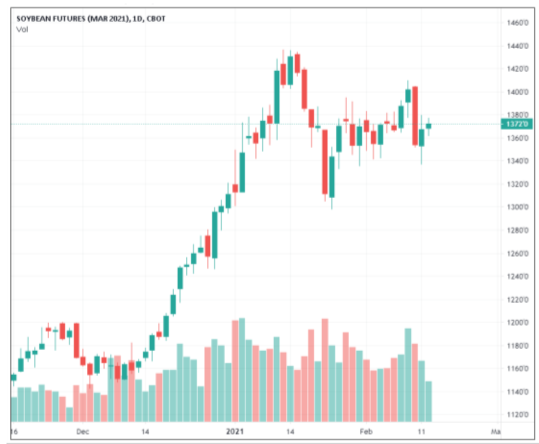
A weekly Cornbelt digest of marketing, economic, agronomic, and management information.

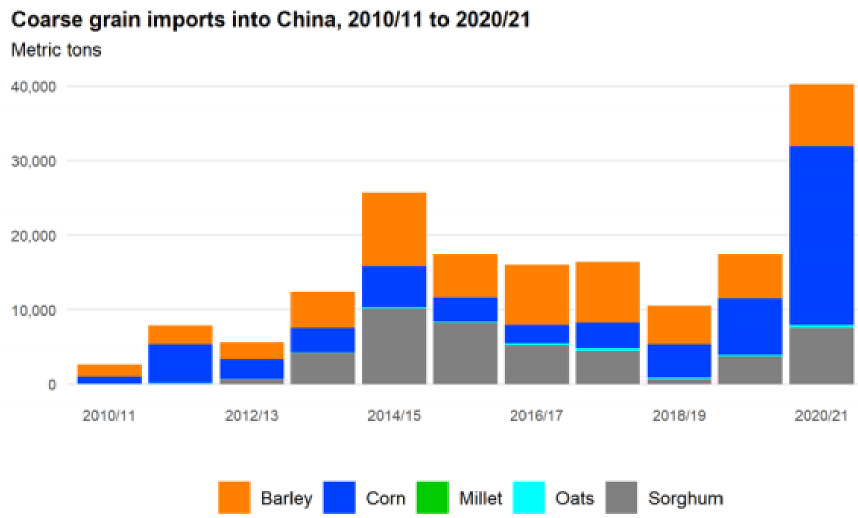
Commodity market price drivers—

- **Is the bean bull** headed for other pastures? He's pawing at the far pasture gate, but it's sturdy say soybean price watchers. And that is even after a 72¢ drop from Tuesday's high to Thursday's low, before clearer heads prevailed on Friday and March beans (right) settled near the halfway point in the drop at $13.72. The soybean market still has a lot going for it, particularly with USDA's stocks-to-use ratio at a record low of 2.6% and only a two-week supply left over August 31 with a half year of demand yet to be determined. China may want more, the US and Brazil may have a smaller new crop, and US crushers keep setting monthly crush records. Certainly, short crops have long tails, and bears will say we are seeing the start of that long slide to $7 beans. However, the global soybean demand is strong, and the global supply is short. Other than not being $15, is there a problem with $13.75 as a new equilibrium point for soybeans?



- **Since Tuesday's** USDA Supply and Demand Report, and the disappointment that traders expressed with USDA's export and carryout projections, the corn bull has not left the pasture either. Between Tuesday's high of $5.7425 and Thursday's low of $5.2475, March corn (right) lost 49.5¢, however the market settled back, and recovered 14¢ from the Thursday lows, only needing another 11¢ to return to the midpoint of the high-low mid-week swing. As in the case for soybeans, China has gobbled up US corn with a potential bil. bu. import total that some in USDA expect by the end of the marketing year. There has been a significant change going on in China, and it has to do with keeping the populace happy. (Unhappy people change governments.) To prevent a reprise of African Swine fever, China's new pork industry is focused on corn and soybean meal. Period.

- **Corn exports** are projected at 2.6 bil. bu. in the current marketing year, which would be a record. The bulk of the business would be to China, which is expected to import 40.3 mil. tons of corn, barley, oats, and sorghum in 2020/21. This is more than double 2019/20 imports, when China imported 17.5 mil. tons. If China imports 24 mil. tons of corn from the US that equates to nearly 945 mil. bu. says USDA's February Feed Outlook.

