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

Commodity market price drivers—

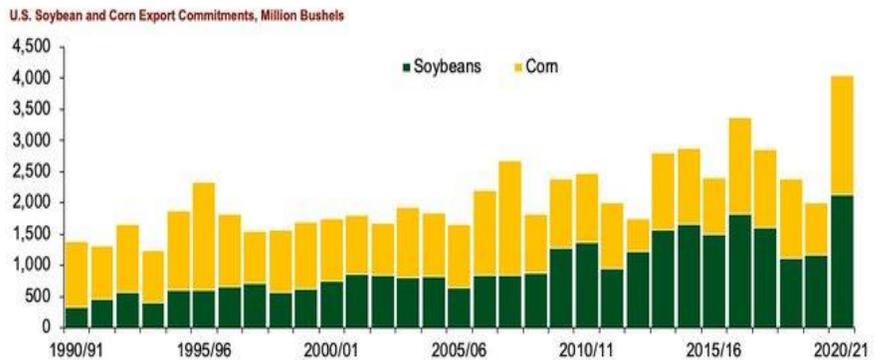
- **The rally in corn last week** was led by news on Friday of 83 mil. bu. of US corn being sold to China, 67 mil. bu. on Thurs., 27 mil. bu. on Wed., and 53.5 mil. bu. on Tues. This brought the total to 230.2 mil. bu. The USDA currently has China as an importer of 689 mil. bu. from all sources this marketing year. In a recent earnings update, ADM officials suggested that figure could be close to 984 mil. bu. If only from the US, this could add 295 mil. bu. to US exports. (This is not out of the question given the relatively low price of US corn on the world market and the limited availability from South America says Hightower.) Some see China importing as much as 1.574 bil. bu. this year. If it was all US corn, it would raise exports by 886 mil. bu. This would drop ending stocks to 666 mil. bu., well below the 1.552 bil. bu. in the current forecast.
- **Corn export sales** jumped higher week-to-week while soybean sales dropped.
 - ✓ The USDA says corn sales to overseas buyers in the 7 days that ended on January 21 came in at 72.8 mil. bu., up 29% from the prior week and 61% from the prior 4-week average. Japan was the biggest buyer of corn, followed by Mexico and Colombia. China had been relatively quiet in the U.S. corn market since its record buying streak last summer, but a string of much more expensive bookings last week would seem to be proof of the country's dire need for corn. No one knows exactly how big China's corn stockpiles are, but the sudden deficit of usable grain in the country appears to have manifested in rising prices in China, extremely active state corn auctions, and record imports from the US. As last week's flash sales were announced, Arlan Suderman of StoneX Group says, "Another 26.8 mil. bu. of U.S. corn sold to China in the past 24 hours creates some challenges for the bears trying to pull the grain complex into the bearishness of the outside markets."
 - ✓ Soybean sales slipped 74% from the prior week, coming in at 17 mil. bu., 45% below the 4-week average. China was the biggest buyer at 12 mil. bu., followed by Mexico at 7 mil. For the 2021-2022 marketing year that starts on September 1, USDA reported sales of 57 mil. bu. of soybeans. Unknown destinations bought 24 mil. bu., while China took 21.5 mil.



- **“Aside from the strong demand from China,** any problem with Brazil’s second crop (which represents some 75% of their total production) or any damage to the Argentine crop would add to the bullish case,” says Terry Roggensack of the Hightower Report. “For now, it looks like Brazil’s second crop will be planted late and will be susceptible to any hot and dry conditions that develop in February.”

- **New trade data** from the U.S. Census Bureau shows China purchased a potential new record of U.S. agricultural products in 2020, according to American Farm Bureau Federation Chief Economist John Newton, “For calendar year 2020, China bought slightly more than \$27 bil.

RECORD CORN & SOYBEAN EXPORT COMMITMENTS 4 BILLION BUSHELS COMBINED THROUGH WEEK 21 OF THE MARKETING YEAR



worth of U.S. agricultural products, which is likely a new record high in terms of exports to China.” Newton says China has already made large purchases of U.S. corn and soybeans in the 2021 marketing year, “China’s been a very big player in the corn and soybean markets this year. So far, they’ve bought nearly 236 mil. bu. of corn, they’re on the books for another 433 mil. bu. of corn to purchase from the United States, which would be a record. On the soybean side, we’ve seen China buy more than 1.139 bil. bu. of soybeans already, and they still have on the books nearly 147 mil. bu., so they’ve been a big player in the corn and soybean markets this year.” Newton says the increased trade with China has bolstered market prices for corn and soybeans in the United States, “I think what we’ve seen is since China’s been such a heavy player in the market, it’s helped to reduce our stockpiles this year and as a result we’ve seen prices move sharply higher in the last few months. Corn is now sitting at around \$5.30, soybeans sitting around \$13.50, and that’s up 50-60% from where we were back in early August. And a lot of that is on the back of strong trade and export demand.”

