



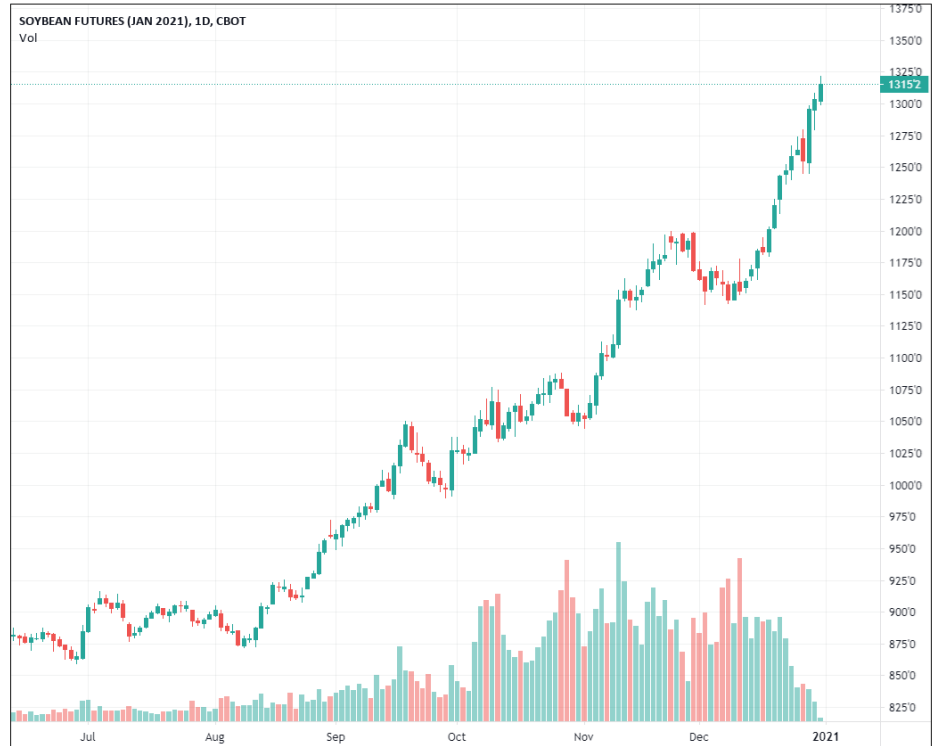
*A weekly Cornbelt digest of marketing, economic, agronomic, and management information.*

**Commodity market price drivers—**

- **A couple times in a generation,** farmers will get to sell “beans in the teens.” And it

happened last week for those who still have old crop soybeans to sell. The soybean market collided head-on several times with a \$12 barrier, but once that was history it did not take long to breathe the sweet air above \$13. January, March and May futures each eclipsed \$13 per bu. during Wednesday’s session, and January and March contracts both settled the week over \$13. Early Monday, January beans nudged \$13.50. On

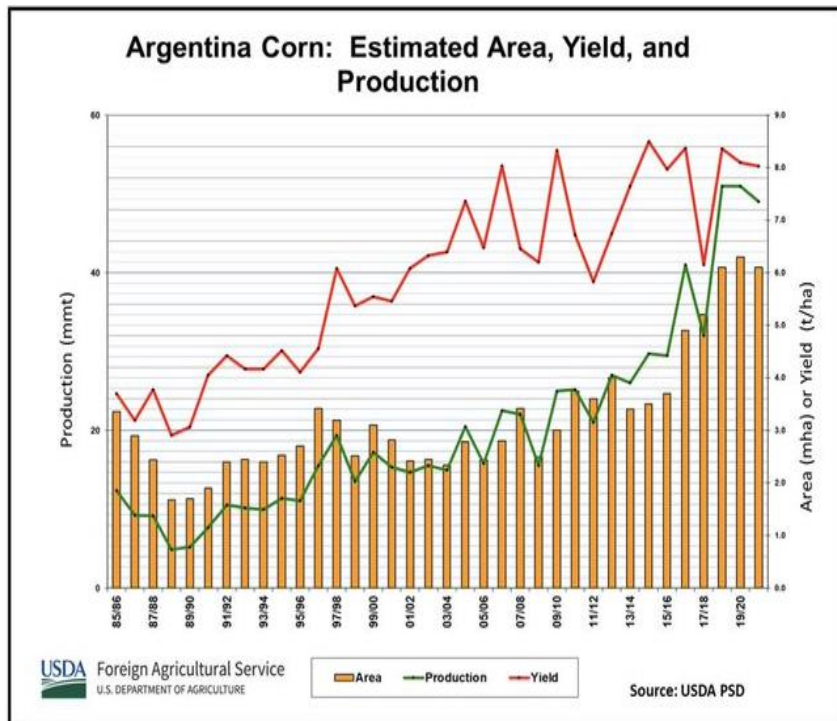
CBOT:ZSF2021, D 1315'2 ▲ +11'4 (+0.88%) O:1302'2 H:1321'4 L:1299'2 C:1315'2



