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

Commodity market price drivers—

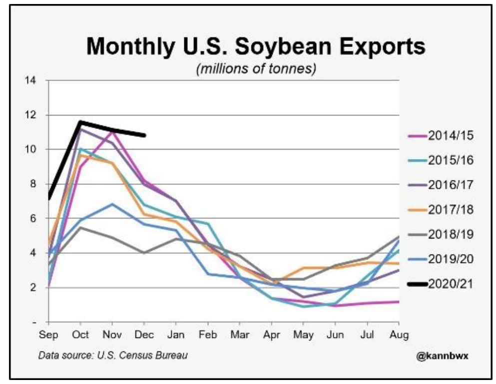
- **Tuesday will be the next potential market shaker.** USDA will release its next World Agricultural Supply and Demand Estimates, which typically do not roil the February market. But this year is different. There was a new high in the market last week which needs confirmation. There is more knowledge of the size and issues of the South American crop. And strong export sales have been drawing down the stocks for both corn and soybeans. With each of those factors revving the engine higher, the market could lay down tire tracks when the green flag drops at 11 cst. Here is what the market is looking for:
    - ✓ Analysts see US corn stocks are slipping over 150 mil. bu. versus the January forecast, likely on higher exports, to around 1.392 bil. bu.
    - ✓ The average trade forecast for US soybean stocks is at 123 mil. bu., down from USDA's January forecast at 140 mil.
    - ✓ US wheat stocks essentially are seen steady at 834 mil. bu.
    - ✓ Brazil and Argentina corn production is expected around 6.11 bil. bu., down 40 mil. bu. from the January forecast.
    - ✓ For soybeans, the combined production total is at 6.61 bil. bu., down 37 mil. bu. from USDA's January outlook.
    - ✓ Average trade estimates look for tighter global corn and soybean stocks versus January.

USDA 2020/21 US Carryout (in Billion Bushels)				
	USDA Feb 2021	Average Trade Est.	Estimate Range	USDA Jan 2021
Corn		1.392	1.108-1.515	1.552
Soybeans		0.123	0.105-0.140	0.140
Wheat		0.834	0.807-0.864	0.836

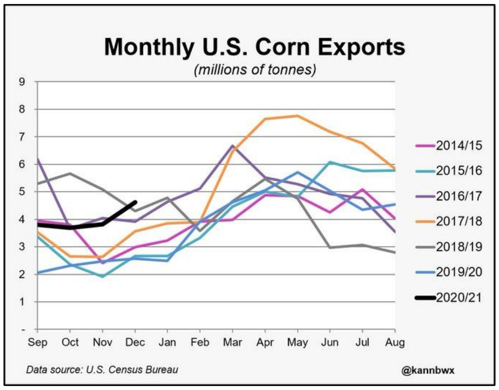
USDA 2020/21 World Carryout (in Million Tonnes)				
	USDA Feb 2021	Average Trade Est.	Estimate Range	USDA Jan 2021
Corn		279.79	270.50-287.60	283.83
Soybeans		83.30	78.00-85.60	84.31
Wheat		312.86	310.00-316.10	313.19

USDA 2020/21 South American Production (in Million Tonnes)				
	USDA Feb 2021	Average Trade Est.	Estimate Range	USDA Jan 2021
ARG Corn		47.03	44.50-47.50	47.50
ARG Soybeans		47.64	46.00-48.50	48.00
BRZ Corn		108.40	105.00-110.22	109.00
BRZ Soybeans		132.46	129.00-134.50	133.00

- **December was a strong month** for grain exports, with numbers reported by Reuters commodity analyst Karen Braun.



  ✓ **Soybeans**: Exports totaled 397 mil. bu., which was 32% above the monthly record set in December of 2014. It was also 91% above the volume exported in December of 2019. And in December of 2020, 63% of the exported soybeans were shipped to China.



  ✓ **Corn**: Exports reached 182 mil. bu. which was the highest for a December since 2007. It was also 80% more than the US exported in December of 2019. And 33% of US corn exported in December of last year was sold to China.