- **Harvesting delays** in Brazilian soybean fields should continue throughout February after a drought pushed back plantings of the oilseeds, says a market intelligence coordinator at Hedgepoint Global Markets. The situation may delay deliveries of this year’s crop to global trading companies, as this is a season marked by strong pre-sales. Only up to 183 mil. bu. of the new crop will be ready by now, according to calculations by another Brazilian group, representing less than half of the available amount last season. The pace of harvesting in Brazil would only normalize in March. Brazilian farmers have pre-sold an estimated 60% of their soybean crop before harvesting, 20% above the historical average for the period citing attractive prices. Despite planting delays caused by a drought last year, estimates for Brazil’s soybean crop at a record of 4.85 bil. bu. in the 2020/2021 cycle. Given good prices for soybeans this year, farmers in Brazil could also increase planted area next season by 2%-3%.

- **Domestically**, U.S. soybean crushings likely rose in December to 193.9 mil. bu., according to the average trade forecast ahead of USDA's fats and oils report on Monday; estimates ranged from 192.0 mil. bu. to 195.0 mil. bu. If realized, the crush would be up from the 191.0 mil. bu. processed in November and well above the December 2019 crush that totaled 184.7 mil. It would also be the largest December crush on record and the second-largest crush for any month, behind only October 2020. U.S. soy processors, fresh off their busiest year on record, have booked soybean purchases well beyond their normal few weeks of supply due to soaring export demand, rising prices and fears of soy shortages later this season. The aggressive buying foreshadows an expected battle for beans between exporters and processors this spring and summer that will likely increase prices further and could result in rare imports to the US. At least one processor in the eastern Midwest has already booked its soybean needs through May, the "most in the history of the company.
- **Will soybean acreage** increase from double cropping after wheat this year? KS St. ag economist [Guy Allen](#) tossed out that invitation to wheat growers at an IL Double Crop Forum by indicating soybean prices could reach \$16 per bu. "Looking back to when we had similar stocks/use in 2013, we saw beans above \$16 and I don't think that would be a surprise." He says world soybean ending stocks are at 3.09 bil. bu., the lowest in 5 years, putting the ending stocks/use at 22%.
- **If you are curious why China** is suddenly purchasing massive volumes of US corn and soybeans, you need only to look as far as commodity reports circulating within the Chinese grain industry. One of the primary ones is JCI China, which issued a [report](#) Tuesday on "Why drought may become a catalyst for US soybean prices in 2021." The following is what Chinese grain traders read:
 - ✓ "Weather in US Midwest is changing. Drought worries are rising quietly. Weather may be the main driver of the market in 2021. Market focus will shift to spring planting around the beginning of March.
 - ✓ This year US crop acreage may exceed expectations. Analysts believe that the acreage in the northern or southern plains may expand but expansion of the drought area may raise more concerns, especially when US soybean supply still tends to tighten.
 - ✓ Almost the entire North Central US has been in a state of drought since the end of 2020. Soil moisture in Illinois, Indiana, North Dakota, Nebraska and Kansas is all below 5% in January 2021, the fifth lowest in history. Although soil moisture in the eastern part of the Midwest has improved, drought is still intensifying in the west and plains. Moisture in the Midwest is estimated to be close to or below normal during March-May, while precipitation in the plains will be basically lower normal.
 - ✓ La Nina is expected to peak in February or March. According to the US drought monitoring map released on January 21, most of the areas west of the Missouri River can be characterized as facing moderate to abnormal drought conditions.
 - ✓ La Nina currently only affects winter wheat crops in US drought-hit states. USDA has set the good to excellent rate of crops grown in Colorado, Nebraska, and Kansas at 20% to 40%, which is much lower than that of the same period in several years. In addition, snow levels in most mountainous areas of western US are far below average. If the conditions persist, farmers in the west who rely on surface water for irrigation are likely to face water shortage."

