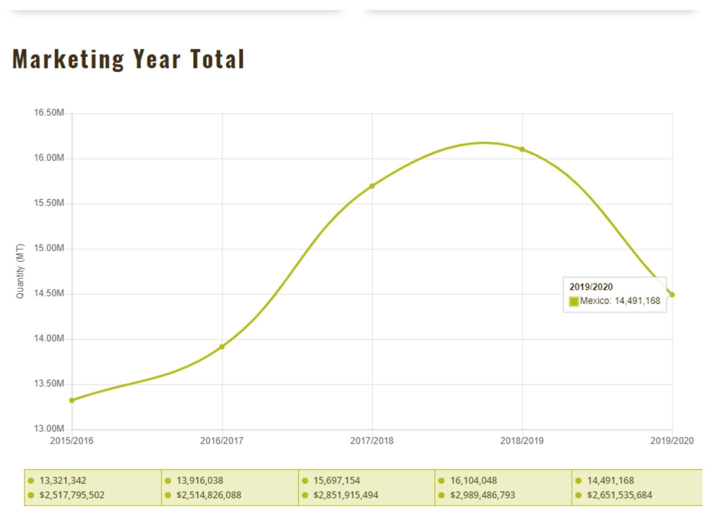
A weekly Cornbelt digest of marketing, economic, agronomic, and management information.

Commodity market price drivers—

- **The markets will be closed Monday.** That is not because buyers have run out of money or CME computers are overheated, but because it is a federal holiday. Martin Luther King, Jr. Day, which is observed by the markets and banks every year. That gives one an extra day to catch a breath, revise a marketing plan, and pledge yourself to act on it when the time comes.
- **Corn market.** Friday prices dropped slightly, but for the week, nearby corn contracts climbed 6.9% higher after USDA reported much lower-than-expected yields and production, along with moderately tighter stocks. Friday closed the week with prices that dropped 3.5 cents to $5.30 for the March contract and down 4 cents for May. Corn basis bids were steady across most Midwestern locations Friday but did trend 2 cents higher at an Iowa river terminal and 2 cents lower at an Ohio elevator today. Exporters announced the sale of 4.3 mil. bu. of corn to Mexico, which is significant in the wake of the great Mexican GMO corn debate. Some beneficial news in the ethanol market factored into corn as well. The Trump EPA will not waive petroleum refiner mandates on blending ethanol "at this time," and will let the Biden EPA make that decision. Ukraine also exported 405 mil. bu. of corn, down 18% from last year. But US corn export sales are 1 bil. bu. better than at this time last year.
- **Soybean market.** Soybeans didn't quite match the corn market performance, but nearby contracts still finished the week 2.4% higher than where they opened on Monday. Friday was a day of profit-taking in the soybean market, with oil and meal also down. March beans were down nearly 16 cents at the end of the day at $14.1475. Soybean basis bids slipped a penny lower at an Ohio elevator and dropped 5 cents at an Indiana processor while firming 7 cents higher at an Illinois river terminal, while holding steady elsewhere across the central U.S. Private exporters announced to USDA the sale of 11.7 mil. bu. of soybeans for delivery to unknown destinations during the 2021/22 marketing year, which begins September 1. The National Oilseed Processors Association (NOPA) reported a December soybean crush of 183.159 mil. bu., the all-time highest for December and the second-highest monthly tally ever (trailing only October 2020). Last month's crush came very close to analyst estimates, which offered an average trade guess of 183.175 mil. bu. NOPA members crushed 2.082 bil. bu. of soybeans last year, topping the previous annual record of 1.971 bil. in 2018.

- **One of the top markets for US corn** is turning inside out over issues with GMO corn. Mexico was a 570 mil. bu. 2019-20 customer for US corn growers, but internal political struggles are throwing that trend into question. Mexico has never allowed the planting of GMO corn, but certainly buys US corn for feeding its livestock and processes US corn into many food products. Tortillas are traditionally from white organic corn and that market is unaffected. The head of the Mexican corn processing industry says the GMO ban is not workable because of the nation's dependence on US corn. Corn from Brazil and Argentina would also be prohibited by the ban on GMO corn. The Mexican government has also taken steps to prohibit the importation of glyphosate as well.