Thursday, all soybean contracts closed at lifetime highs, driven by persistent dry weather in Brazil and Argentina, along with Argentine shipping delays, and strong Chinese demand. For farmers who are sold out of beans, but still mentally bullish, there are option strategies to take advantage of the current market move. Visit with a commodity broker and push the pencil. If premium costs and break-even prices work out, it sweetens the transition into 2021.

- **But that is not all.** [Corn futures](#) climbed to 6-year highs overnight with March corn nudging \$4.94 and extending the longest span of higher closes since 1959. Soybeans, wheat, and soybean oil also reached 6-year highs on the bullish market move, and bean meal touched a 4 year high. Corn prices rose on a significant announcement about Argentine corn exports.

- **Argentina’s port and grain union workers** have ended their 20-day strike after reaching an agreement on Tuesday, with the [settlement](#) coming after the government intervened in the dispute. The move lifts a major work stoppage that had left more than 150 ships stranded at the country’s ports. The strike halted \$1.458 bil. in export grain and cost the government \$1.9 bil. in demurrage payments to ship owners. With the end of shipping strike, workers also returned to Argentine crushing plants which had been idled along with the longshoremen.
- **With the shipping strike resolved**, [Argentine government officials announced](#) they will now suspend corn exports for 2 months. The country’s ag ministry made the surprise move as part of the government’s efforts to ensure ample domestic food supplies. “The decision is based on the need to ensure the supply of grain for the sectors that use it as a raw material for the production of animal protein such as pork, chicken, eggs, milk, and cattle, where corn represents a significant component of production costs,” the statement says. Argentina’s government is attempting to control food price inflation and

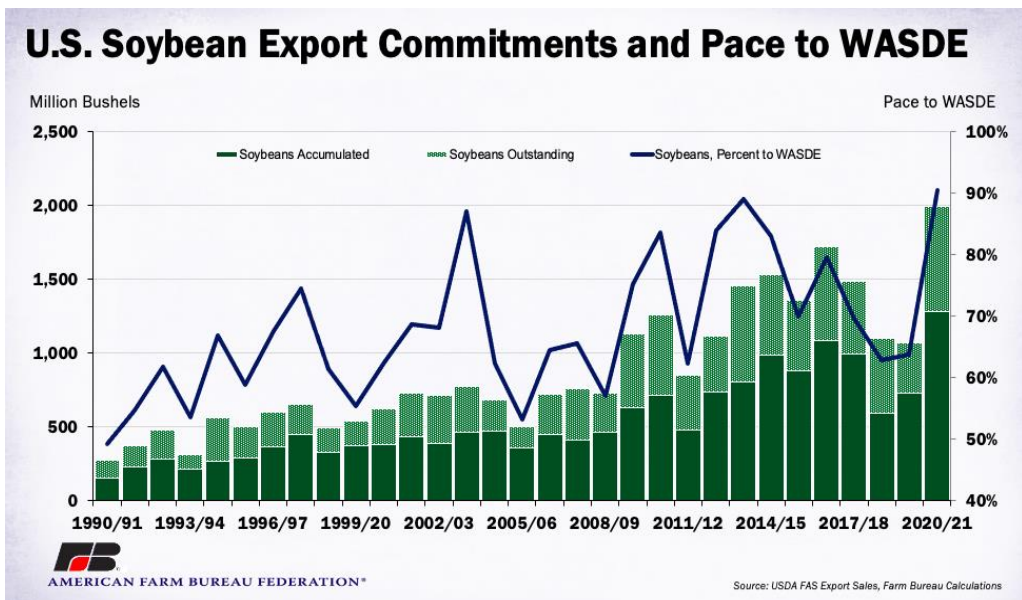


provide relief to low-income families battling against a shrinking economy brought on by COVID-19. The government reported 168 mil. bu. of corn on hand, which had to last until a 1.89 bil. bu. crop could be harvested several months from now. Farmers and other stakeholders in Argentina’s corn supply chain traditionally oppose this type of intervention in the markets. The head of the corn industry’s association in Argentina says, “We are absolutely surprised. This does not make sense. There was never a lack of corn in Argentina.”