Ag Economy—

- Fewer new loans to farmers** continued to drive a pullback in agricultural lending activity, report [Kansas City Fed economists](#) in their quarterly national lending survey. “A historically low number of new loans contributed to an increase in average loan size and drove a slight decrease in the overall volume of non-real estate loans at commercial banks in the fourth quarter. 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. 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 (Chart 1). 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. While the number of loans continued to trend downward, the average size of farm loans grew for the second consecutive quarter (Chart 2). The number of new bookings with balances of less than \$100,000 decreased by about 30% from a year ago and accounted for nearly 90% of the overall decline. The number of notes greater than \$100,000 also dropped by about 18% and together with a record low number of loans overall, the average size of all new non-real estate loans reached a historic high. 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.”

Chart 1: Volume of Non-Real Estate Farm Loans at Commercial Banks

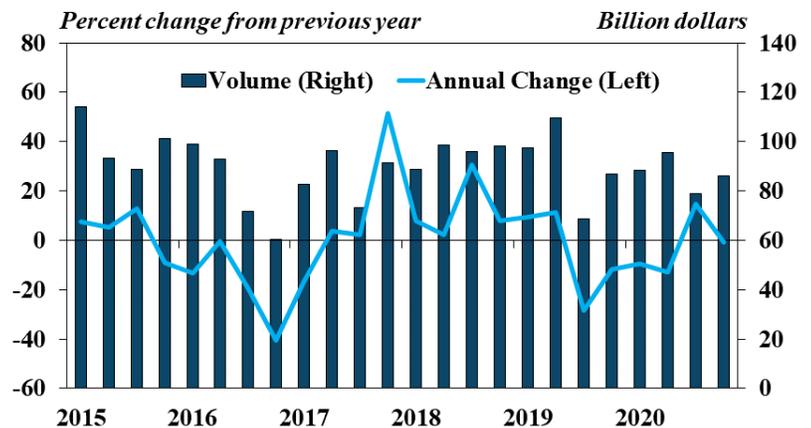
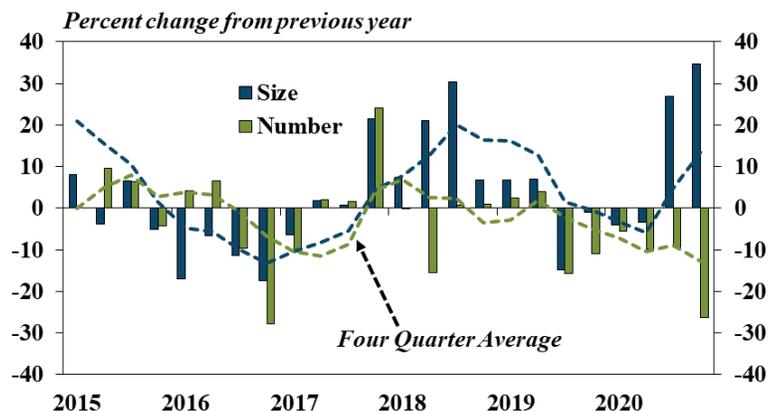
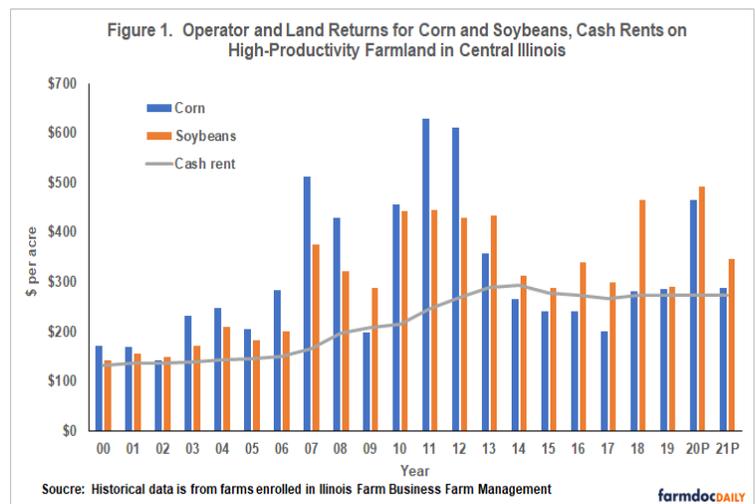