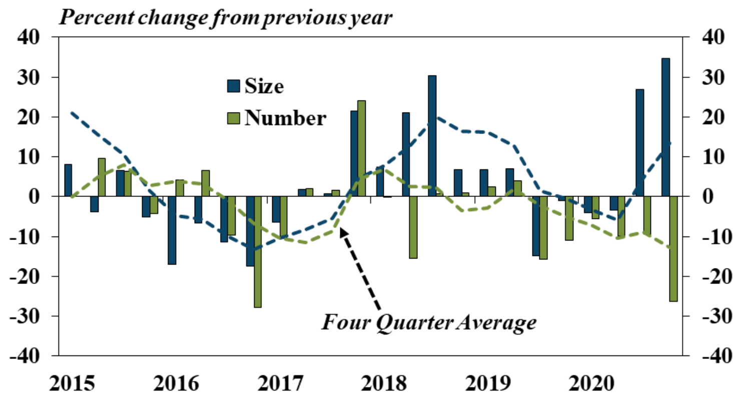
- **Corn export sales** almost doubled week-to-week while soybean sales also jumped higher. The USDA says corn sales to overseas buyers jumped 92% week-to-week to 56.7 mil. bu. That's up 34% over the prior 4-week average. Japan was the biggest buyer at more than 15.8 mil. bu. An unnamed buyer purchased 13 mil. bu., and Columbia bought almost 5 mil. bu. China was in for another 3.5 mil. bu., while El Salvador canceled a shipment of 944,000 bu. Exports totaled 57.5 mil. bu. last week, 43% higher than the previous week, and 41% from the average. Soybean sales totaled 33.4 mil. bu., significantly higher last week's marketing year low and the highest number since November 12. China was the biggest buyer again, purchasing 28 mil. bu. Other significant buyers included Spain, Mexico, the Netherlands, and Pakistan. Last week's export total was 75 mil. bu., up 10% from the previous week but down 12% from the average.

- **The World Ag Supply and Demand Estimates** provided the biggest surprise to Commodity Analyst Todd Hultman of DTN, who said corn ending stocks dropped, but there will be a corresponding drop in demand, "Feed demand came down 50 mil. bu. in the new-crop season. We're now at 5.65 bil. bu. The ethanol estimate came down 100 mil. bu. to 4.95 bil. The third demand leg is corn exports, which was reduced by 100 mil. bu., from 2.65 to 2.55 bil. Obviously, the year started with a much bigger expectation after we saw some significant purchases from China." The world ending stocks for corn are just under 11.18 bil. In the soybean market, traders expected U.S. soybean ending stocks to get even tighter than they were in December, "The ending stocks to use estimate was reduced from 175 mil. bu. last month to 140 mil. USDA raised the cash-average farm price estimate from $10.55 up to $11.15 a bushel." Hultman says the USDA is expecting the U.S. to have to import a lot of soybeans, "The import estimate USDA is expecting is 35 mil. bu. will be imported in the current season compared to 15 mil. in the past month. In other words, U.S. soybean supplies are getting so tight that, yes, we're probably going to have to import soybeans this summer, even if Brazil has the big crop that they're looking for."

Ag Economy—

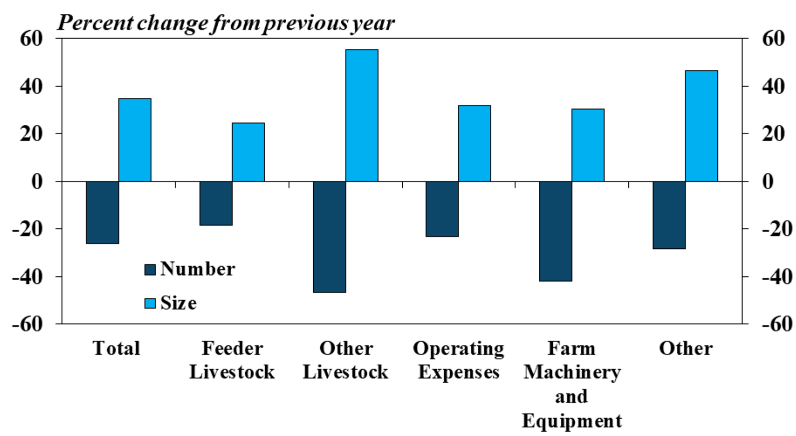
- **Fewer new loans to farmers** continued to drive a pullback in agricultural lending activity. The [Kansas City Federal Reserve Bank]() reported this week that stronger prices for agricultural commodities, alongside continued support from government payments, may have reduced financing needs for some farmers and contributed to the slower pace of lending in the last quarter of 2020. "The volume of total non-real estate farm loans declined by about 1% from a year ago but remained slightly above the 10-year average in the fourth quarter. Farm lending declined at an average pace of 2% throughout 2020, following an average decline of nearly 5% in 2019 and an average increase of more than 12% in 2018." Smaller loan volumes were driven by a lower number of new loans to farmers.