- **But apparently there is a corn shortage**, somewhere in Argentina. A source reports “The Bureau of Marketing here at IDOA (Illinois Dept. of Agriculture) had a call from someone from Argentina looking to import to Argentina 500,000 metric tonnes (about 20 mil. bu.) of corn once a month for the next 6 months. They forwarded him to the (US) Grains Council.”
- **In other nations**, there are similar indications food supplies are getting tight. [Russia](#) in December announced a grain export quota and wheat tax as President Vladimir Putin criticized rising food prices. And major agricultural exporter Brazil has imported staple food and feed grains. Brazil typically is a soybean and wheat supplier, as well as the top exporter of soymeal.

- **Global feed grain stocks** will likely be about 1.5% higher than last marketing year, reversing the downward trend over the prior few years. Despite the rise in global supplies, USDA forecasts higher corn, wheat, and barley prices than in the 2019-2020 marketing year. The average corn price is projected at \$4 a bu., compared to \$3.85 the prior year. The average wheat price is forecast at \$4.80 a bu., up from \$4.60 in the previous marketing year. The average barley price is projected to be \$4.75 a bu., up 5¢ a bushel from last year. U.S. corn exports were up 49% in 2020 to 2.65 bil. bu., a huge boon to marketers and growers. On the corn import side, demand by the top 7 importing nations was up 9% last year, compared to a decline in 2019. Global imports of corn jumped by 71%. China also played a big role in wheat markets, with their imports up 48.7%. Demand for wheat by the 5 biggest importers was up 5% this year, compared to a 2% increase in 2019.
- **Soybean use for domestic crushing and exports** have outpaced soybean production, says American Farm Bureau chief economist John Newton, and now the US stocks to use ratio is under 4%, the second lowest in more than 20 years. He says the same is true for Brazil with projected high prices ahead of the much-anticipated WASDE report on January 12. [USDA's export sales report](#), shows total soybean export commitments through the week ending December 17 at a record 1.99 bil. bu., approximately 201 mil. bu. below the current WASDE projections. Current export commitments represent 90% of the projected WASDE total. Given that the

average over the decade before the trade war was 75% to WASDE as of the 16th week of the marketing year, the current pace suggests soybean exports could reach as high as 2.6 bil. bu. Again, this would be a stretch given the current ending stocks level



of 175 mil. bu. However, any adjustment to soybean exports greater than 55 mil. bu., while holding all else constant, would result in an ending stocks level of fewer than 120 mil. bu. and the lowest stocks-to-use ratio in more than 2 decades. Bears will point to the downside: With higher prices comes the possibility of canceled export sales. While many buyers may lock in prices in advance, outstanding sales of soybeans are a record 708 mil. bu., leaving open the door for buyers to walk away from high-priced and unhedged beans.