Chart 2: Number and Average Size of Non-Real Estate Farm Loans

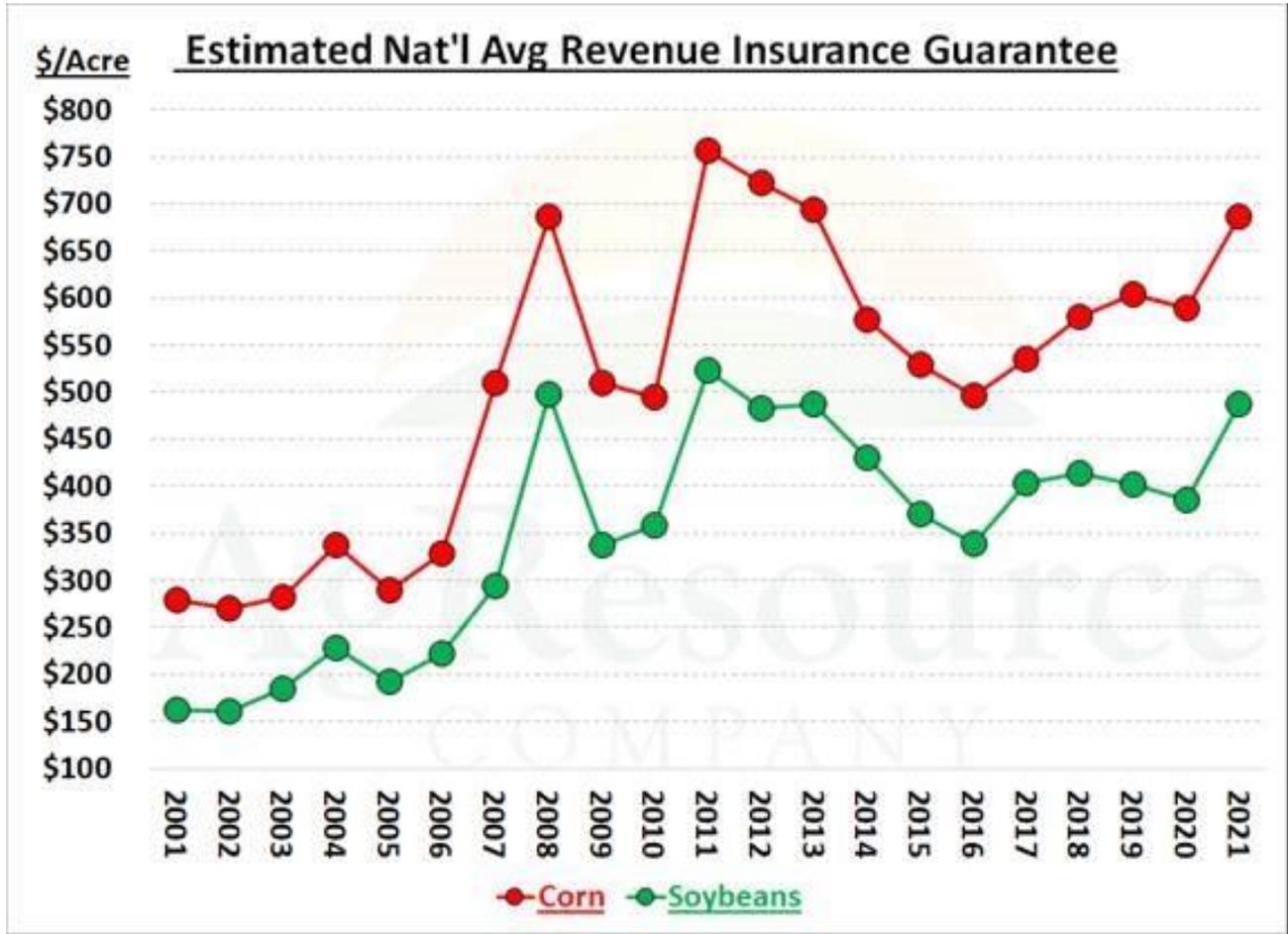


Farm Business—

- **No surprise, but good news.** Higher corn and soybean prices have allowed crop budgets for the old and new crops to yield higher returns. That's according to IL Farm Management Specialist [Gary Schnitkey](#) and his colleagues. They have made 3 changes since last October, and those include higher commodity prices, more government payments, and higher production costs.
 - ✓ **Old crop corn:** For 2020, the projected corn yield is 228 bushels per acre, the corn price is \$4.25 per bushel, resulting in \$969 per acre in crop revenue. This \$4.25 corn price is \$.25 per bushel higher than the price used in October (depending on your marketing plan). Corn revenue also includes \$68 of other ad hoc Federal payments (CFAP-2 and CFAP-3). Total revenue for corn is projected at \$1,037 per acre. Subtracting off \$571 of non-land cost gives \$466 of operator and land return. Operator and land return provides payments both to the farmer and landowner. Given average cash rent of \$275 per acre, the farmer return is \$191 per acre.
 - ✓ **Old crop soybeans:** For 2020, the projected soybean yield is 72 bushels per acre, the soybean price is \$11.20 per bushel, giving crop revenue of \$806 per acre. The \$11.20 price is \$1.25 higher than the price used in October. There are \$45 per acre in CFAP payments related to two rounds. Total revenue is \$852 per acre. Given \$369 in non-land costs and \$275 in cash rent, farmer returns for soybeans are projected at \$218 per acre.