- **Despite the price edge given soybeans,** the Farm Futures survey of 806 Cornbelt farmers points to substantially more corn than soybeans for 2021 than earlier expected. With the results of the survey extrapolated to the Cornbelt, Farm Futures is forecasting 94.7 mil. acres of corn and 84.5 mil. acres of soybeans. The crop analysts say the new crop soybean to corn ratio of 2.58 is too low for a tight balance sheet, and they expect any drought to push prices through the roof! Their forecast included 32.4 mil. acres winter and 12.6 mil. of spring wheat.

Farm Futures 21/22 U.S. Crop Acreage Est.

(in Mil Acres)	Farm Futures 21/22 Est.	USDA 21/22 Early Est.	USDA 20/21 Final
Corn	94.7	90.0	90.8
Soybeans	84.5	89.0	83.1

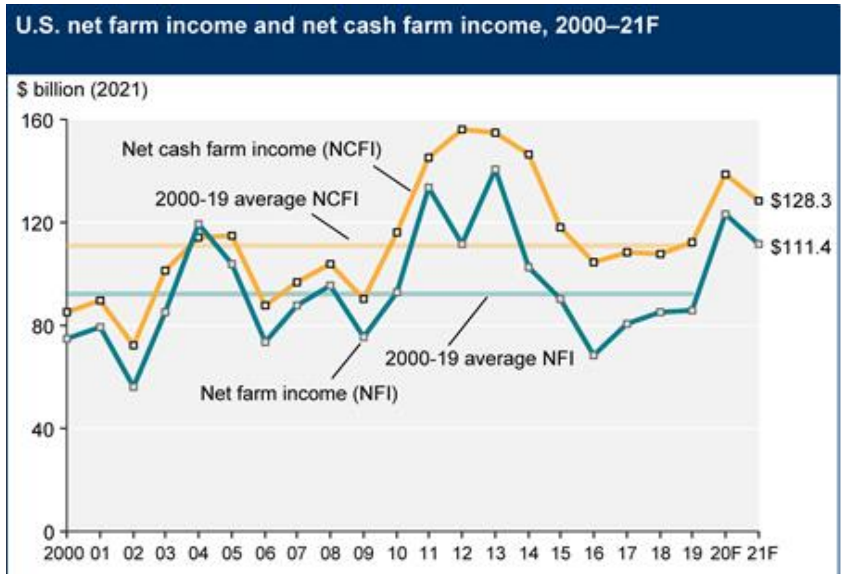
Source: USDA, Farm Futures

Farm futures commodity analyst Jacqueline Holland says, if realized, 2021 corn acreage will be the third largest over the past 75 years, trailing only 2012 (97.3 mil. acres) and 2013 (95.4 mil. acres) acreages. Based on a conservative trendline yield estimate of 177.4 bu. per acre, 2021 corn production could reach 15.3 bil. bu., besting 2016's record haul of 15.1 bil. bu. as the highest U.S. corn output on record. Farmers who say they will plant more corn acres are betting on a post-pandemic recovery that boosts ethanol output, along with rising global export demand, for starters. But lower production costs late in 2020 may have also factored into the decision. Those lower production costs included nitrogen. Wholesale urea and UAN prices fell to three-year lows in 2020, offering prices they could not resist. Data from the Farm Futures survey finds 59% of respondents booked seed, fertilizer, and chemical inputs last fall to lock in the best discounts. →

