isn't necessarily indicative of future returns, the long-term future of agriculture is bright.

TABLE 2 **Asset Return Characteristics**

Sources: NCREIF, TIAA Center for Farmland Research

Asset/Index	Annual Ave. Return	Standard Deviation	Coefficient of Variation	Min Avg Yearly Return	Max Avg Yearly Return
	······ 2020 - 2023 ··············				
S&P500	9.7%	18.4%	1.89	-21.6%	23.8%
Dow Jones	7.0%	10.0%	1.44	-9.2%	17.2%
NASDAQ	12.9%	31.4%	2.44	-40.2%	36.2%
TCM1Y	2.1%	2.0%	0.97	0.1%	5.1%
TCM5Y	2.1%	1.5%	0.69	0.5%	4.1%
TCM10Y	2.3%	1.2%	0.52	0.9%	4.0%
AAA	3.5%	1.0%	0.27	2.5%	4.8%
BAA	4.5%	1.0%	0.23	3.4%	5.9%
NCREIF Total Farmland	6.3%	2.5%	0.39	3.1%	9.5%
NCREIF Annual Cropland	10.0%	3.7%	0.37	4.2%	14.4%
NCREIF Permanent Cropland	0.9%	2.3%	2.49	-2.9%	3.1%
CPI	4.4%	2.3%	0.51	1.3%	6.9%

- **1,900 acres of top-quality farmland** does not come up often for sale, but that is the case with a farm that is clustered around Blue Mound, southwest of Decatur, IL. Composed of some of the best soil in the state, which currently produces 240 bu. or more of corn per acre, the farm is being sold—not by auction—but as an entire package by First-Mid Bank. Real estate broker David Klein says the 1,900+ acres are being offer at $19,000+ per acre, for flat, black, highly productive soil. He says that is mid-range of recent sales of similar quality land in the locale. [Check out the details in this short video.]() The "package arrangement" was driven by multiple family members owning various shares of different tracts in the package. Will the next owner produce corn and soybeans, or electricity?

Environment, Conservation, Carbon issues, Climate etc.—

- **Attorneys from 25 states** sued the Environmental Protection Agency last week to block rules intended to reduce emissions from cars and light trucks and encourage electric vehicle manufacturing. The group of attorneys general says the agency exceeded its authority. The lawsuit is challenging the regulations for passenger vehicles, finalized on March 20 by the Biden administration. The group of states was led in the filing by KY and WV. KY Attorney General Russell Coleman says the rules would harm the American economy, threaten jobs, and raise prices while undermining the U.S. electrical grid. Coleman also says there is very little interest in electric vehicles in his state. "The administration is willing to sacrifice the American auto industry and its workers in service of its radical green agenda," Coleman says. "We aren't buying it." EPA chief Michael Regan says the rule imposes "absolutely no mandate" on manufacturers to adopt electric vehicles.
- **Getting a firsthand look** at conservation practices on the farm was Rep. Nikki Budzinski, who met with Bob and Mark Bunselmeyer on their farm between Forsyth and Maroa. He is an officer of the IL Corn Growers, which helped host the Central IL Democratic Member. During

the meeting, Rep. Budzinski (pictured, center) learned the challenges that impact farmer adoption of conservation practices, as well as what farmers are looking for in conservation policy. PCM shared that the top 3 priorities of farmers in a conservation program are 1) Financial assistance – a good payment rate; 2) Flexibility in practice standards; 3) Simple contract terms. The member of the House Agriculture Committee also was introduced to Precision Conservation Management. Through PCM, a program created by farmers, for farmers to build farm income and environmental outcome understanding, PepsiCo offers incentives for conservation practice implementation. A PCM specialist works with each PCM farmer to evaluate management practices and help reduce financial risk of conservation practice adoption through incentives, like those offered by PepsiCo.
- **"Loyal to the Soil"** is the name of a May 7th rally at the IL State Capitol. "Friends of IL agriculture are invited to join the IL Soybean Association, University of IL Extension, American Farmland Trust, The IL Stewardship Alliance, IL Environmental Council, and the Association of IL Soil and Water Conservation Districts for a Loyal to the Soil outreach and education day at the State Capitol. Participants will share with legislators and change makers about the importance of organizations like IL Extension and soil and water conservation districts and state programs like fall covers for spring savings play in protecting the environment, meeting conservation goals, and working hard to protect land. It begins with breakfast at 8:30, with lawmaker lobbying throughout the day, and a noon rally at the Capitol.