 - ✓ **New crop budgets:** For 2021 projections, a corn price of \$4.00 per bushel and a soybean price of \$10.50 per bushel are used. These prices are substantially higher than in October budgets (\$3.55 for corn and \$9.45 for soybeans). These higher prices are close to bids for fall delivery of grain. Yields are at trend levels: 217 bushels per acre for corn and 68 bushels per acre for soybeans. ARC or PLC payments are not included. The 2020 operator and land return for corn is projected at \$466 per acre. The last time corn returns exceeded \$466 per acre was in 2012, when returns were \$630 per acre. The 2020 operator and land return for soybeans is projected is \$493 per acre, the highest return in history in central Illinois. The operator and land return for corn in 2021 is projected at \$288 per acre. The soybean return is projected at \$346 per acre.
- ✓ **The bottom line** is that average cash rent should be covered by projected income for 2020 and 2021.

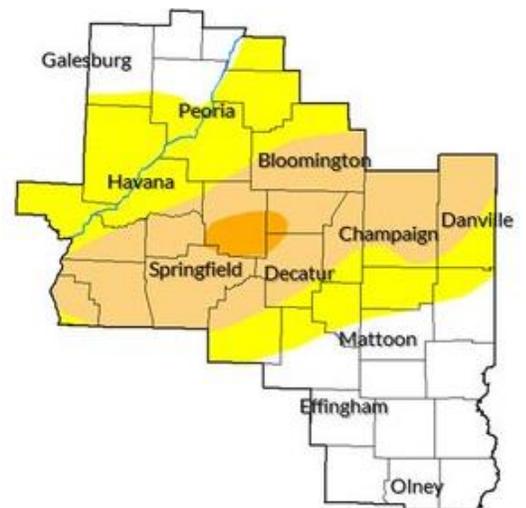


- **Crop revenue insurance guarantees** for corn and soybeans will begin to be calculated as of today (February 1). The guarantees could be the highest in 8-9 years. According to some estimates, the prices may be high enough at 85% level to ensure a profit (or come close). The highest priced base highs for corn for the last decade were set at \$6.01 in 2011, \$5.68 in 2012 and \$5.65 in 2013.