- **The Farm Futures Survey** also pointed to high soybean acreage if farmers plant what they expect. The survey projected 1.4 mil. more acres than 2020, up to 84.5 mil. With a trend yield of 52.2 bu. that would point to a crop of nearly 4.4 bil. bu. A larger soybean crop expected in 2021 compared to last year could adequately replenish supplies if prices offer enough incentive for an acreage shift. The U.S. is expected to use 4.5 billion bushels of soybeans in 2020/21 alone. As global stocks continue to dwindle and the pandemic economy lingers, soybeans may offer a safe alternative to U.S. producers hedging their bets on corn.
- **If the Farm Futures survey is close to accurate**, and corn gets the nod for much higher acreage, what would reverse that dynamic? Analysts point to several factors:
  - ✓ If Chinese soybean demand completely reverts to Brazilian supplies in the next couple months (as it did a year ago) and fuel demand finally rebounds, corn acreage will be a more lucrative bet for farmers going into 2021 planting season.
  - ✓ Soybeans could win the battle if crop shortfalls in South America are substantial.
  - ✓ Profit opportunity will come down to timing. Fundamental supply and demand factors support current price levels but remember: markets rarely stay in one place for long.
  - ✓ The seemingly ever-present global COVID-19 pandemic will continue to influence prices and planting decisions as spring approaches.
- **Corn remains in high demand in China.** The Chinese commodity news agency JCI China reports, "To sum up, in the short term, Chinese corn purchase demand is still bullish. Affected by the dropping number of shutdowns of industrial processing companies during the Spring Festival and the tight supply of raw material caused by the blocked logistics, corn spot and futures price will still fluctuate strongly. In the medium and long term, Chinese high-priced corn prices attract farmers' enthusiasm for planting in the new year. Although China's grain import volume exceeds historical records, its impact on the spot market has lagged behind, that is, the government has gradually strengthened its control over corn, but it will be difficult to see the effect in the short term. So, accept the high price of corn for now, but be alert of the risks."
- **China bought** a net 22 mil. bu. of U.S. old-crop soybeans in the week ending Jan. 28, but 16.7 million were a switch from unknown destinations. China also bought a net 19.4 mil. new-crop bushels due to the inverse in the market, says StoneX Group's Arlan Suderman.
- **U.S. corn export** sales (old & new crop) in the week ended Jan. 28 more than doubled April 2012's high with 296 mil. bu., some 78% of that to China, says Reuters' Karen Braun.
- **Data from China's ports** suggest they are not exactly stuffed with beans, even though US exports are on a record pace. Oct-Dec shipments from Brazil were down 330 mil. bu. (75%) on the year, which at least partially explains the lighter port stocks, says Karen Braun.
- **Harvest of soybeans** in Mato Grosso was only 5% complete as of Friday versus 27% last year and 18% average. Corn in MT was only 2% planted versus 22% last year, says Braun.

Ag Economy—

- **USDA Friday unloaded** its financial forecast for 2021 agriculture and farmers, with a warning that incomes would be dropping. The [Economics Research Service](#) reported, "Net farm income, a broad measure of profits, is forecast to decrease $9.8 bil. (8.1%) from 2020 to $111.4 bil. in 2021. This expected decline follows a forecast increase of $38 bil. (45.7%) in 2020. After increasing $27.3 bil. (25.0%) in 2020, net cash farm income is forecast to decrease $7.9 bil. (5.8%) to $128.3 bil. in 2021. In inflation-adjusted 2021 dollars, net farm income is forecast to decrease $12 bil. (9.7 %) and net cash farm income is forecast to decrease $10.4 bil. (7.5%). If realized, both income measures would remain above their historical average across 2000-19 even after adjusting for inflation." Picking that apart:



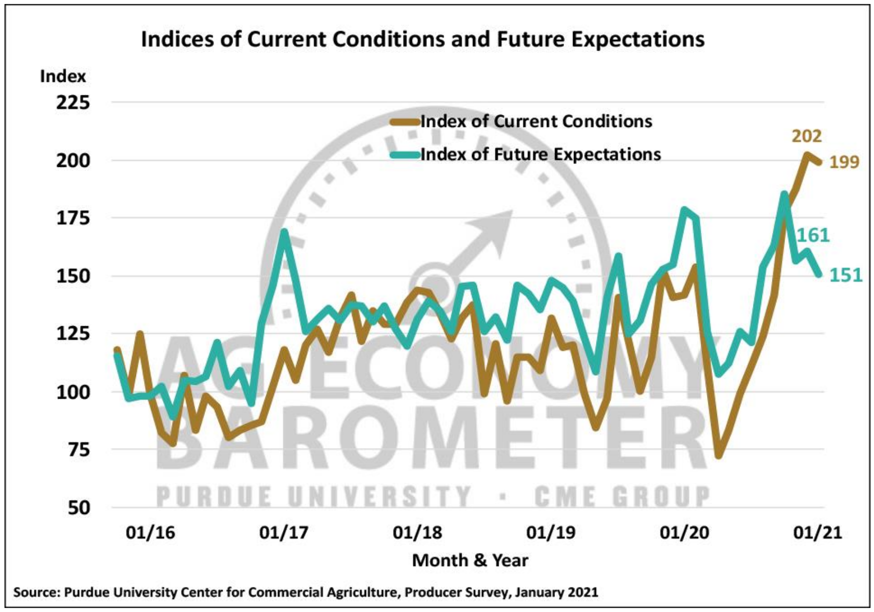
- **Overall, farm cash receipts** are forecast to increase $20.4 bil. (5.5%) to $390.8 bil. in 2021 in nominal dollars. Total animal/animal product receipts are expected to increase $8.6 bil. (5.2%). Total crop receipts are forecast to increase $11.8 bil. (5.8%) from 2020 levels. When combined, soybean and corn receipts are forecast to increase $16.1 bil. (1%9) in 2021.