- **Because of the higher value** of grain prices, the Chicago Mercantile Exchange is raising its margin limits to trade and maintain grain futures contracts. Maintenance margins for corn are rising from \$850 to \$975, and soybeans from \$2,200 to \$2,400 per contract. The higher levels are effective with the close of trade on Monday, Jan. 4.
- **So, what's next?** For one thing, the USDA will release a dearth of reports on July 12. The one that will get the most attention will be the Supply-Demand report. The January WASDE will combine all of the recent weather and export news from South America along with the soybean demand and import news from China and reconcile that with the declining soybean inventory here in the US. That inventory information will be confirmed with the December 1 Grain Stocks report to be released the same day, as well as the final 2020 US Crop Production Report. Traders are "already anticipating a bullish report" on Jan. 12, when the USDA issues its next global supply and demand outlook for the crop, said [Tom Fritz](#), partner at Chicago-based EFG Group LLC. "The higher the market goes, the more buying it attracts."
- **All the dynamic market news** could be putting some extreme financial pressure on grain elevator managers. To maintain their hedged positions, substantial margin calls have been flowing in heavier than corn this past harvest season. Add to that increased initial and maintenance margins being required by the Chicago Mercantile Exchange. And add to that, grain payments to farmers wanting paid in January. Grain elevators have had to work quickly with their lenders to secure increased borrowing capacity to meet these needs.
- **How does one build a marketing plan** in a bull market? [Angie Setzer](#), VP of Grain, Citizens LLC (grain elevator, Charlotte, MI) suggests it can be done either for grain remaining from your 2020 crop or your new 2021 crop. Even though "risk management is not cool in a bull market," her suggestions are designed to take the emotionality out of your decisions."
  - ✓ Use HTA's for deferred sales of your 2020 crop, or this far from 2021 harvest.
  - ✓ Consider your acreage and use low end yield estimates to compile a bushel total.
  - ✓ Consider how many bushels have to be moved at harvest, your cash flow needs throughout the year, and the price that meets your profitability targets.
  - ✓ Start marketing with small increments (5-10%), increasing the percentage of sales made with increases in price.
  - ✓ (You can't scale sell if the market doesn't move higher.)
  - ✓ Today is a good time to start a sale.
  - ✓ Then look at the next 5-10% increment and a price target.
  - ✓ Right now, we're looking to make additional 10% incremental sales as the market gives us 15-20¢ in corn and 40-50¢ in beans.
  - ✓ Using a 10% incremental approach in theory will give you a \$1.50-\$2.00 range of pricing in corn and a \$4-\$5 range in soybeans.
  - ✓ If in the short-term this market blows through your first 3 orders in a matter of weeks, it will not hurt to take the 15-20¢ corn range and turn it into 25-40¢ with the same on beans.
  - ✓ Price ratio—2021 crop. \$2.59, beans to corn, based on 2021 fall delivery futures, +4¢.



## ***Farm Business—***

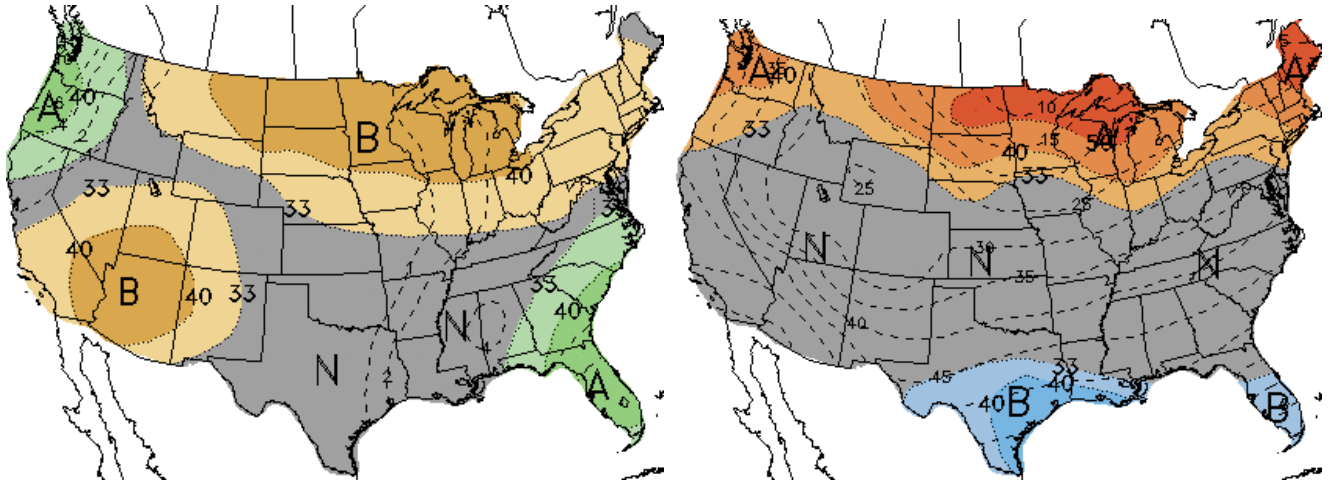
- **Given the high levels** of ad hoc government payments in 2020 and the unexpectedly high levels of corn and soybean prices, how strong are the cash rent dynamics? For cash rent negotiations that have not been finalized, undoubtedly rent levels have been a moving target as of late. Landowners are certainly seeking a share of the additional revenue, and farm operators have been feeling that pressure for most of the past year, with it increasing since the August crop report. The answer to many of those situations is a flexible cash lease that sets a baseline rent, with provisions to increase or decrease as economic (yield, price) conditions warrant. Average cash rents for IL farmland have been generally stable the past few years with a slight annual decline by a dollar or two. However, there is a good chance that average will take a strong upward jump for 2021. But that trend may not be sustainable for the longer term without a continuation of government payments and high grain prices. That is where the value of a flexible cash lease can shine.
- **Looking through a telescope**, a young farmer with an MBA and fresh from a commodity trader position, offered his Twitter followers his plan of attack. Cory Jorgensen (@CoBoJo) says, "Pricing more '21 Corn here @ \$4.30. Also, way earlier than usual, but pricing a little '22 Corn @ \$3.99 & '22 Beans @ \$10.04. I know they can only go up from here but being a young farmer with a lot of land payments, I've got to reasonably manage risk at these levels. And I guess while we're at it, some '22 Wheat @ \$6.05." And while there were some critical comments, the overwhelming response was "Attaboy!"