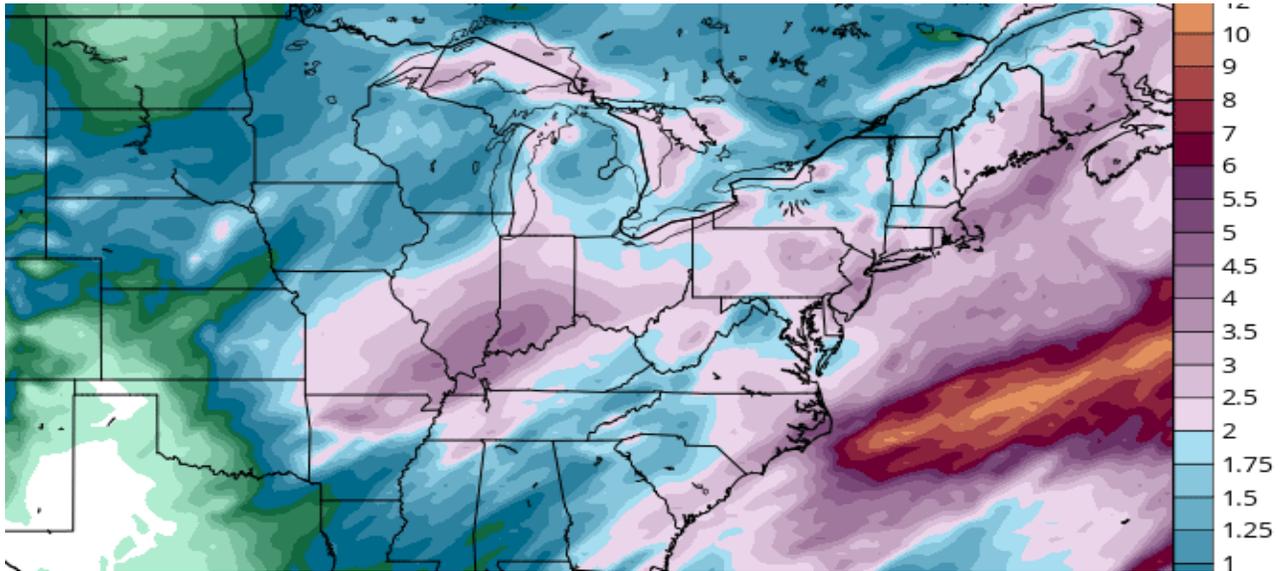


Weather—

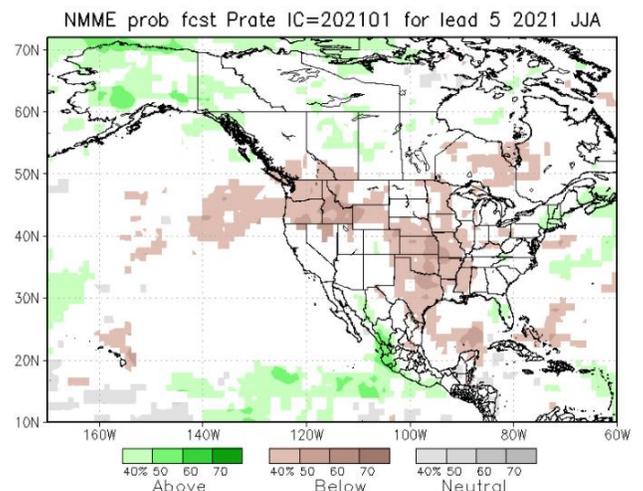
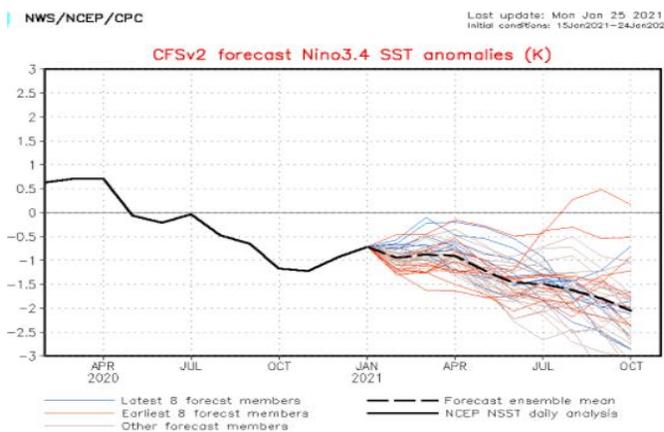
- **The Drought Monitor** continues to show moderate drought in central IL, with a small patch of severe drought NW of Decatur. The NWS Forecast Office at Lincoln reports, "A pair of upcoming storm systems each have the potential for heavy precipitation, though frozen ground may be an issue. While little change overall has occurred in recent weeks, the storm systems could each provide a half inch to an inch of precipitation. Compared to a week ago, there has been a small contraction of severe drought designation between Decatur and Springfield, as well as an increase of abnormal dryness west and north of Mattoon."



- **It's possible** that a more La Niña-like pattern is setting up with enhanced rainfall over the Ohio and Middle Mississippi River basins, over the next couple weeks. Additions to soil moisture levels will be dependent on whether the soil is frozen and can accept the moisture, says [Blue Water Outlook](#). Weather and climate models indicate a La Niña influence into the spring months. This would result in enhanced precipitation over parts of the Upper Mississippi and Ohio basins. Models also indicate above-normal temperatures which could increase the chance for a "managed melt" and slow overall late season accumulations.