- **Direct Government farm payments** are forecast at $25.3 bil. in 2021, a $21 bil. (45.3%) decrease from 2020. Most of this decline is because of lower supplemental and ad hoc disaster assistance to farmers and ranchers for the coronavirus (COVID-19) pandemic compared with 2020.

- **Total production expenses**, including expenses associated with operator dwellings, are forecast to increase $8.6 bil. (2.5%) in 2021 to $353.7 bil. Expected higher spending in 2021 on feed, fertilizer, and labor is the greatest contribution to this increase.

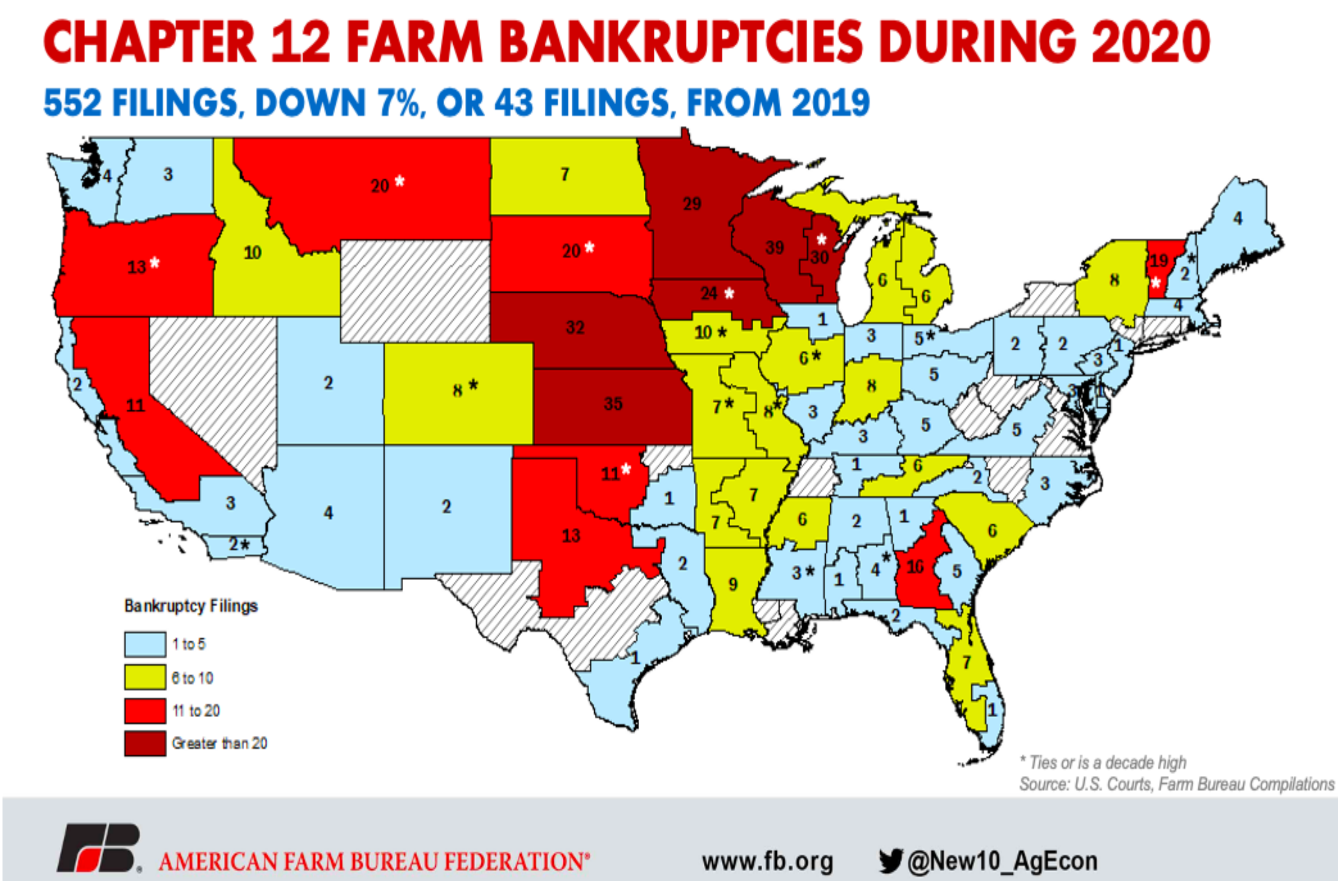
- **Farm sector equity** is expected to increase by 1.8% to $2.74 tril. in nominal terms, a decline of 0.1% after adjusting for inflation. Farm sector assets are forecast to increase 1.8% in 2021 to $3.18 tril. following increases in farm real estate. When adjusted for inflation, total assets are nearly unchanged from 2020. Farm sector debt is forecast to rise 2.2% to $441.7 bil., with real estate debt forecast to rise 3.1%. Debt-to-asset levels for the sector have been trending higher since 2012 and are forecast to rise slightly in 2021 to 13.89%. Working capital is forecast to decrease 12% in 2021, after a forecast increase of 7.8% in 2020.