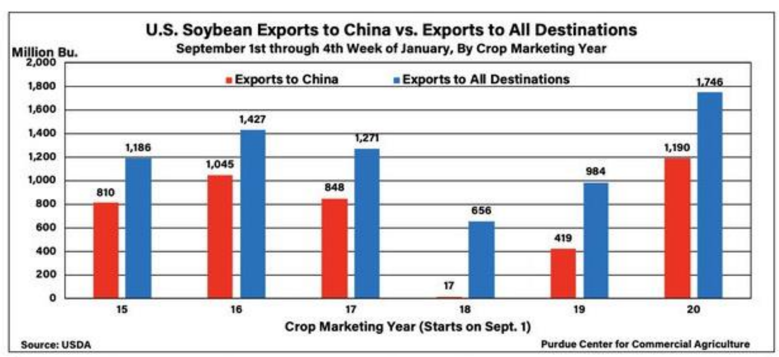


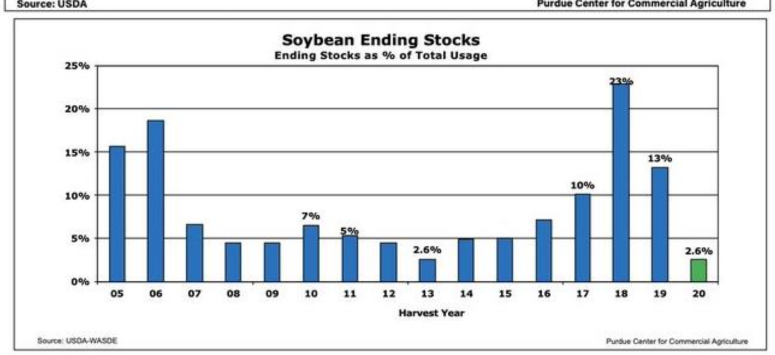
  China has increased its market share of trade for nearly every feed-grain commodity in 2020/21; and other significant import markets have seen their import outlooks reduced due to higher prices and increased competition.

- **What does USDA really say** about China's current supply of feed grains? Shortly after Tuesday's WASDE report, USDA's Foreign Agriculture Service released its monthly report on world grain trade. The report said, "With record corn imports forecast this month at 24.0 mil. tons (945 mil. bu.) for 2020/21, China's demand for feedstuffs continues to rise as its swine herd recovers from African swine fever. High corn prices are supporting record feed use of wheat and rice." In a follow-up article, USDA reported, "U.S. exporters reported nearly 232 mil. bu. of corn sales to China in January for delivery by the end of August 2021. The volume alone implies that China imports for calendar year 2021 will again exceed its tariff rate quota (TRQ), given that China will also buy corn from Ukraine and others. Last September, China's National Development and Reform Commission announced that the corn TRQ for 2021 remains unchanged at 383 mil. bu. For 2020/21, U.S. total sales and shipments to China stand at a record 697 mil. bu. at the end of January. Reflecting the large volume, China imports are raised 256 mil. bu. from last month to 945 mil. bu. If realized, China would become the largest importer by a sizable margin. China's total consumption is also forecast higher driven by feed and residual use with an assumption that imported corn is primarily to satisfy robust feed demand in the swine sector. The forecast consumption for food, seed, industrial (FSI), however, is trimmed based on significantly smaller exports of corn-based products such as starch, corn gluten feed (CGF) and corn gluten meal (CGM), sweeteners, citric acid, and glutamic acid for the October-December period. While China's corn milling data is not publicly available, substantially smaller exports of various corn-based products and higher unit values are indicative of slow milling activities.

- **How much more corn will China buy?** The Financial Times reports, "China's big purchases of corn come as the country rebuilds its hog herd after a devastating wave of African swine fever a few years ago hit its pig population. Adding to that, the domestic corn industry is now reflecting a decline in plantings several years ago when Beijing halted its corn stockpiling program and minimum purchase prices. These were initially put in place to encourage self-sufficiency but led to state inventories ballooning. Juan Luciano, chief executive of US agricultural traders ADM, told analysts in late January that China would be importing 25 mil. tonnes of corn in future years. "We think that . . . reserves are much lower than what the market is reporting there," he said. Estimating China's state and private grain inventories have always been a guessing game for analysts. According to estimates from Sublime China Information, a consultancy, private traders hold at least 100 mil. tonnes of corn. If they start to sell down, they could upset the bullish market.