Chart 2: Number and Average Size of Non-Real Estate Farm Loans



While the number of loans continued to trend downward, the average size of farm loans grew for the second consecutive quarter (Chart 2). But what are farmers getting loans for, exactly? The Kansas City Fed says that varies. For all lending purposes, the number of loans decreased and the average loan size increased (Chart 3). While there were fewer loans for all purposes, operating loans continued to comprise the majority of non-real estate lending and accounted for over half of the overall decline. Agricultural lenders continued to report a slower pace of lending alongside improved financial conditions for farmers in the fourth quarter. Higher crop prices and continued support from government payments likely reduced the need for smaller loans, which drove the overall decline in lending activity. Moving forward, loan volumes may soften further if sharp increases in prices for key agricultural commodities, such as corn, soybeans, and wheat, continue to ease financing needs for farm borrowers. Interest rates on agricultural loans remained at historically low levels in the fourth quarter.

Chart 3: Changes in Non-Real Estate Farm Loans by Purpose, Fourth Quarter



- **The Federal Reserve's** Open Market Committee meets on Tuesday to decide whether interest rates should be changed, and if so, when. The decision of the Fed Governors will be based on Beige Book economic conditions, which includes agriculture, that follows:
  - ✓ **Chicago Fed.** Agricultural income for 2020 was better than contacts expected at the beginning of the year and at the onset of the pandemic. Contacts viewed government payments as an important reason many farms had profits. Corn and soybean prices continued to move higher over the reporting period, spurred by strong export demand. A larger than usual number of acres were planted with winter wheat, encouraged by higher prices for wheat and good fall weather. Dairy prices were volatile over the reporting period but ended close to where they started. Cattle prices were generally up, but hog prices moved down. Farmland values increased some. Ethanol producers continued to struggle, but some were helped by growing demand for byproducts such as carbon dioxide for dry ice.
  - ✓ **St. Louis Fed.** District agriculture conditions have remained relatively unchanged since the previous report. The percentage of winter wheat in the District rate fair or better slightly increased from the end of October to the beginning of December. Wheat conditions are modestly worse than the same period a year ago.
  - ✓ **Minneapolis Fed.** Agricultural conditions improved modestly on strong harvests and recent increases in some commodity prices. However, contacts in the industry cautioned that much of the recent growth in farm incomes has been due to increased government aid rather than improved market conditions.
  - ✓ **Kansas City Fed.** Conditions in the Tenth District agricultural economy and prospects for farm income improved modestly since the previous reporting period alongside further increases in crop prices. District contacts reported that direct government payments had provided robust support for farm incomes and expected the sharp increase in crop prices during recent months to further improve profits. Since the previous period, crop prices increased moderately and were well above a year ago. In addition to higher prices, strong crop yields in some parts of the District boosted revenues further, particularly in Missouri. Profit opportunities for livestock producers in the District were more limited. Cattle prices were generally stable but remained well below a year ago. Hog prices declined slightly in the period but were slightly higher than a year ago.
  - ✓ **Dallas Fed.** Drought conditions intensified further, particularly in the western part of the District. Demand for agricultural products remained solid. Crop and cattle prices rose over the past six weeks, though cheese prices fell dramatically. Higher crop prices boosted sentiment, as current levels are profitable for many producers given normal yields.