- **The Purdue [Ag Economy Barometer](#)** drifted lower in January to a reading of 167. The barometer's decline over the last 3 months is all attributable to weaker expectations for the future as the *Index of Future Expectations* has fallen 35 points or about 19% since October. The ongoing strength in the *Current Conditions Index* appears to be driven by the ongoing rally in crop prices, while the deterioration in the *Futures Expectations Index* seems to be motivated by longer-run concerns about policies that could impact U.S. agriculture in the future.



  - ✓ Over the last 3 months, nearly one-third of producers said they expect their farms' financial performance in the upcoming year to be better than last year. This stands in sharp contrast to late spring and summer when just 12% of respondents expected their farms' financial performance to improve in the upcoming year. In 2 follow-up questions, 17% of farmers in January 2021 said the size of their operating loan is expected to increase this year. Among farmers who expect their operating loan to increase, 20% of them said it was because they were going to carry over unpaid operating debt into this year, implying that 3 to 4% of surveyed farmers are suffering financial stress. When the same questions regarding operating loans were posed a year ago, results indicated 5 to 6% of farms in our survey were suffering financial stress suggesting that financial stress has declined over the last year.
  - ✓ Farmers continue to be optimistic that now is a good time to make large investments in their farming operation. The Farm Capital Investment is more than double than April, 2020.
  - ✓ 15% of respondents said they plan to increase their purchases of farm machinery in the upcoming year when compared to a year earlier.
  - ✓ 43% of respondents, up from 35% in December, said they expect farmland values to rise.
  - ✓ Farmers' confidence that the trade dispute with China will be resolved in a way that is favorable to U.S. agriculture continues to wane.
  - ✓ 83% said they expected more restrictive environmental policies, up from 41% in October.
  - ✓ Farmers have also become more concerned that both estate and income taxes are likely to increase over the next 5 years. Since October that has risen from 35% to 75%.
  - ✓ After nationwide vaccinations got underway, farmers are now much more willing to get vaccinated as 58% of respondents said they plan to get vaccinated as soon as possible.