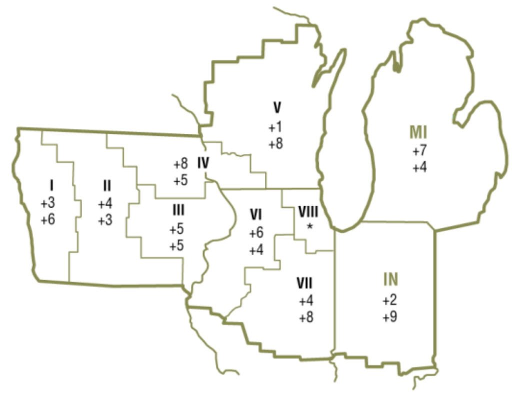
- **What have Chinese purchases** of US soybeans meant to the carryout. As shiploads of soybeans begin to leave Brazilian ports headed for China, where does the soybean producer stand on typical sales to China. Purdue ag economists report soybean exports are up 77% this year over last year and China accounts for the entire increase. And as a result of the extraordinary export business, soybean ending stocks have tightened dramatically and are not projected to be as tight as they were in 2013, following the drought-shortened 2012 crop.

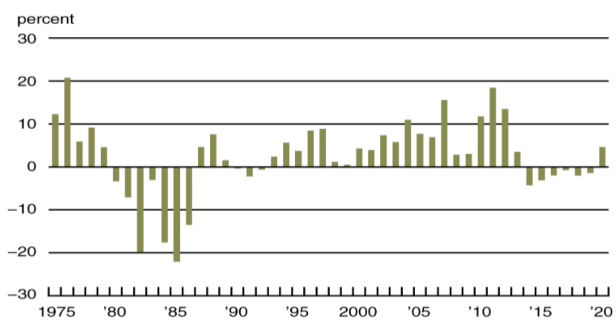




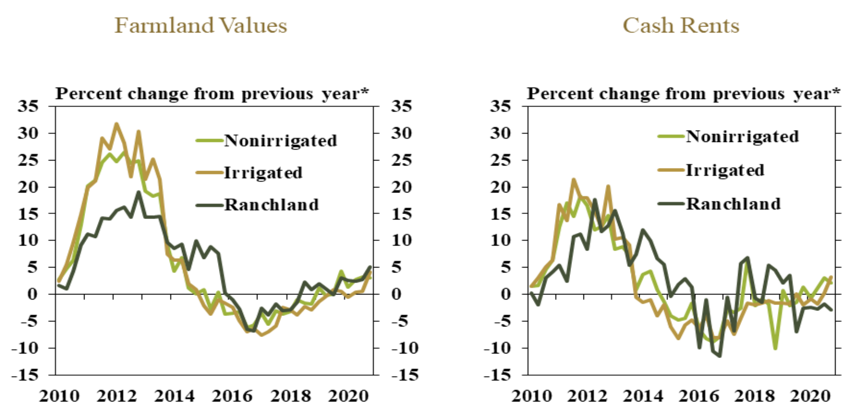
Ag Economy—

- **Thanks to high USDA payments and grain prices** and low interest, Cornbelt farmland prices jumped in 2020 and are expected to maintain the higher trend into the spring. That is the essence of reports from the Chicago, Kansas City, and Minneapolis Federal Reserve Banks:
  - ✓ **Chicago Fed**: Land values increased 6% in 2020, the largest gain since 2012. Its survey of bankers found that 58% think land values will continue to rise through at least March, and 42% expect then to be stable. 137 agricultural bankers responded to the survey. No one said they anticipate land values to decline. Numbers in the graphic indicate land value increases for the 4th quarter of 2020 (top number) and average land value increases for all of 2020 (bottom number.) Even with inflation considered, District farmland values had an annual increase of almost 5% in 2020; this increase in real terms was the first one since 2013. In both real and nominal terms, District farmland values peaked in 2013. At the end of 2020, District farmland values were still down 9% from their peak in real terms, yet they were nearly back to it in nominal terms.





  - ✓ **Kansas City Fed**: The value of all types of agricultural land increased by an average of 4% compared to the prior year, the highest average quarterly increase since 2014. The outlook is more notably optimistic than recent years, with less than 15% of bankers anticipating non-irrigated cropland values to decline in the next year, while more than 40% see prices increasing. Alongside improved prospects for farm finances, an increase in farmland values across the region provided additional support to the sector. The value of all types of land increased an average of 4% from a year ago, the highest average increase across all land types in any quarter since 2014. Cash rents for non-irrigated and irrigated cropland also increased, but at a slightly slower pace than the value of the land, and cash rents on ranchland continued to ease.

