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

Commodity market price drivers—

- **It was a tempest on a train track** for a 5-day period last week when rail crossings at the US-Mexican border were closed by US officials. It's all over now, but what happened?

  ✓ **US immigration staff** ordered rail traffic to be suspended because it was allowing illegal border crossing by some of the tens of thousands of migrants wanting to enter the US. Southbound trains were carrying millions of bushels of US corn purchased by Mexican livestock feeders. "The North American trading system relies on interconnectedness, and any disruption affects Mexican and U.S. Commodities," says Grains Council CEO Ryan LeGrand. "It's vital the situation gets resolved in a timely manner." The National Corn Growers Association says, "Mexican customers are telling U.S. shippers that they'll soon consider other suppliers."

  ✓ **The fight that's kept lawmakers** from passing a national security supplemental bill this year spilled into agricultural trade with impacts for grain and other farm shipments to Mexico. Sen. John Thune, R-SD, told reporters, "We got rail crossings into the US from Mexico that have been shut down temporarily because Customs and Border Patrol had to shift their employees over to processing migrants."

  ✓ **Midday on Friday arrangements** were made to allow corn, soybeans, wheat, and semi-processed products of those to proceed on rail lines. However other non-food products would be embargoed until the political defugalties in Congress could be resolved. →

- ✓ **Soy Transportation Coalition** Executive Director Mike Steenhoek said, "We certainly welcome this development. Agricultural and other stakeholders quickly responded to the announced closures by highlighting the severe consequences to our industry and the broader economy. That message clearly appears to have resonated. In addition to "quality," one of the other components of U.S. agriculture's brand is "reliability." In order to maintain that reputation, we need to have a supply chain, including railroad border crossings, which can effectively connect farmers with international customers. We appreciate that the border closure was not extended any further as that would have only served to encourage our Mexican customers to explore other sources of supply while imposing further hardship on farmers and agricultural exporters."
- ✓ **Steenhoek said the Customs and Border Patrol** officials realized the problems for agriculture when the CPB announced, "After observing a recent shift in the trends of smuggling organizations moving migrants through Mexico, CBP took additional actions to surge personnel and address this concerning development, including in partnership with Mexican authorities. The Office of Field Operations has re-directed personnel and resources in order to support the U.S. Border Patrol as well as perform its critical functions including the security and facilitation of lawful trade and travel. CBP's Office of Field Operations will resume operations at the international railway crossing bridges in Eagle Pass and El Paso, TX."
- ✓ **The rail crossing shutdown** could have been serious. Steenhoek of the Soy Transportation Coalition reported, "In 2022, $3.64 bil. of U.S. soybeans were exported to Mexico (#2 market), $863 mil. of U.S. soybean meal was exported to Mexico (#2 market), and $117 mil. of U.S soybean oil was exported to Mexico (#4 market). USDA also reports in 2022, Mexico purchased 662 mil. bu. of corn (#1 market) worth $5 bil. Most of those shipments occur via rail. Currently with challenges of low water on the Mississippi River, drought conditions at the Panama Canal, and threat of attack via the Suez Canal, we need to make sure we are not adding insult to injury by limiting rail service. Farmers have once again produced a significant, quality crop. We have international demand for that crop, but we need an effective supply chain that can connect supply with demand."
- ✓ **The American Soybean Association** also took a dim view of the Homeland Security action and sent a letter to Secretary Alejandro Mayorkas, quoting the border patrol indicating only 5 personnel were needed to at a given rail crossing for security, and the "the closure at these 2 crossings results in a daily loss of $200 mil. collectively, in economic activity among rail lines." The U.S. Soybean Export Council reports that approximately 70% of soybeans exported to Mexico rely on rail transportation. On average, the U.S. exports about 4 mil. bu. of soybeans and 33,100 tons of soybean meal per week to Mexico.