- **And speaking of La Nina**, it visits during our winter and plays havoc with the South American growing season. But what would happen if North America had a La Nina visit during its growing season? That is certainly a possibility, based on the temperature trends expected in the Equatorial Pacific last week. La Nina depends on cooler waters, and numerous weather models (below, left) are nearly all pointing in that direction for the summer months. Forecasters believe the January 25 update could be pointing toward a La Nina summer and whatever it would bring weather-wise across the Cornbelt. So, what degree of precipitation is predicted to occur in the summer months of June, July, and August? Currently the Climate Prediction Center is already looking at precipitation below normal for those months (below, right). Watch closely and manage your risk.

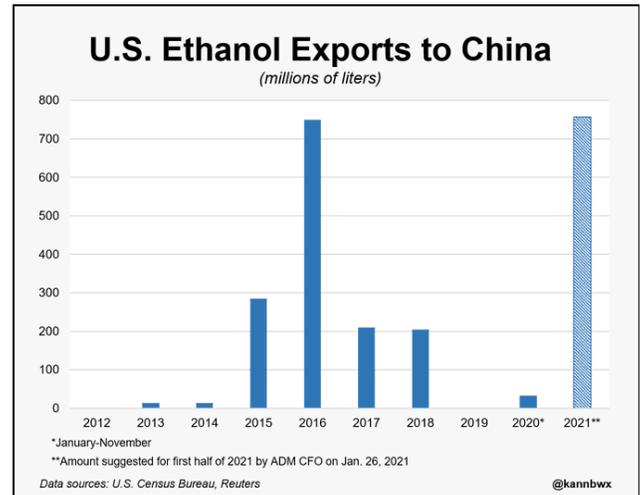


USDA and Farm Programs—

- **The Senate Agriculture Committee** scheduled a confirmation hearing for Agriculture Secretary nominee Tom Vilsack. The committee will meet Tuesday, February 2, at 9:30 CST, to consider the nomination. Committee leadership, Sen. Debbie Stabenow, D-MI, and Sen. John Boozman, R-AR, made the announcement. Vilsack is expected to enjoy a smooth confirmation process overall. He has broad support from agriculture in returning to the Department of Agriculture. However, a coalition of progressive groups, including Food and Water Watch and Progressive Democrats of America, urged Senators to block the confirmation, claiming, "Tom Vilsack is in the pocket of "Big Ag." Although the hearing date has been set, there are no official members of the Senate Ag Committee. The Senate has not organized itself, and committees have not been assigned, all a result of the 50-50 split. Prior to the hearing announcement, Stabenow committed to a quick confirmation process, "I have openings on my committees, so, until they pass the organizing resolution, and name the members of the Ag committee, I don't have subcommittees, or members to vote." →
- **Sen. Chuck Grassley, R-IA**, wants speedy confirmation of Secretary-designate Vilsack, contending the Senate can now move forward to organize committees in a 50-50 power-sharing deal, with the hot issue of ending the Senate filibuster apparently, off the table. "Secretary Vilsack needs to be confirmed as soon as possible, so that he can start the work of representing farmers in this administration." Grassley says his IA farmers want a strong Renewable Fuel Standard, transparency in the cattle markets, and continued farm bill ARC and PLC payments, "Make sure that there's no changes to the 5-year farm program because we don't usually change the 5-year program in the middle, and I don't want Biden coming in and changing them, because we've got to have certainty for farmers for that 5-year period of time. And I hope one of the things, they'll take advantage of the money that we put in the last CARES Act to reimburse biofuels producers." Grassley also hopes Vilsack will press for more free trade talks, though he predicts the new administration will be slow to get out of the gate in advancing new trade talks.
- **USDA is suspending CFAP payments** pending a review. In the coming days, USDA and the Biden Administration intend to take additional steps to bring relief and support to all parts of food and agriculture during the coronavirus pandemic, including by ensuring producers have access to the capital, risk management tools, disaster assistance, and other federal resources. The American Farm Bureau said, "We recognize the new administration's desire to review important farmer and rancher assistance programs and we urge USDA to take into consideration our [comments on how to improve such programs](#). We appreciate that CFAP applications will continue to be accepted, and we encourage the swift resumption of distribution of resources to the people who are working to keep America's pantries stocked." "Don't panic about this," IL Farm Bureau's Mark Gebhards said, "It is somewhat routine with regard to the transition between administrations. I do not read this as a termination of the program or anything like that at this point."