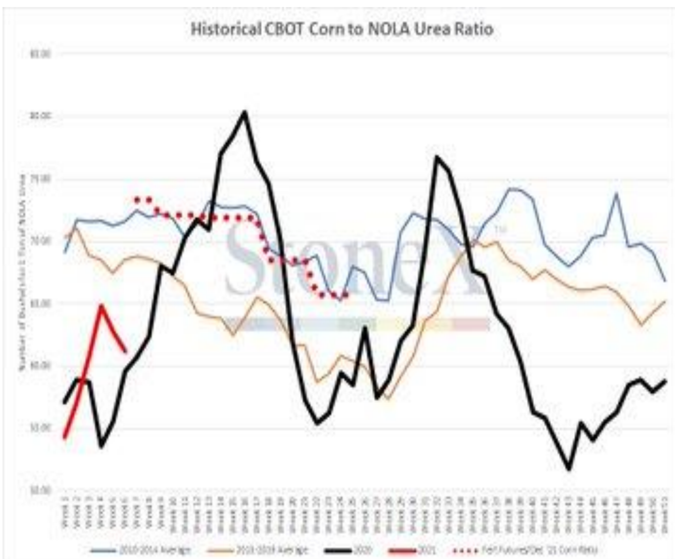


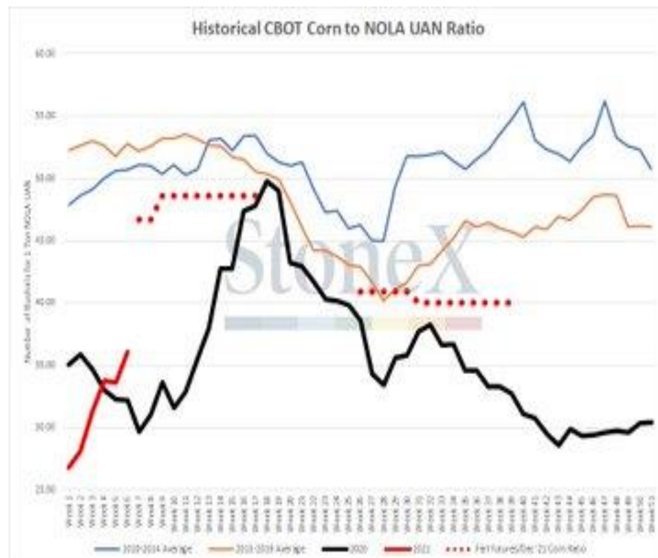
- ✓ **Minneapolis Fed**: Similar to the third-quarter survey, cropland values increased moderately in the final 3 months of 2020, a reversal of the pattern of decline in recent years. Cash rents also increased. Non-irrigated cropland values increased 3.6% on average across the district compared with a year earlier, while cash rents for that land increased by 6.2% over 2019. Irrigated farmland values rose 6.9% on average, while ranchland values rose 2.9%. Lenders in ND reported the largest increase in land values, with non-irrigated land up 8.5%, while WI, where the number of lenders responding was relatively small, logged a 6.6 percent decrease in those values. A MT lender pointed to an unexpected bump in demand for land due to the pandemic. "Ag real estate has seen an increase in value due to the influx of people from other states moving here during COVID and buying properties," they wrote in a survey comment.