Ag Economy—

- **Every turn you take,** and every breath you take is integrated into the US economy. Some see it declining, and others see it improving. [Economists at CoBank]() weighed in on it:
  - ✓ **China's 20-year growth trajectory** did bring it to superpower status, both economically and militarily. But we would argue that China didn't "win" the free trade game. Foreign investment is exiting, opportunities for young people are shrinking, the population is rapidly aging, and the government is cracking down even harder on political dissent and freedom of information. That hardly sounds like a win.
  - ✓ **78% of Americans** believe the economy is on the wrong track, according to Fannie Mae's monthly National Housing Survey. This comes despite a Goldilocks situation, where most economists note everything is running "just right": Headline inflation has dropped to 3.1% from its summer 2022 peak of 8.9%, unemployment remains below 4%, and inflation-adjusted wages are growing. Why are people unhappy? First, people have "anchored" mental expectations as to what prices "should" be; and people don't like uncertainty.
  - ✓ Congress faces a pair of deadlines for shutdowns. If not funded before Jan. 19, federal departments and agencies funded with 4 appropriations bills will shut down. Funding for the remaining 8 bills expire 2 weeks later. Many reasons favor completing the Farm Bill this year. First, both the House and Senate Ag Committees have put in significant time and labor trying to finish it, and if pushed to 2025, we start from scratch. Fortunately, we have time, Congress can get this job done. But it is not yet a done deal.
  - ✓ Today wheat and corn futures are just a few bad trading days away from falling to their pre-pandemic levels. Only soybean prices remain elevated in a new trading range thanks to the expansion of the renewable diesel industry. Profitability for the U.S. livestock sector should improve modestly in the 2024, as lower feed costs and steadfast domestic demand offset weak global export conditions.
  - ✓ The renewable diesel boom and the shorter U.S. soybean crop harvest of 2023 will drive an expansion of soybean acreage in the U.S. in 2024, and therefore reduce acreage available for other crops. The biofuel sector at large carries the momentum of historically large profit margins into the new year. Both ethanol producers and soybean crushers are benefiting from rising demand for biofuels. Current 2024 futures prices suggest further price erosion across the grain and oilseed sector in 2024 but fertilizer prices have also come down, which means farm incomes will remain in striking distance of break-even.
  - ✓ "The number, intensity, and length of violent conflicts worldwide is at its highest level since before the end of the Cold War." This unprecedented, contemporary level of global discord introduces significant uncertainty into the commodity markets – and for energy prices in particular, given the location of regional conflicts. The growing need for the U.S. to begin to replenish supplies is setting a potential floor for prices in 2024, especially while oil prices remain a relative bargain. But the U.S. needs to make these purchases soon.

- **What economic surprises** are on the horizon for agriculture? Cornbelt ag economists polish their crystal ball and suggest 2024 will have both good and bad days ahead:
  - ✓ On the farm economy, the 2 most important factors are driving agriculture's economic health today, "Macroeconomic influences, including persistent interest rate pressure and dollar value," responded one economist in the anonymous survey.
  - ✓ Looking ahead at 2024, economists in the December Ag Economists' Monthly Monitor were asked, "What unexpected news headline would you not be surprised to read in 2024?" Ag economists said:
    - China falls into big recession.
    - A second extension of the Farm Bill.
    - Corn prices test $4 again.
    - Inflation supports managed money returning to the commodities again.
    - World ends, poor hurt worst.
    - Record beef imports in 2023.
    - National corn yield >190 bpa; U.S. embargoes ag exports to China.
    - End to Russia/Ukraine war bumps global food grain supplies and cuts prices.
    - 2024 planted acres across all crops similar to 2023.
    - Economic woes unfold for U.S. agriculture as input costs remain high and farm prices falter.
  - ✓ When it comes to the ag economy, geopolitical issues and the U.S. presidential election rose to the top of their concerns, including:
    - Geopolitical factors, including war and disruption, global competition and other potential disruptions.
    - Domestic politics, including the 2024 election and policy detrimental to biofuels use, and government debt leading to rising interest rates and finance costs.
    - Decline in commodity prices paired with increasing input and land costs, leading to squeeze in margins.
  - ✓ There is also optimism for the year ahead, the U.S. won't enter a recession in 2024.
    - Demand opportunities through domestic soybean crushing, renewable fuel, SAF and global oilseed.
    - Robust domestic consumption and opportunity for competitive pricing of U.S. commodities in global markets.
    - Improved farm-level conditions related to efficiency, moisture conditions and farm income above historical averages (if a recession is avoided and input costs come down); many ag producers still have a strong balance sheet.