Ethanol and biofuels—

- **China made a major purchase of ethanol** last week, which not only excited the ethanol market, but rippled through corn futures as well. ADM Investor Services reports, “U.S. ethanol output has remained generally weak in January amid shabby profitability, though a shot of optimism arrived on a report that China, which somewhat shunned the American biofuel 4 years ago, has already secured a record annual haul for 2021. China has never been a leading player on the U.S. ethanol export front and the corn-based biofuel historically accounts for a small portion of American farm product trade. But possibilities could be strong given China’s generally thin supplies of agricultural commodities and its record purchases of items like corn and soybeans. The chief financial officer of ADM said on Tuesday that China had already secured about 200 mil. gal. of U.S. ethanol for the first half of 2021. That would tie the previous annual record for U.S. exports of the biofuel to China set in 2016.” The move not only bolsters the ethanol industry but indicates China’s ethanol plants may have insufficient supplies of grain to refine their own ethanol.
- **Corn ethanol** reduces greenhouse gas (GHG) emissions by 46%, compared to gasoline, says a new research study being promoted by the National Corn Growers Association. NCGA President [John Linder](#) says, “This study is another reason why we need to continue moving to higher blends of ethanol as the baseline for the nation's fuel supply.” The [study](#) “reviewed well-to-wheel greenhouse gas life cycle analyses for corn ethanol and evaluated models, input data, and results for farming, fuel production, co-product credit, land use change, transport of feedstock and fuel, tailpipe, and denaturant. Compared to earlier analyses, recent life cycle analyses for corn ethanol contain updates to modeling systems and data that reflect: (1) market-driven changes in corn production that lowered the intensity of fertilizer and fossil fuel use on farms; (2) more efficient use of natural gas and recent electric generation mix data for energy consumed at ethanol refineries, and (3) land use change analyses based on hybrid economic-biophysical models that account for land conversion, land productivity, and land intensification.”
- **The U.S. oil industry** is looking to a longtime adversary for help in opposing the Biden administration’s push for electric vehicles. [Reuters](#) says the oil industry is reaching out to the nation’s corn growers and biofuel producers for lobbying help, but so far, they’re getting a cool reception to the idea. The two industries have one thing in common; a shared desire to make sure there’s a future for internal combustion engines. The political landscape is quite different as the oil industry’s influence has dropped off since Joe Biden replaced Donald Trump as president, but the farm belt is still a powerful constituency.



Ag Technology—

- **If you can plant a field,** it can get perfect water, rain or no rain says Gregg Sauder of 360 Yield Center. He introduced [360 Rain](#) last week, an autonomous, 3-wheeled, well water dispenser that rolls through a field, laying down a 3-in. water hose as it duplicates a planter pass, and retrieves it as it reverses. Y-drops on the boom dispense pre-determined rates of water, each pass through the field when needed, guaranteeing crops have water in the driest of seasons. The path is based on an RTK-GPS map drawn when the field is planted, and the reel only carries a minimal amount of hose to go one way through the field. Powered by electrical current, it moves .4 mph with water dispensed in a 15-inch band centered on the crop row, subsequently, saving 50% of the water compared to pivot irrigation. One of the 360 Rain units, a well, and any desired fertigation equipment are required at each field. 2020 testing resulted in a 65 bu. yield boost for rows receiving the additional water from 360 Rain. 6 locations will be beta tests in 2021, with a limited number of units publicly available in 2022.



- **Are you adopting technology** faster than your global counterparts? That depends on the technology, which stood out in a survey of 800 US and international farmers participating in the 13th annual No-Till Operational Benchmark [Study](#). It revealed some global similarities and stark differences in planned use of precision tools in 2021. While auto-steer is a universal staple on farms, with 77% of all respondents planning to use the technology this year, U.S. farmers had a higher percentage of expected use of 7 of the 12 precision tools listed in the study. However, the initial benchmark study results also reveal some areas where international farmers are trending ahead of those in the U.S. Specifically, planned use of satellite aerial imagery and unmanned aerial vehicles is higher among non-U.S. growers, along with remote sensing.

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.