- **The agriculture economy rebounded** in the fourth quarter of 2020, according to the latest agricultural credit information being reported by the Cornbelt Federal Reserve Banks.
  - ✓ **Chicago Fed:** District agricultural credit conditions dramatically improved in the fourth quarter of 2020. "Loans deemed to have "major" or "severe" repayment problems were 4.3% in the fourth quarter of 2020—lower than any final quarter since that of 2014. With 38% of survey respondents reporting higher rates of loan repayment and 5% reporting lower rates, overall repayment rates for non-real-estate farm loans in the fourth quarter of 2020 were higher than in the same period of the previous year, which had not happened since 2013. Demand for non-real-estate farm borrowing was lower during the October through December period of 2020 relative to the same period of 2019. With 17% of survey respondents reporting an increase in the demand for non-real-estate farm loans from a year ago and 26% reporting a decrease.
  - ✓ **Kansas City Fed**: Agricultural lenders expected farmers to strengthen their balance sheets and make capital purchases with incomes larger than initially expected. About 60% of respondents listed paying down farm debts or machinery purchases as likely uses of extra income. Slightly less than half indicated improving working capital also would be a priority and a smaller share anticipated other types of spending. About a third of bankers reported that farm loan repayment rates were higher than the previous year, the largest share since 2012. Renewals or extensions increased at the slowest pace since 2014 and tightening of credit standards also slowed. At the same time, the District measure of loan demand retracted for the first time since 2013.
  - ✓ **Minneapolis Fed**: Consistent with improved financial conditions, loan repayment rates increased, while renewals were largely unchanged. Just under half of the lenders responding to the credit survey reported a greater rate of loan repayment from a year earlier, while an additional 47% said that repayment rates held steady. Two-thirds of respondents indicated that loan renewal or extension activity was unchanged, while 19% noted that renewals decreased. About one-third of the bankers said demand for loans had decreased relative to a year earlier, while 45% reported no change.

Farm Business—

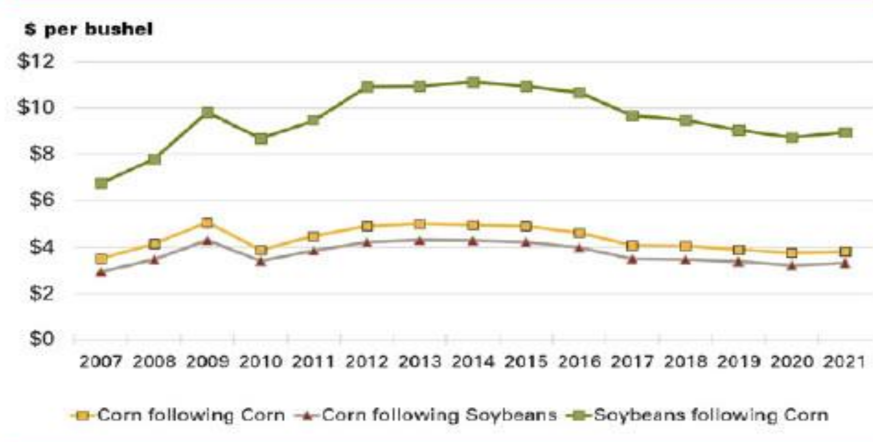
- **Can fertilizer prices** get much higher? That depends on the product, says fertilizer specialist Josh Linville of StoneX Group. Compared to the price of corn, he says, "Urea is on the higher end, UAN continues to be a value, DAP is high, potash prices make sense. NOLA MAP recently hit $595 and will likely break $600 after the spring fertilizer season begins. "The potash chart does not have a dotted line as it is not paper traded. Comparing last week's potash price to Dec '21 corn gives a 68.5 bu./ton ratio. That is in line with the last decade at this time. Even after last week's price hike, anhydrous remains very well valued vs corn pricing. The prompt NH3 vs Dec '21 corn price gives a ratio of: Western Cornbelt - 99 bu./1-ton; Eastern Cornbelt - 101 bu./1 ton. Now if mother nature gives us a chance to run retail Dap could hit $500. DAP is already over $500 in NOLA. NOLA MAP physical hit $595 recently. Will not be surprised if NOLA breaches $600 shortly after spring application starts."   (2021 price: solid red line)