Seed, Fertilizer, Fuel, Chemical Inputs—

- **Fertilizer prices are going both up and down,** depending on which flavor it is. Russ Quinn of DTN reports, "Both urea and UAN28 were down 6% compared to last month. Urea had an average price of $540 per ton while UAN28 was at $339 per ton. Prices for the remaining three fertilizers were down just slightly. DAP had an average price of $713 per ton, 10-34-0 $595/ton and UAN32 $409/ton. Prices for three fertilizers were just slightly higher compared to last month. MAP had an average price of $819/ton, potash $517/ton and anhydrous $851/ton. On a price per pound of nitrogen basis, the average urea price was $0.59/lb., anhydrous $0.52/lb., UAN28 $0.61/lb. and UAN32 $0.64/lb. All fertilizers are now lower by double digits compared to one year ago. MAP is 13% lower, both 10-34-0 and DAP are 21% less expensive, urea is 31% lower, potash is 36% less expensive, both UAN32 and anhydrous are 40% lower and UAN28 is 41% less expensive compared to a year prior.
- **Josh Linville of StoneX says** the biggest North American news is river logistic fears and the big run-on fertilizer application last fall. "The rivers have been doing well, but seems we are never more than a couple dry weeks away from shipping restrictions which drive prices up. Lack of snow up north doesn't help the long-range outlook. NH3/Phosphate/Potash all had HUGE runs this fall. The systems are empty and there is 3-months between today and the start of spring application; now, reread the prior sentence about river fears." Regarding product pricing and availability, Linville says:
  - ✓ **Nitrogen:** the surprise news that India had announced a urea purchase tender. didn't hurt that global price ideas had remained under pressure in their absence. So now the market will need to consider this purchase over the holidays. No reaction from the market so far but many are likely on holiday already. Tampa January price was announced at a $100 discount to December. North American NH3 winter fill/spring prepay programs have been released at perceived high price levels. We are now forecasting this fall NH3 application run as the 3rd largest going back to 2000. Manufacturers remain in control of negotiations in that situation, so prices remain high. The story of Koch buying the nitrogen production plant in Weaver, IA continues to be discussed. Ultimately, the largest talking point is the loss of another competitor. The plant changing hands will do nothing for overall S&D; however, with one less competitor, the fear is that they will keep values artificially high.
  - ✓ **Phosphate:** Phosphate had a terrific fall run that likely emptied the system. Like NH3, there is only 90-days to refill the system. N.A. values are not going to drop substantially without world values dropping. The empty system is being met head on by reluctance at these values. Currently values are high vs most comparisons. Hearing many reports that retailers and farmers alike are opting to wait in hopes of lower values. Very dangerous game of chicken for all playing.
  - ✓ **Potash:** No word of any fill/spring programs. Given how big the fall run was and how empty the system is, manufacturers shouldn't "need" to set a program. They could opt to say "today's price is the program. Buy it before it goes up." Still current potash values remain very attractive.

Farm Management and Finance—

- **Managing farm profitability** depends on many overhead cost factors, say [IL Farmdoc ag economists](), and two of those are labor and interest. Overhead costs include those associated with hired labor and non-land interest (depicted in blue) and those associated with building repair and depreciation, insurance (other than crop insurance), and miscellaneous overhead (depicted in orange.) Overhead costs averaged $50 per acre for the 2000 crop year, tracking down to $40 per acre in 2004 due mainly to falling interest costs reflecting declining interest rates over that period. Over the next 18 years, overhead costs increased consistently, more than doubling to $83 per acre in 2022. Overhead costs are expected to be higher in 2023 and, in contrast with direct input and power costs, are projected to increase again, potentially surpassing the $100 per acre mark, in 2024. Costs associated with hired labor and non-land interest comprise a significant component, roughly half, of total overhead costs. Figure 2 reports hired labor costs, in dollars per acre and as a revenue share, since the 2000 crop year. After being relatively flat from 2000 to 2006, hired labor costs have increased consistently since the 2006 crop year. This trend is consistent with the labor market challenges facing nearly all industries in the U.S. The overall labor force participation rate has declined since the late 1990s; nominal wages have been steadily increasing since the early 1970s, and real wages have exhibited faster increases over the past decade compared with the previous three decades. These labor market characteristics, coupled with more recent policy actions, do not suggest a reversal in the trend toward rising labor costs in the short- or medium-term.