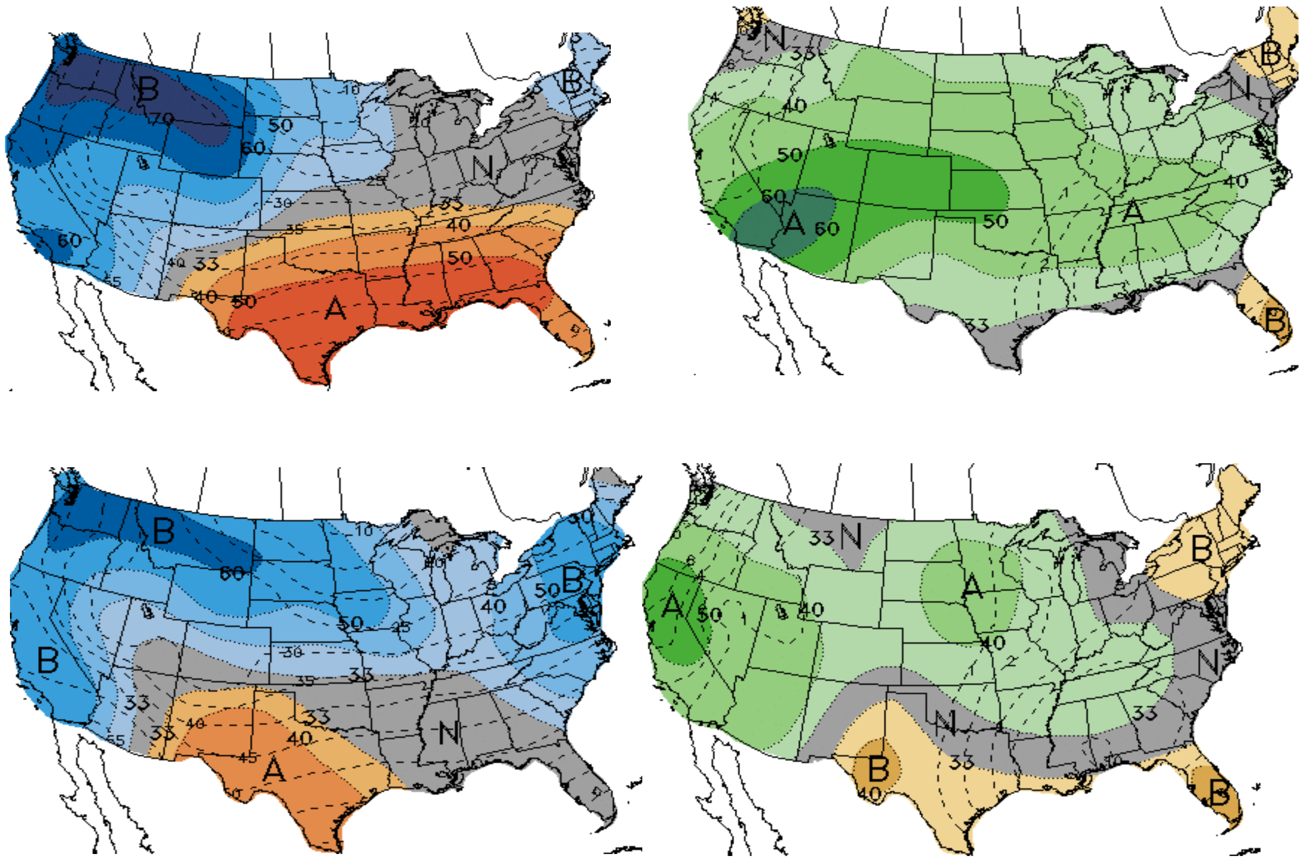
Farm Business—

- **More farm programs,** funded by Corona Virus relief programs, are open for business. Farm Business Farm Management staff outline several that may provide financial help to some operations. Make sure you are working with your lender and tax preparer to see if any of these provisions are available to your farm operation. Good recordkeeping, communication with your trusted advisors and staying up to date on various topics is the key to a successful operation. While connected to earlier programs, some have some new facets:
  - ✓ Farmer Paycheck Protection Program. A unique feature for farm borrowers is that they calculate their PPP loan amount based on their 2019 Schedule F (schedule to report farm income and expenses) gross receipts. This calculation is maxed at $100,000 of gross receipts which will allow up to a maximum of $20,833 PPP loan. This applies to farmers that did not take out a PPP loan the first time due to missing the deadline, lack of funds or a negative 2019 Schedule F.
  - ✓ Second Draw PPP. To qualify, any business must show a 25% drop in gross receipts when comparing each quarter in 2020 to each quarter in 2019. The same rules apply for calculation of the loan amount as in Farmer PPP.
  - ✓ Employee Retention Credit. January 1, 2021 to June 30, 2021 is the time period for which the ECR calculation applies in 2021. For 2021, borrowers can receive a maximum of $7,000 per employee per quarter. In order to be eligible for the ERC, you must have had a 20% reduction in gross receipts in a quarter to qualify for the 2021 credit.
- **The expected bad news** is coming to fruition. The Internal Revenue Service released its final rule on how farm income from cooperatives will be handled for tax purposes. The Hagstrom Report says the regulation has been a source of dispute since Congress passed the 2017 Tax and Jobs Act. The IRS says Section 199A of the law provides taxpayers a deduction of up to 20% of income from a domestic business operated as a sole proprietorship or through a partnership, S corporation, trust, or estate. The IRS says that "Section 199A(b)(7) requires patrons of Specified Cooperatives to reduce their Section 199A(a) deduction if those patrons receive certain payments from Specified Cooperatives." Farm leaders say that interpretation doesn't follow congressional intent and called it the "grain glitch" in the law. However, the IRS issued the rule which will be published on Tuesday, the day before Donald Trump leaves office. "We find it deeply troubling that in the final days of the administration, the IRS ignored what Congress wanted and issued final regulations implementing Section 199A that will raise taxes on farmers across the country," says Chuck Conner, president of the National Council of Farmer Cooperatives. "The Treasury Department is siding with large multinational grain companies and Wall Street at the expense of hardworking farmers and rural communities."