- **While high guarantees are a positive,** on the other hand high crop insurance premiums are a negative. And how will those influence your 2021 risk management plan utilizing crop insurance? IL Farm Management Specialist Gary Schnitkey and colleagues estimate premiums substantially higher than their 2020 equivalent. "The 2021 premiums for corn at 85% Revenue Projection (RP) could double compared to the 2020 premiums," they say. Final premiums will not be known until early March after USDA confirms the CME prices and calculates volatility. "Volatility measures the market's estimate of potential variability in prices, with higher volatilities indicating higher price variability. Higher price variability increases the chance of crop insurance payments, with higher coverage levels being more impacted by price variability. As a result, changes in premiums are less for lower coverage levels. For the 80% coverage level, the 2021 premium at $12.29 per acre is 64% higher than the 2020 premium, less than the 107% increase for the 85% coverage level. Estimated increases are 60% for the 75% coverage level, 55% for the 70% coverage level, and so on," they say. Soybean increases are less pronounced than corn. The 85% coverage level premium was $9.67 in 2020 and estimated at $13.11 for 2021, an increase of 36%. Regarding your decision strategy, Schnitkey says, "Many farmers will likely find the coverage level worth the addition in premium, particularly given the high volatilities this year. With those high volatilities, there is a higher chance of large price declines than in previous years when volatilities were lower."
- **Are you still working on crop budgets** for the new crop? IA St. ag economists weighed in with their projections of higher costs per acre of 2.1% to 3.4% and higher soybean production costs per acre by 2.6% for the 2021 growing season. They say, "However, higher expected corn yields over a 30-year trend for 2021 suggest that on a per bushel basis, costs would increase by 1.0%–2.6% to remain below their 2019 marks (Figure 1). Fuel and insecticide costs, interest expenses on pre-harvest input financing, and crop insurance premiums are projected lower in 2021. The estimated cost of production for continuous corn is $3.88 per bushel for a target yield of 166 bushels per acre, and it goes down to $3.82 for target yields of 184 and 202 bushels per acre. The estimated costs of production per bushel for corn following soybeans are $3.34, $3.31, and $3.32 for target yields of 181, 201, and 221 bushels per acre, respectively. Cost of production estimates for herbicide tolerant soybeans amount to $9.16, $8.94 and $8.74 per bushel for target yields of 50, 56, and 62 bushels per acre, respectively. The total cost per bushel of soybeans is projected at $9.04 for non-herbicide- tolerant beans at 56 bushels per acre."

Figure 1. Estimated costs of crop production in Iowa, per bushel



Trade—

- **The Peterson Institute of Economics** calls the China Phase One agreement a "flop" in a recent analysis. The [analysis](#) says, "Much of the deal was a failure." Citing China's pledge to buy $200 bil. more of U.S. goods and services over 2 years, evidence from the deal's first year shows China was never on pace to meet that commitment. During the trade war, U.S. agricultural exports to China were cut in half in 2018, with 2019 levels remaining nearly 30% lower than in 2017. Overall, China did ramp up farm purchases in 2020 and by September was back on pace to reattain 2017 levels. However, the analysis says U.S. agricultural exports ended up both 18% short of the 2020 legal commitment and considerably lower than the Trump administration's political aspirations. Without the U.S.-China trade war, exports to China would have ended up roughly 19% higher than actual 2020 levels, according to the analysis. the European Union's export performance with China is humbling. Even limiting focus to America's priority products covered by the phase one agreement, China's imports from the EU ended up 21% higher in 2020 than 2017. China's imports from the United States ended up 8% lower in 2020, in addition to all the losses US exporters suffered in 2018 and 2019.

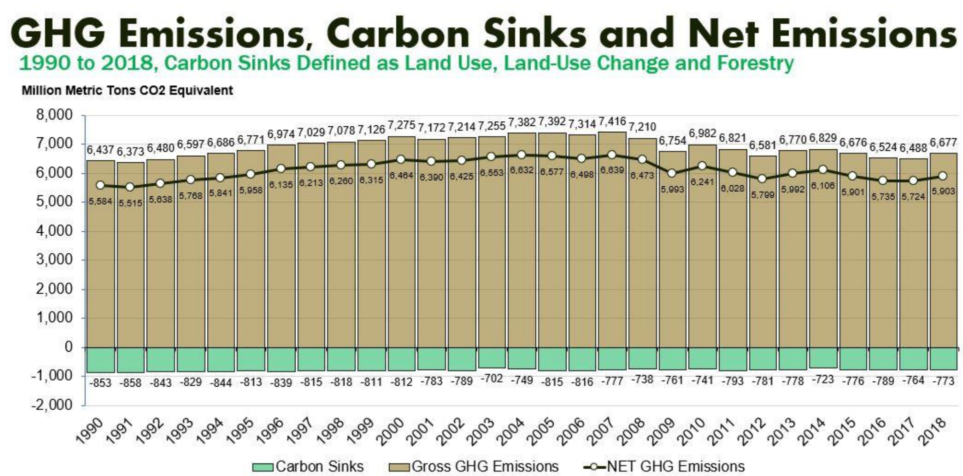
Figure 4

US agricultural exports to China suffered during the trade war, recovered, but did not meet 2020 commitments

- **Democrats in the Senate** last week introduced a bill to end the U.S. trade embargo on Cuba. Senate Finance Committee Chair Ron Wyden, D-OR, introduced the U.S.-Cuba Trade Act of 2021 to repeal sanctions on Cuba and establish normal trade relations with the island nation. Wyden stated, "To continue this outdated, harmful policy of isolation would be a failure of American leadership." The embargo was first placed on Cuba in 1962. President Barack Obama attempted to normalize relations with Cuba, but President Donald Trump re-enforced regulations previously eased by Obama. The U.S.-Cuba Trade Act of 2021 would repeal the major statutes that codify sanctions against Cuba, including the Helms-Burton Act and the Cuban Democracy Act, as well as other provisions that affect trade, investment and travel with Cuba. It would also establish normal trade relations with the country.