- **Chapter 12 farm bankruptcy filings** in 2020 were the third highest over the last decade, despite a decline in 2020, according to American Farm Bureau Federation Chief Economist John Newton, "For 2020, we had 552 Chapter 12 family farm bankruptcies. That was down about 7% from what we saw in 2019, 43 filings less than last year." Newton says the agriculture sector is not out of the woods yet. Chapter 12 bankruptcy is often the last option for farmers and ranchers, "It's not something that folks make lightly and it's not something that happens just with one bad year. We've had several years of low commodity prices, and while things have turned around this year, I doubt that the improvements this year saved anybody from ultimately having to make that unfortunate decision to seek Chapter 12 reorganization." Newton says there are other factors that may impact the data, "This whole year nearly, we've been in a remote work environment, and when you look across all the chapters of the bankruptcy code, we saw 230,000 fewer filings than last year. So, that tells me that the reduction in bankruptcies might be attributable to the difficulty trying to file a case remotely. The struggles continue, delinquency rates on commercial loans, they were up more than 5% compared to year-ago levels. And then we also say USDA recently issue new guidelines on farmer loans to help those folks who are distressed delay repayment." Newton says, "Key to turning the farm economy around is a COVID-19 recovery, restored demand for biofuels, increased U.S. agricultural trade and new sources of income, such as those from adopting climate-smart practices and ecosystem services markets. "



Farm Business—

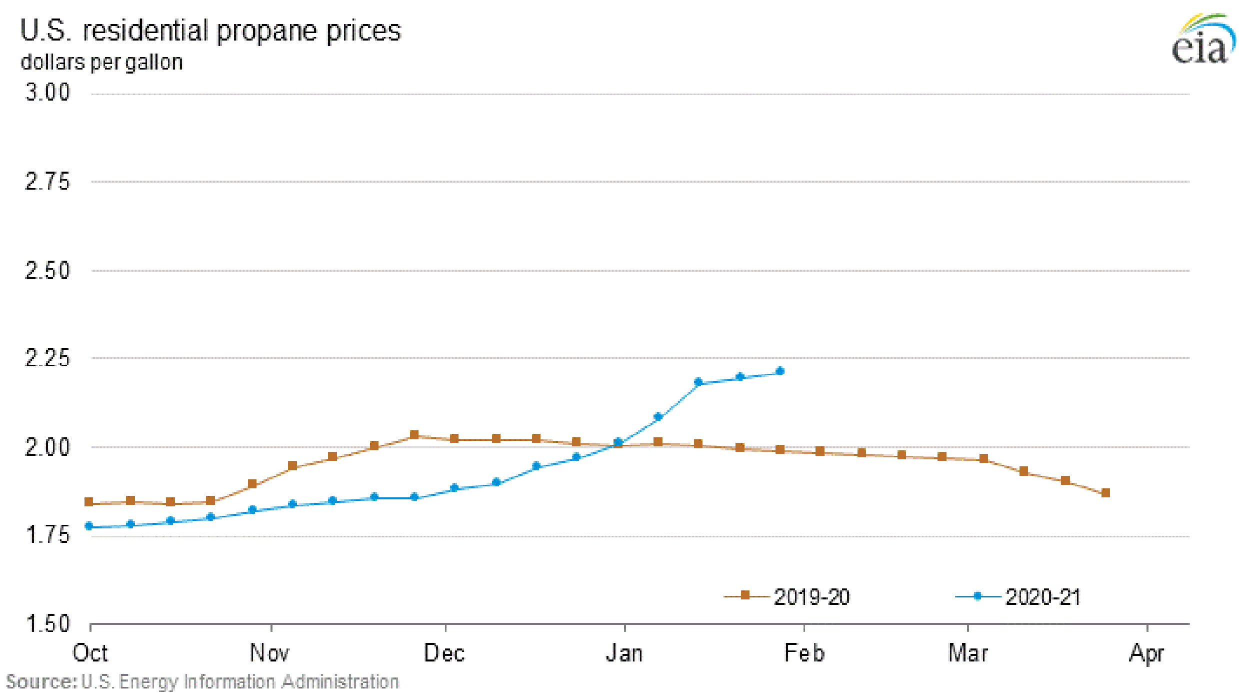
- **You should have March 15** circled on your calendar. That is not only the date for any new crop insurance coverage or changes in policy preferences, but it is also the deadline for making farm program decisions at the FSA office. Do you want ARC or PLC, and if so, on which crop, on which farm? NE farm policy specialist [Brad Lubben] says your farm program choice and your crop insurance choices can work hand in hand, and provide a great safety net tailored to your operation. The Price Loss Coverage and Agricultural Risk Coverage (ARC) programs continue for 2021, but with a new decision for producers for 2021 (and every year thereafter) if they wish to change enrollment. The programs haven't changed, but changing market conditions could change producer preferences. The established crop insurance options of Yield Protection (YP), Revenue Protection (RP) with the harvest price component, and Revenue Protection with the Harvest Price Exclusion (RP-HPE) remain in place, as do the area yield and revenue plans and the Whole Farm Revenue Protection plan. The Supplemental Coverage Option (SCO) established in the 2014 Farm Bill also remains an option for producers not enrolled in ARC, while the newly created Enhanced Coverage Option (ECO) is available to all and adds more county-level coverage on top of a farm-level policy. All of these examples focus on the effective price components of the farm program and crop insurance tools to give a simple comparison for illustration. However, all of the tools except PLC specifically cover yield risk as well, so the effective price protection adjusts for yield results — higher/lower yields result in lower/higher effective price protection. Producers should analyze their farm program and crop insurance choices carefully. By coupling a sound crop insurance decision to either ARC or PLC and then considering the value of SCO and ECO as an add-on, producers could bump up their effective price protection over what farm programs and underlying crop insurance could do alone. But Lubben says just because you have a sound risk management safety yet, that does not preclude the need to sell your crops with a good marketing plan. Here are some helpers, if you need helpers:

  - ✓ Crop insurance premium calculator
  - ✓ Crop insurance payment evaluator
  - ✓ Crop insurance decision tool
  - ✓ Farm program "what if" tool.

- **Crop insurance is one of those USDA programs** that carry several benefits for farmers who served in the military and have veteran status. To be eligible for benefits, it is important that you fill out the application provided by your crop insurance agent. The application must be completed prior to the sales closing date for the benefit to be available for that crop year. So, what are the benefits? There are too many to list here, but go to the veterans fact sheet for the Risk Management Agency to find out. There are numerous financial benefits available.

- **If you don't have your fertilizer booked,** you have been asleep on a sandy beach for the past several months. And there is a nasty surprise in store. Prices for all fertilizers have been on the rise and January was no exception. With heavy fall fertilization during good weather, supplies were depleted, and retail prices rose in lock step, as dealers attempted to restock for the spring. The near-term trend is steady to higher as retailers attempt to obtain fresh stocks. Stone-X Group Fertilizer consultant Josh Linville says DAP prices broke through a $550 barrier early last week, with wholesale prices $135 higher in past two week and likely to push MAP prices above $600 per ton. He says phosphate supplies are very tight.
  - ✓ Urea was up 10% in January to an average of $405 per ton.
  - ✓ UAN-28 is going for $220 per ton, an $18 jump at 6%.
  - ✓ UAN-32 is up $8 per ton at $258.
  - ✓ 10-34-0 is $25 per ton higher at $489.
  - ✓ Anhydrous is selling for $489 per ton, up $19.
  - ✓ MAP is 8% higher from last month at a $580 per ton average.
  - ✓ DAP is up 5% from January at $500 per ton average.
  - ✓ Potash is $13 per ton higher at $379.
- **If you have not visited lately** with your propane supplier, call him/her. Propane supplies this winter were plentiful, but that has changed with a quick drawdown in Midwest supplies because of colder temperatures. But there has been an even larger drawdown from Gulf Coast propane facilities where exports to Japan, Korea, and the northeast Asian market are sending 1.5 mil. gal. per day of propane to global markets. US propane is low priced, but Far East propane is very expensive, so the world has been coming to US propane tank farms. Gulf prices are up 20¢ per gallon, Conway, KS, prices are up 30¢ per gallon, and it will be more expensive to fill your tank now than it was in the fall.