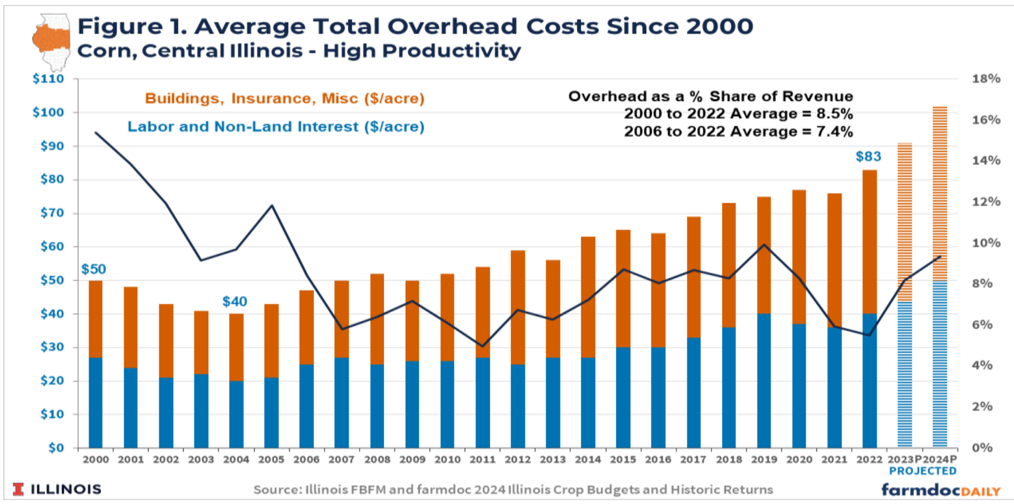


Figure 1. Average Total Overhead Costs Since 2000
Corn, Central Illinois - High Productivity
Source: Illinois FBFM and farmdoc 2024 Illinois Crop Budgets and Historic Returns

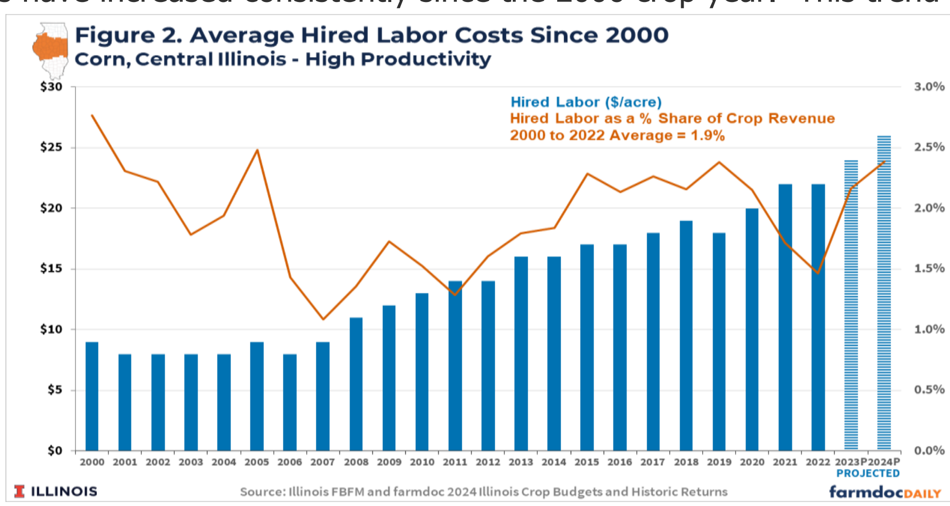
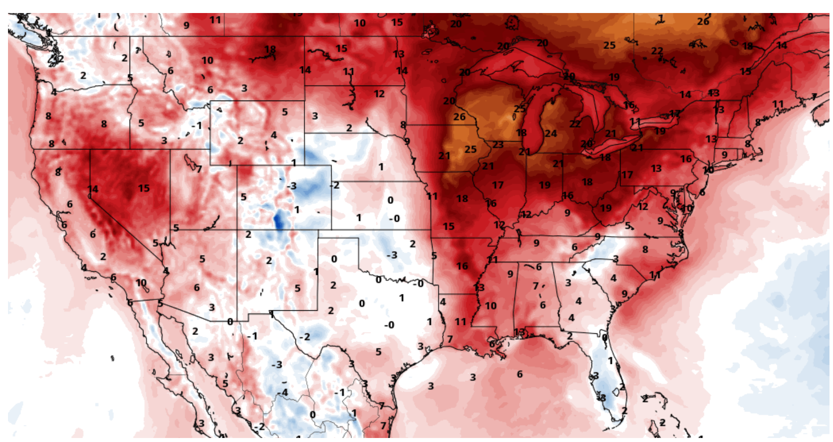