## ***Weather—***

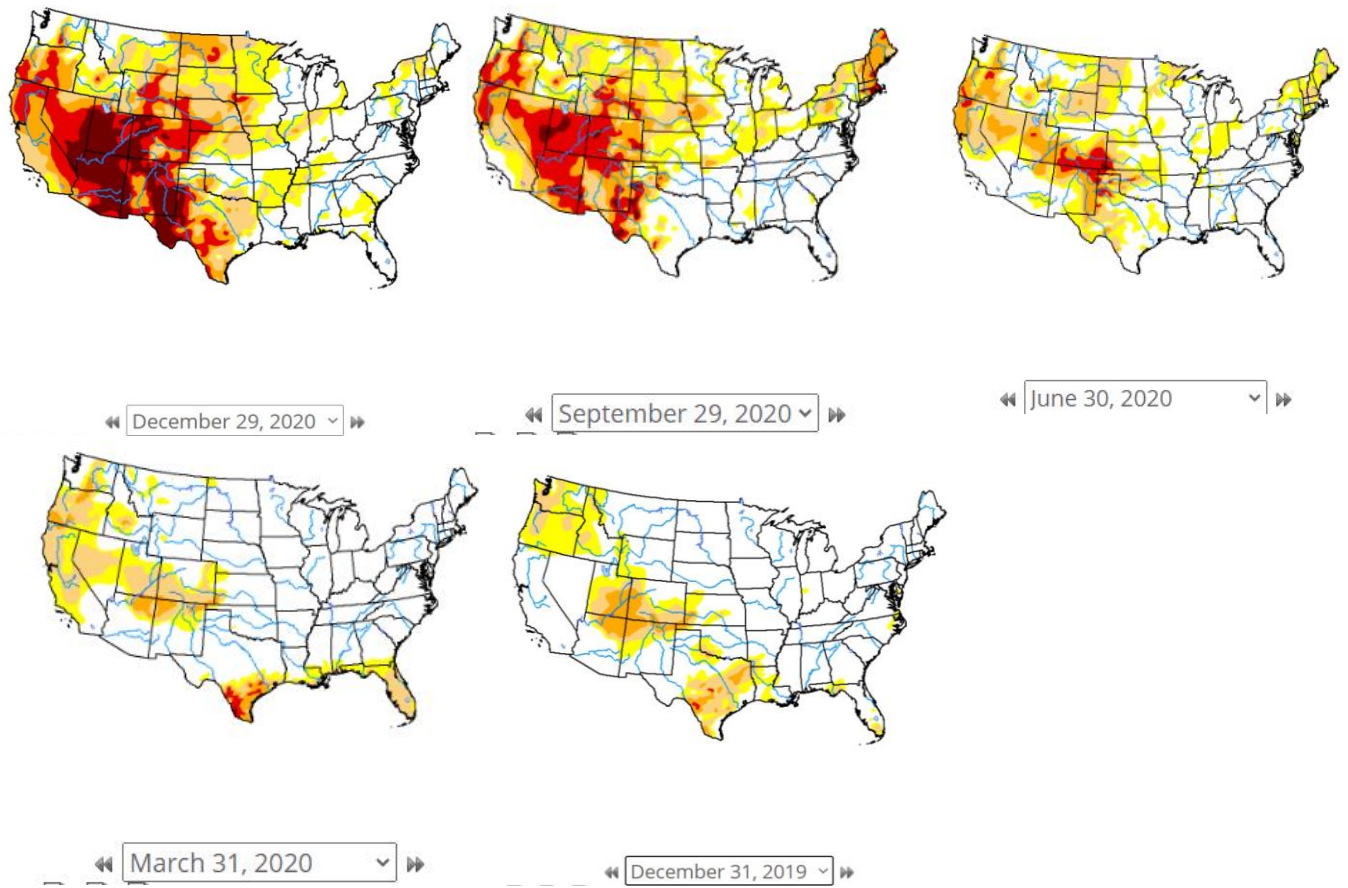
- **Cornbelt moisture** was enhanced during the past week with additional snow that covered areas that had been barren to date. Now, most of the Cornbelt has snow on the ground measuring anywhere from a half inch to more than 8 inches. [Blue Water Outlook](#) reports not much is melting, and even less will melt where snow is deeper and provides its own temperature control. Additionally, the calendar is going to be a good indicator that snow will remain for some time to come. That will be beneficial where the Drought Monitor has colors. With the onset of milder Canadian weather, some of the snow in the northern Cornbelt may begin to dissipate. So far, no Canadian cold air blasts are in the near term outlook.