- **Crop insurance premiums** may cause farmers sticker-shock this year. There are 3 reasons the price will be higher. First, there's the option to add ECO to the policies which stands for Enhanced Coverage Option and can push the insurance coverage to 90 or 95%. IL ag economist Gary Schnitkey says it is worth considering. That's one reason the premium will be higher. Reasons two and three have to do with the current higher price of commodities. In Schnitkey's premium calculator, he worked through a McLean County example for an 85% revenue protection policy. Last year that would have been $12.70. This year it would be $26.27 with a projected price of $4.88 and price volatility of .24. If we had the same volatility as last year and that projected price of $4.88, the premium would only go up to $16 per acre. But this year it is $10 more because of higher price volatility. It does the same thing to ECO. So, last year for a $3.88 corn price and .15 volatility, a 90% ECO product would cost $6.44 and this year a policy for corn priced at $4.88 with .24 volatility, it costs $11.90. A little less than double." In summary, last year when corn was $3.88 a bushel it cost $12.70 an acre to insure the example McLean County farm at 85% using an RP product. This year that same coverage level using a $4.88 corn price is about double, at $26, and if you add the ECO product to push the coverage to 90% it will cost about $38 an acre.
- **When decision-making,** do you rely on facts and figures, or your gut feeling? Economist, financial advisor, and popular speaker David Kohl suggests several steps to making a final decision of business significance:
  - ✓ The first step would be to revisit your vision and goals. If you have been farming for 25 years, this could be a transition time in the business.
  - ✓ Sometimes a good old-fashioned SWOT analysis to identify the **s**trengths, **w**eaknesses, **o**pportunities, and **t**hreats can bring objectivity into the decision-making process.
  - ✓ Next, consider your financials. Is your net income the result of extraordinary events such as government stimulus checks or the recent boom in grain prices as a result of weather, China, and the low value of the dollar? Develop your projected cash flow and determine how a 10 percent decline in revenue and a 10 percent increase in costs would impact your growth decisions.
  - ✓ Of course, pay close attention to the balance sheet. Adequate working capital creates opportunities and is the "dry powder" needed for growth and efficiency.
  - ✓ Finally, when it is all said and done, if you cannot sleep at night, the decision is probably against your internal compass. If the decision is weighing heavily on you, then you will most likely want a more conservative position concerning your financials and how it will impact the business in a worst-case scenario.

Agri-politics—

- **For the 117th Congress**, Senate committees will have an equal number of Republicans and Democrats on each committee due to the 50-50 Senate composition. On the Agriculture Committee, new Republican members include Sen. Tommy Tuberville, R-AL, a former college football coach, and Sen. Roger Marshall, R-KS, who had been a member of the House Agriculture Committee. New Democratic members include Sen. Corey Booker, D-NJ, Sen. Raphael Warnock, D-GA, and Sen. Ben Ray Lujan, D-NM. Booker is a self-described vegan and is critical of large-scale animal agriculture and farm checkoff programs. In 2016, he introduced the Commodity Check Off Reform Bill. In a news release last week, Booker stated, "Our food system is deeply broken," adding, "Family farmers are struggling, and their farms are disappearing, while big agriculture conglomerates get bigger and enjoy greater profits." Other legislation Booker has introduced includes stronger control of meat packing and livestock integration. Booker had wanted on the Agriculture Committee because none of his initiatives had gotten any traction previously. Both Booker and Warnock have indicated their priorities will include USDA policy changes focused on small southern farms operated by black and other minority farmers. The committee will have 11 Democrats and 11 Republicans and is chaired by Sen. Debbie Stabenow, R-MI.
- **Congresswoman Cheri Bustos,** a member of the House Agriculture and Appropriations Committees, was appointed to the House Task Force on Rural Broadband. The Task Force consists of 27 House Democrats and seeks to advance solutions to ensure all Americans have access to high-speed internet by 2025. "Nearly half of Illinoisans lack options in the broadband marketplace and without access to reliable and affordable high-speed broadband, rural communities are being left behind economically," said Congresswoman Bustos. Also, on the Broadband task force is 2nd term Congresswoman Lauren Underwood, who represents the west side of Chicago from Joliet, north to the WI border.

IL Agricultural Update—

- **Some farmers voted recently** on a referendum sought by the IL Soybean checkoff program to extend the maximum tenure from 2 three-year terms to 3 three-year terms. It passed, says the IL Dept. of Agriculture, which oversees commodity referenda. However, no announcement was made, and no details have been released on the balloting. Soybean Board leaders indicated the overall board would be more adept at addressing issues because their average tenure would increase, and it is frequently difficult to find farmers to serve.

Fortress Bank has been an agricultural bank going all the way back to it's 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, send us an email Solutions@bankfortress.com, or give us a call at 217-659-7776 or 217-357-3112.