Trade and International Issues—

- **The trade dispute with Mexico over biotech corn** may soon be history. Mexico's  Economy Minister, Raquel Buenrostro, provided a timetable last week, which has threatened the export of glyphosate-tolerant corn to Mexico, some 90% of the 700 mil. bu. of US corn shipped south of the border. Mexico is waiting for the United States to prove imported genetically modified (GM) corn is safe for Mexicans, said Deputy Agriculture Secretary Victor Suarez. Suarez said the onus is now on the United States to show GM corn is not harming Mexico's population, which consumes a higher amount of corn than many countries through daily diet staples like nixtamalized dough and tortilla. The United States "argues that the decisions in Mexico are not based on science and that their decisions are," Suarez told Reuters in an interview. "But we still haven't seen the science of the United States or the companies. We are looking forward to that study with great pleasure." A senior official for the U.S. Trade Representative said, "Scientific authorities, including in Mexico, have consistently found biotech products like corn to be safe over a period of decades." "There is no impact on trade," Suarez said of Mexico's decree. "The value and volume of exports of GM corn to Mexico has increased." The resolution is the result of the USMCA (new NAFTA) trade treaty. The U.S. requested the panel under a trilateral treaty also involving Canada. Mexico is currently waiting to hear the United States' response to Mexico's arguments in favor of the curbs, Buenrostro told journalists. "The panel is progressing according to procedure, and we have to wait," Buenrostro said. "I think that by September it will be over." The U.S. requested the panel last year, claiming Mexico's planned ban of GM corn imports for use in dough and tortillas for human consumption is not based in science and violates commitments under the USMCA treaty. The decree does allow the use of GM yellow corn in animal feed, which accounts for the majority of Mexico's nearly $5.9 bil. worth of U.S. corn imports annually. Buenrostro added that she hoped that as the USMCA was set to be reviewed in 2026, "reciprocity" could be created regarding the so-called rapid-response mechanism. Under the mechanism, the U.S. has brought forth a number of investigations into alleged labor rights violations at firms in Mexico since the treaty went into effect in 2020. "We need reciprocity," Buenrostro said, as the current treaty only allows the U.S. to initiate reviews in Mexico. "The United States (opens investigations) in Mexico, but we can't complain about the way our workers are being treated in the United States." Ironically, despite the threat by Mexican President Obrador (pictured behind Buenrostro) to curtail the importation of US biotech corn, this marketing year has recorded record volumes of US corn purchased by Mexico.

IL Legislative Issues—

- **Fighting hard, but making little headway,** farm lobbyists are growing increasingly concerned that the IL General Assembly will approve SB 771. Kevin Semlow, head of governmental affairs for IL Farm Bureau says the "wetlands bill" is taking a large amount of time and resources of the State Legislative and Environmental Teams. "We have continued to see the environmental groups ardently supporting this effort through their public communications and activities with legislators. It is expected that this effort will remain on the radar screen until the end of the General Assembly session." It establishes a state level permitting program that allows IL Department of Natural Resources (IDNR) to regulate wetlands of all sizes in the state, including those on farmed acres. It gives IDNR the authority to:
  - ✓ Require permits if dredged or fill material is discharged into a wetland of any size (greater than 0.0 acres).
  - ✓ Assess an undisclosed amount of fees for permits.
  - ✓ Enforce against a person for failure to obtain a permit with a civil penalty of up to $10,000 per day of violation.
  - ✓ -It requires farmland owners to hire an "approved wetland specialist" to self-determine the presence of a wetland on property and apply for a permit.
  - ✓ The bill also adds additional layers of complexity and uncertainty around permitting requirements and creates additional regulatory red tape for farmers.
    (Contact your Rep. and Sen. and voice your opinion about SB 771)
- **SB2669** --- Creates the Agricultural Equipment Repair Bill of Rights Act. Provides that, for the purpose of providing services for agricultural equipment in the State, an original equipment manufacturer shall, with fair and reasonable terms and costs, make available to an independent repair provider or owner of the manufacturer's equipment any documentation, parts, embedded software, firmware, or tools that are intended for use with the equipment or any part, including updates to documentation, parts, embedded software, firmware, or tools. SB2669 was moving to the Senate Judiciary Committee, but never received a vote.
- **HB569** and SB3311--- CO_2 Sequestration/Storage. The bills create the Climate and Landowner Protection Act, encouraging the use of technologies that enable the capture of carbon dioxide for underground storage. Among other issues included in the bills is an integration process that could force landowners into a carbon dioxide storage project without their consent. HB569 has been referred to the House Energy and Environment Committee. SB 3311 is in the Senate Assignments Committee. IL Corn Growers supports for its benefit to ethanol plants, but IL Farm Bureau opposes because of property rights issues.

And finally, this—

- **Nearly 200 years ago** a small tribe of Indians living in northern IL in what would become DeKalb County were forced from their homes and told to resettle in what would become KS. The land was then converted to agriculture. Their ancestors just received authorization from the US Dept. of the Interior to re-claim part of the land near Shabbona as the first federally recognized tribal nation in the State of IL. Legislation, both in Springfield and Washington, was passed and signed to give the descendants the authority to purchase 130 acres of land for the Shab-eh-Nay Reservation. It is part of 1,280 acres of land that the federal government claimed in 1850, and re-sold to IL landowners in the region, but which has been the Shabbona Lake State Park. Prairie Band Chairman Joseph "Zeke" Rupnick – a fourth-great grandson of Chief Shab-eh-nay – signed paperwork that allows the Dept. of the Interior to place those 130 acres into a trust, which gives the tribe sovereignty over the land. A bill pending in the Illinois House would also give the Prairie Band tribe the title to the approximately 1,500 acres within the Shabbona Lake State Park, located a little less than 20 miles southwest of DeKalb. Shabbona Lake State Park is named for Chief Shab-eh-nay and covers much of the Prairie Band's original reservation. In 1833, the Potawatomi signed the Treaty of Chicago, ceding nearly all its IL land along the western shore of Lake Michigan except the 2 square miles left in DeKalb County preserved for the tribe in an earlier treaty. After the band of Potawatomi left the area of DeKalb, they made a 600-mile trek to northeastern KS, on a circuitous route that took them along the Sangamon River at Decatur, where a long-forgotten marker has remained for many years, indicating many died enroute to KS.

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.