- **Prepare for changes in the tax laws.** American Farm Bureau tax specialist Pat Wolff told the AFBF convention attendees, "We are expecting to see legislation, maybe big tax legislation, fairly soon in the first six months. And the reason for that is the Democrats have talked about some big policy changes in the next Congress. The Democrats have said that they would like to focus more on individuals, and they're talking about raising taxes on high-net-worth individuals and businesses." The Democrats control both chambers of Congress by a slim margin. Wolff said that should have an impact on the kinds of tax legislation changes that can be made successfully, "Everyone is going to have to deal with slim margins. There aren't going to be big differences between the Republicans and the Democrats, and what that means is extreme policy positions are going to go by the wayside and the parties are going to have to pick their priorities. They won't be able to pick as many, they'll have to focus on them, and we don't think we'll see any big switches in policy." However, that doesn't mean there aren't challenges coming in the next four years. Those are estate taxes and capital gains taxes. "During the campaign, there was quite a bit of talk on the Democratic side about the estate tax exemption. The exemption now is a little over 11 million dollars per person. It will stay at that level through 2025. But it has been said that Democrats would like to shrink that exemption; cut it in half, and some even going so far as saying they would take it down to 3.5 million dollars." Other changes to policies may be ahead for tax policies which are important to the American Farm Bureau, "Also, on the campaign, we heard a lot about capital gains and the stepped-up basis. So, if you take away the stepped-up basis, that's a problem for when a property is sold, but even worse, some are talking about imposing capital gains taxes at death. That would mean a double hit. That would mean when a family member dies and a farm is changing from one generation to the next, they would have to pay estate taxes and capital gains taxes." She also expects to see tax incentives for environmental provisions such as wind energy, biodiesel, fuel pumps, alternative fuels, and carbon sequestration.
- **Are you booked for fertilizer needs?** Six of the eight major fertilizer prices were higher compared to the prior month. Four were up a significant amount, which DTN designates as 5% or more. Both DAP and potash were 6% higher than a month ago with DAP having an average price of $482 per ton and potash $369/ton. MAP was up 7% from last month with an average price of $543/ton. Anhydrous was 10% higher compared to last month with an average price of $470/ton. Two other fertilizers were slightly higher from a year earlier. Urea had an average price of $368/ton and 10-34-0 $464/ton. The remaining two fertilizers were slightly lower in price from last month. UAN28 had an average price of $209/ton, while UAN32 is at $251/ton. On a price per pound of nitrogen basis, the average urea price was at $0.40/lb. N, anhydrous $0.29/lb. N, UAN28 $0.37/lb.N and UAN32 $0.39/lb.N.