- **Typical January weather** is the forecast for the Cornbelt in the first week of January. The National Oceanic and Atmospheric Administration released its latest 6-10-day outlook Friday for the period of January 7-11. (Moisture, left, and temperature, right.) Ironically, the NOAA forecast issued on Dec 30 had been for much warmer and wetter conditions for Jan. 6-10.

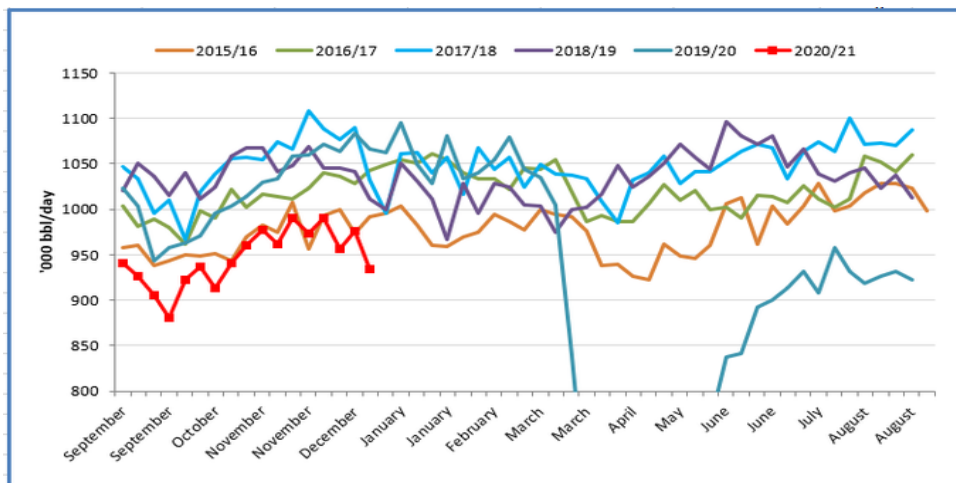


- **What direction is our weather going, anyway?** Consulting the [Drought Monitor](#), it seems we are drying up, and doing that full speed ahead. Currently, 66% of the continental US has a drought color. That compares to 62% at the end of September, to 45% at the end of June, 25% at the end of March, and only 24% a year ago. It would seem like a significant trend.



## ***Ethanol and biofuels—***

- **Ethanol output** (red line) dropped week-to-week to its lowest level in over 2 months while stockpiles continue to increase. The [Energy Information Administration](#) says U.S. production of the biofuel dropped to an average of 934,000 bbls. a day in the week ending on Christmas Day, down from 976,000 bbls the previous week. That's the lowest total since the week ending on October 16. The Midwest, by far the biggest-producing region, output averaged



891,000 bbls a day. That's a drop from 929,000 bbls a day the previous week and the lowest it's been since mid-October. Ethanol stockpiles in the week ending on Christmas Day totaled 23.504 mil. bbls. The Energy Information Administration says that's up from 23.169 mil. in storage the previous week, and it's the highest amount in storage since May 15.