Conservation, Climate, and Environment—

- **Data released by the Environmental Protection Agency** and analyzed by the American Farm Bureau Federation shows carbon sequestration efforts resulted in carbon removed from the atmosphere. Farm Bureau Chief Economist John Newton says the most recent data is from 2018, "During 2018, carbon sequestration efforts resulted in an increase in CO2 stocks, that means that's carbon removed from the atmosphere of more than 760 mil. metric tons. So, when you take into consideration total emissions across the entire U.S. economy, our carbon sequestration efforts resulted in about a 12% reduction in emissions, that we were able to capture that carbon in the soil." Newton says there are 5 land-use categories for measuring carbon, with grassland and forestry leading the way, "The largest land-use category in the United States is grassland, and we did sequester a significant amount of carbon in our grassland, but the second largest in land-use category that captures the most carbon is forestry. And in 2018 forestry was able to capture more than 700 mil. metric tons in the soil. When you consider that we have over 700 mil. acres of forestry in the U.S., each acre of forestry is capturing more than a ton of carbon each year in the soil."



Newton says more investment is needed to research how agriculture can capture more carbon, "When you look over the last 30 years, we've lost more than a mil. acres of cropland each year and that's not sustainable. In order to capture more carbon in our soils we need to increase our investment in agricultural research to develop those frontier technologies that can help us capture even more carbon in the soils on our cropland, so we can not only meet the climate goals, but also to continue to feed, clothe and provide renewable fuels for the U.S. economy."

Agri-politics—

- **Bipartisanship went out the window** at the first House Ag business meeting on the farm and food parts of the Democrats' nearly $2 tril. virus relief bill. Not even biofuels could unite House Ag Democrats and Republicans—or those from the same state--as the panel turned back GOP amendments and passed its $16 bil. virus budget bill on a party-line 25-23 vote. Biofuels Caucus Co-chair Rodney Davis, R-IL, proposed clarifying earlier legislation giving biofuel producers access to $4 bil. in pandemic market relief, "This is a great win, and it's something that's already happening through the Consolidated Appropriations Act, that most of us on this committee already voted for. It should be an easy amendment and does have bipartisan support." But it wasn't easy, nor bipartisan, when fellow Biofuels Caucus member, Cheri Bustos, D-IL, said 'no.', She said, "Former Secretary Perdue, under the Trump Administration, failed to use CCC to provide relief to biofuels producers, where they already have the authority to provide assistance. Also, Senate Republicans kept blocking this assistance, after the House passed the HEROES Act." And Rep. Davis said, "Unfortunately, for some of my colleagues, more than others, it's all politics, all the time, it's about Trump, it's about the past administration, what they didn't do, the agriculture areas of this country, overwhelmingly supported many of my Republican colleagues and me, as we were putting forth our Ag policies." Ranking Republican Glenn Thompson, R-PA, charged, rural America's voice was being "silenced," that nearly $30 bil. in earlier aid is still unspent. But Democrats refused to reverse a Biden freeze on CFAP funding and reform food stamp eligibility—or direct more help to rural broadband. Chair David Scott vowed to be more bipartisan in the future but for now, defended the need to respond urgently in the face of a national emergency.
- **A group of Senate Democrats** last week reintroduced the Justice for Black Farmers Act. The legislation aims to address and correct historic discrimination within the U.S. Department of Agriculture in federal farm assistance and lending. The bill was first introduced in November 2020. At the time, the Senators stated USDA discrimination "has caused Black farmers to lose millions of acres of farmland and robbed Black farmers and their families of hundreds of billions of dollars of inter-generational wealth." The legislation will enact policies to end discrimination within USDA, protect Black farmers from losing their land, provide land grants to create a new generation of Black farmers and restore the land base that has been lost.

February 15, 2021