Weather—

- **There is a greater likelihood of winter weather** descending on the Cornbelt the last week of January. The National Weather Service forecasts for the coming week (top), and the following week (bottom) are trending toward colder temperatures (left) and increasing precipitation (right). Colder air will be overspreading the Northern Plains, Great Lakes and much of the Cornbelt. Blue Water Outlook suggests that combined with above normal expectations for moisture, the snow potential will increase.



- **Argentina received** much-welcomed rains in areas like La Pampa and many Buenos Aires locations into central Cordoba, San Luis, and southern Santa Fe late last week. Moisture totals varied from .2 to .88 inches of rain, with local totals of one inch to more than three inches in southern Santa Fe and southeastern Cordoba. The moisture combined with the rain falling earlier last week, as well as the rain expected over the past weekend, should help South American crops coast into this week's dry and warmer weather without a lot of concern over drought stress. Timely rain is going to be extremely important over the last week of January and into early February. However, current conditions are improving. A trader's report says Brazil's rainfall has been erratic recently, but enough rain is falling in the most important production areas. Two days' worth of scattered showers and thunderstorms fell in the northern and western parts of the country's crop-growing regions. The weather outlook in Brazil shows rain ahead for most of the key grain, oilseed, and cotton areas in South America.

Ethanol and biofuels—

- **It will be up to the Biden Administration** to make the decision on petroleum refiner requests to avoid blending ethanol. The Environmental Protection Agency said last week it proposes to extend refiner deadlines to prove compliance with biofuel laws. Reuters says the agency is signaling that it won't decide on many of the pending waiver requests submitted by the industry. It's mixed news for refiners who've been hit hard by the slump in energy demand during COVID-19 and are looking to decrease regulatory costs associated with the U.S. biofuel blending policy. It's also one of the final actions the EPA will take before President Trump leaves office on January 20. The agency will propose to extend the compliance deadline for 2019 biofuel blending obligations to November 30, 2021. The EPA will move the 2020 deadlines to January 31, 2022, and June 1, 2022. Refiners must turn in their credits to the EPA every year to prove they've complied with the annual biofuel blending obligations for the previous calendar year. The EPA also says it won't take a position on the availability of 2019 small refinery waivers, which can exempt oil refiners from their obligations to blend biofuels into the nation's fuel supply. The decision is related to the pending litigation on the waiver program. EPA's announcement that based on ongoing court cases, it will take "no position on Small Refinery Exemptions or biofuel waivers for oil refiners for the 2019 compliance year," is a huge relief for the ethanol industry and Midwest lawmakers who fought any last-minute move by the outgoing administration.
- **Prior to the EPA announcement** about its biofuel decision, Sen. Tammy Duckworth, D-IL, led a coalition of senators in sending a letter to President-elect Joe Biden requesting strong support of farmers and the biofuels industry. Duckworth and her colleagues called on the Biden Administration to direct the EPA to reject pending Small Refinery Exemptions by applying the 10th Circuit Court's decision nationwide. The lawmakers also call for the administration to quickly publish the Renewable Volume Obligations. Growth Energy supports the action, as CEO Emily Skor says, "This letter outlines the actions the Biden Administration needs to take to fulfill its campaign promises to rural America." The letter comes as Reuters reports the Trump administration was considering last-minute action to approve waivers.
- **The U.S. Supreme Court last week** announced it will review the U.S. Court of Appeals for the Tenth Circuit's decision in a case against the Environmental Protection Agency. The decision overturned three inappropriately granted small refinery exemptions under the Renewable Fuel Standard. Plaintiffs in the case include the Renewable Fuels Association, National Corn Growers Association, National Farmers Union and American Coalition for Ethanol. In a joint statement, the organization says, "Our groups believe the Tenth Circuit got it right the first time, and we will continue to defend the court's ruling." In January of last year, the Tenth Circuit court struck down the exemptions by the Environmental Protection Agency. Last month, the U.S. Department of Justice filed a recommendation against a Supreme Court review. The Justice Department says in its brief that, "The issue didn't warrant the high court's review and stated that the refiners' request for a review 'should be denied."