## ***Trade—***

- **China is a long way** from meeting the commitments in its trade deal with the U.S. The latest data shows China has imported just over half the goods it promised to buy from America in the Phase One Trade Agreement. Over the first 11 months of the year, China bought about 50.5% of the total 2020 target of \$72 bil. That's according to Bloomberg calculations based on figures from the U.S. Custom's Administration. The outlook for the trade deal is uncertain as a new administration prepares to take office in Washington, D.C. As of the end of November, data shows that China had bought 54% of targeted manufacturing products, 53% of agricultural goods, and 31% of the energy products. Aggregate soybean imports reached \$8.1 bil. from January-November, compared with \$10.2 bil. in 2017, the last year of normal trade. All in all, the level of Chinese imports was a surprise to IL ag economist [Scott Irwin](#), "I had become pretty skeptical of their plans, but I think I have been proven wrong. They are not going to get all the way to the phase one targets, but closer than I expected. He says the big question is, will China continue those purchases in the second half of the marketing year? He expects the size of South American crops will play a large role in those decisions as well as the change in US administration. "Was this surge in Chinese buying viewed by them as a hedge against President Trump being re-elected and they won't need to continue those because he was not re-elected? Or will there be warmer relations through a Biden administration? It is very hard to tell." The trade deal says China's imports in 2020 were to be no less than \$12.5 bil. in ag commodities on top of 2017's levels, putting the year's targets at \$36.6 bil.

- **US trade officials** will have to sort out the impact of Mexico's ban on genetically modified corn. [Reuters](#) reports "Mexico will "revoke and refrain from granting permits for the release of genetically modified corn seeds into the environment," stated a decree issued Thursday evening, which also mandated the phase out of GMO corn imports by 2024. While small Mexican farmers who raise organic corn were happy, proponents of GMO corn say the ban on domestic cultivation would limit the options of Mexican farmers, while phasing out its importation could imperil the food chain. Mexico is largely self-sufficient in white corn used to make the country's staple tortillas but depends on imports of mostly GMO yellow corn from the United States for livestock feed.
- **The U.S. government says it will raise tariffs** on certain products coming into the country from the European Union. [Reuters](#) says those products include wines from France and Germany, as well as aircraft components. It's the latest move in a longtime battle between Washington and Brussels over aircraft subsidies. The Office of the U.S. Trade Representative says it is adding tariffs on aircraft manufacturing parts and certain non-sparkling wines and other liquors from France and Germany. The USTR news release didn't say when the tariffs would go into effect but did say details are forthcoming. The move comes as the two sides continue to negotiate a deal to end European subsidies to Airbus SE and American subsidies to plane manufacturer Boeing. The U.S. Wine Trade Alliance issued a release saying the action would cause further hardship for U.S. companies already hard-hit by previous tariffs and urged President-elect Biden to reverse course.
- **"Beware," says financial speaker** David Kohl, of the new Asian trade alliance. Kohl says, "While our nation was focused on the pandemic, election results, and weekend sporting events, a major trade alliance was developed that could result in changes in global competitive balance. The Regional Comprehensive Economic Partnership (RCEP) is a trade agreement that includes 15 countries in the Asian region, including China. This impactful agreement represents 30% of the world's economy and potentially 50% by the 2030s. The RCEP represents a total population of 2.7 bil. people, a cumulative gross domestic product (GDP) of \$25.8 tril., and a total global trade value of \$12.5 tril. When compared to the USMCA, which is a trade agreement between the United States, Mexico, and Canada that represents 500 mil. people, \$24.4 tril. of GDP, and a global trade value of \$7.8 tril., one can see how important it is to take note of the RCEP." The US stepped away from any Pacific Rim trade agreement at the outset of the Trump administration, allowing China to influence the flow of trade in the region. There is an opportunity for the US to enter the game within the Comprehensive Progressive Agreement for Trans-Pacific Partnership (CPTPP) which includes Canada and 10 other nations. Kohl says, "All of the above will impact the bottom-line profitability of U.S. agriculture producers. Moving forward, expect more economic volatility based on headlines as key trading partners position themselves in a technology, manufacturing, and agriculture world. In the RCEP agreement, tariffs and sanctions have been reduced for the 15 member countries, which may influence the United States' global competitiveness. Other sectors, such as technology and manufacturing, may influence agriculture trade negotiations."



## ***Agri-politics—***

- **American Farm Bureau** Executive Director Dale Moore says a couple of the biggest priorities for agriculture in the new session of Congress will include trade and getting ready for the new farm bill, "Trade has been a front and center issue, whether we're looking across the Pacific at China and the Pacific Rim Countries, Japan, South Korea, and so forth. And as we look across the Atlantic Ocean, we're seeing that Great Britain and Europe have finally got their Brexit agreement put together. We look forward to hopefully making some progress with the European Union. The new farm bill is going to be an interesting one, given all that we've been through between the trade wars, certainly with the impact of COVID on farmers and ranchers, livestock producers across the country. The other area that is always a perennial issue is ensuring that farmers have access to a ready, stable, legal workforce, and that's going to be an ongoing challenge that we're still trying to find answers to."
- **Beef industry lobbyist** Ethan Lane says, "We are going into a new administration that is going to have a lot of competing voices. This new team will fight their own internal battles over the progressive left wing of the Democratic Party versus the more moderate wing. There's going to be a lot of focus in that conversation on rural America because Biden and his team didn't fare well in rural America. Those congressional elections showed that Democrats didn't fare well in rural America. I would encourage producers to keep looking for ways to be productive in that conversation, be vocal about what works and what doesn't. Just know that this administration is going to have days when they take actions that are going to be hostile to the cattle industry, and they're going to have days they're going to do things that we might be really happy with."
- **The top legislative priority** of [Rep. "GT" Thompson, R-PA](#), is building resiliency within the ag food supply chain. He is the ranking Republican on the House Agriculture Committee, and says, "Whether that's domestic markets through innovative approaches for use of our farm commodities or expanding our foreign markets. We have a few months here yet that we still will have to deal with some of the impacts of the coronavirus and I think building resiliency within the ag industry has to be a priority for us. We've seen some good signs from USMCA and certainly the China trade deal." Other priorities include improving broadband connectivity and supporting farmers and ag practices that address conservation needs and climate issues.

## ***Agribusiness, transportation, and technology—***

- **The fiscal year appropriations bill** that President Trump signed includes a reauthorization of the Water Resources Development Act. [The Hagstrom Report](#) says It funds the Army Corps of Engineers civil works program that builds and maintains the ports and inland waterways that are vital to the agriculture industry. Waterways Council President and CEO Tracy Zea says, "In a difficult COVID-19 environment, passing WRDA is a significant achievement for modernizing the inland waterway systems, potentially providing more than \$1 bil. in additional construction funds over the next 10 years." Corn Refiners Association President John Bode says, "WRDA is a signature achievement in maintaining global competitiveness for American agricultural exports, and the millions of American jobs they support."

- **The Federal Communications Commission** says rural broadband has a positive impact on farm productivity. FCC chairman Ajit Pai says this report underscores the importance of the Commission's top priority of expanding broadband access in rural and underserved areas. Pai says the availability of broadband has significant positive impacts on crop yields and other farm production metrics by lowering fertilizer and seed costs. The [FCC report](#) cites "a 1% increase in broadband penetration rates is associated with a 5.5% and 3.6% increase in corn and soybean yields, respectively. By contrast, this study finds lower production expenses per farm operation. I find, for example, that a 1% percent increase in the number of connections per 1,000 households is associated with an approximately 6.5% decline in fertilizer expenses per operation and a 3.4% decrease in seed and plants expenses per operation. These results indicate farm operations in counties with increased broadband penetration rates from 2007 to 2017 realized lower operating expenses on average than counties without increased penetration during the same time frame. Overall, I find robust evidence that an increase in broadband penetration rates at the 25+/3+ speed thresholds is associated with higher crop yields. The results are particularly robust for corn and soybeans, for which the study found a positive and significant correlation across all alternative specifications, even at the lower 10+/0.768+ speed threshold." Pai says the report shows how the Rural Digital Opportunity Fund and other service programs that help deliver broadband to rural America can benefit everyone all by helping America's farmers produce more and better food.

### ***Agricultural People—***

- **Orion Samuelson retired Friday** from a landmark 60-year career at WGN — marking 68 years in farm broadcasting. At WGN, he created original television programs such as "U.S. Farm Report" in 1975 and "This Week in AgriBusiness" in 2005. He's originated broadcasts from all 50 states and 44 countries. But mainly, he's told agriculture's story from downtown Chicago, where he became a media icon.



Fortress Bank has been an agricultural bank going all the way back to its 1904 roots in Burnside, Illinois. We have a passion for helping farmers and farm businesses grow and prosper and, unlike some lenders, our commitment to agriculture is unwavering. We urge you to check out our website at [www.bankfortress.com](http://www.bankfortress.com), send us an email [Solutions@bankfortress.com](mailto:Solutions@bankfortress.com), or give us a call at 217-659-7776 or 217-357-3112.

January 4, 2021