Trade—

- **Last week's Washington uprising** could further complicate chances for new U.S. bilateral trade deals covering agriculture, including one with close U.S. ally and agriculture customer, Taiwan. Taiwan is the seventh-largest market for U.S. farm goods, the second biggest per capita. But U.S. Taiwan Business Council chief Rupert Hammond-Chambers says after last week's U.S. Capitol siege and more political turmoil at home, things are not looking up for a Taiwan bilateral or any other trade deal, "The politics around pursuing a bilateral trade agreement are perhaps, even more complex now than they were six months ago. And that's in light of President Tsai's willingness to unilaterally undertake changes to pork and beef, which have been implemented now." Hammond-Chambers says more routine trade talks known as Trade and Investment Framework Agreement or TIFA talks, are more likely under President Biden, "Overall, the incoming Biden government has been clear that they're uninterested in bilateral trade agreements. So, as a practical matter, I think the best that we can hope for in the next year, is a resumption of TIFA." And with Taiwan public and commercial resistance to U.S. pork and beef treated with meat-leanness additive ractopamine, not all will depend on Joe Biden. Hammond-Chambers, "And then, what implementation continues to look like on ractopamine in pork, and the changes to the beef regime." U.S. and Taiwan leaders are increasingly pushing a bilateral deal as key to stemming China's malign behavior in the western Pacific. U.S. farm exports to Taiwan totaled $3.6 bil. in 2019.

- ***Agri-politics—***

- **A top farm organization leader** says it is time to "turn the page" on partisan politics. Farm Bureau President Zippy Duvall made the comments during an opening press conference as part of the American Farm Bureau Federation Virtual Annual Convention. Duvall's remarks follow last week's rally and attack on the U.S. capitol. Duvall says, "we have got to work together, as one country, one people, for the good of all the people in this country." Farm Bureau members will develop policy priorities this week for the organization to follow in 2021. With the incoming Biden administration, top priorities are expected to be climate change, taxes and labor, along with strengthening the farm bill. Duvall says, "We must make sure that we are at the table for the discussions around addressing climate change," adding, "I believe agriculture's great track record shows just how much we can achieve when farmers and ranchers are at the table when we develop solutions."

- **As the clock winds down on the Trump administration**, government officials are scurrying to complete work that seemingly should have been finished long ago. Those include the additional funding for livestock producers which were left out of the COVID funding. That totaled $2.3 bil. that producers can now apply for at the USDA's CFAP website. The IRS at a late hour plans to publish its changes that impact patrons of elevator coops. The USDA is also finalizing its rules on hemp production directed by the 2018 Farm Bill. The 300 pages of rules includes provisions that address the handling of hemp with higher than legal values of THC and will be the ultimate rule over wide ranging state laws that have been implemented to address hemp production while the USDA was deliberating on what do to when the new rules become effective March 22 for 2021 hemp.

Agricultural People, Safety and health—

- **A recent study finds rural residents are hesitant** to receive the COVID-19 vaccine. The Kaiser Family Foundation COVID-19 Vaccine Monitor tracks the dynamic nature of public opinion as vaccine development unfolds. The Foundation is a nonprofit organization focusing on national health issues. The monitor shows 3 in 10 people in rural areas say they will "definitely get" the vaccine, compared to 4 in 10 people in urban areas and suburban areas. An additional one-third of people in rural areas say they will "probably get it" while 35% say they will either "probably not get it" or "definitely not get it." The report says there are many factors that are associated with an individual's willingness to get the coronavirus vaccine, including their age, level of education, and political party identification. The COVID-19 Vaccine Monitor finds that Republicans are much less likely to say they will get a coronavirus vaccine compared to their independent and Democratic counterparts.

And finally, this—

- **The USDA has announced** details of the 97th annual Agricultural Outlook Forum, which will be held virtually on February 18-19, 2021. The 2021 Forum, themed "Building on Innovation: A Pathway to Resilience," will focus on the central role science and innovation have played in helping agriculture overcome challenges and build resilience during the COVID-19 pandemic. The Forum's program will begin with a presentation by USDA's new Chief Economist, Dr. Seth Meyer, on the Department's outlook for U.S. commodity markets and trade for 2021 and U.S. farm income. A keynote address by the incoming Agriculture Secretary, presentations by Congressional leaders, and a session on genetic literacy are also scheduled on the first day of the Forum. The program will also cover five key areas, including supply chain resilience, food price and farm income outlooks, trade, managing risks, and finally, innovation. The 2021 Forum is expected to bring together more than 3,000 participants. The Forum's program includes more than 30 sessions and 100 expert speakers. It will be virtual, free, and on your home computer.