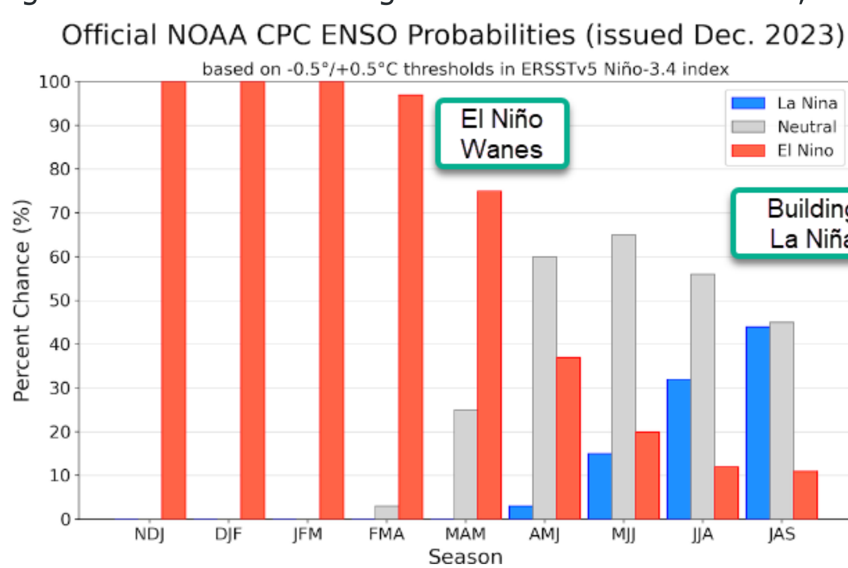
Figure 2. Average Hired Labor Costs Since 2000
Corn, Central Illinois - High Productivity
Source: Illinois FBFM and farmdoc 2024 Illinois Crop Budgets and Historic Returns

Weather—

- **"An odd weather year"** is what IL State Climatologist Trent Ford says about 2023. "Spring this year started wet and cool, with more than our fair share of severe weather. IL typically sees 50 to 60 tornadoes in a year, but this year we had 49 tornadoes in March alone. The switch flipped in April, turning warm and dry. The entire state was bone dry for the second week of April, but then the wet weather came in right when several folks decided it was perfect time to plant. The dry to wet switch of April made a difference between early and late planted crops this year, especially for corn. The big story of the year was the drought that started in May and persisted into July. We had a top 5 driest May on record in Lake and Cook Counties, and the third driest June on record in Pope and Johnson Counties. Rain finally came in early July, and some places got a bit too much. We had the wettest July on record in Cook County, and parts of Alexander and Pulaski Counties picked up nearly 14 inches in July. Meanwhile, central IL was visited by a derecho in late June; a personal weather station in Taylorville recorded 101 mph wind gusts. An active storm track in August brough more rain across the state, limiting agricultural drought problems. The rain shut off in September – giving most of the state a good 4-6 weeks of great harvest weather. However, the continuation of dry conditions through November added to deficits from the summer and has put the southern half of the state in hydrological drought. Water table levels from Quincy to Fairfield remain much deeper than normal as we get close to the heart of winter. Overall, 2023 will likely end much warmer and slightly drier than normal. As of December 21, 2023, has a top 5 warmest year on record in Chicago, Moline, Peoria, Quincy, St. Louis, and Paducah. Looking ahead, the first 2 weeks of 2024 look a lot like the last few months of 2023, warmer and drier than normal. El Nino is expected to persist well into spring, and outlooks continue to lean into its typical milder and drier weather in the Midwest. Most if not all in IL, it seems this year will need to paint their grass to have a white Christmas." (Would Trent say the climate is different than when we were growing up? Probably so.)
- **It is a good thing there is no snow on Christmas,** because the warm temperatures would melt it. Christmas Day temperature departures will be significant over the eastern part of the nation, of more than 20°F over WI, eastern IA, and northern IL, says Blue Water Outlook. Some of that is Thanksgiving leftovers, because November 2023 marked the sixth consecutive month of record-warm global temperatures. According to NCEI's Global Annual Temperature Outlook and data through November, there is a greater than 99% probability that 2023 will rank as the warmest year on record.

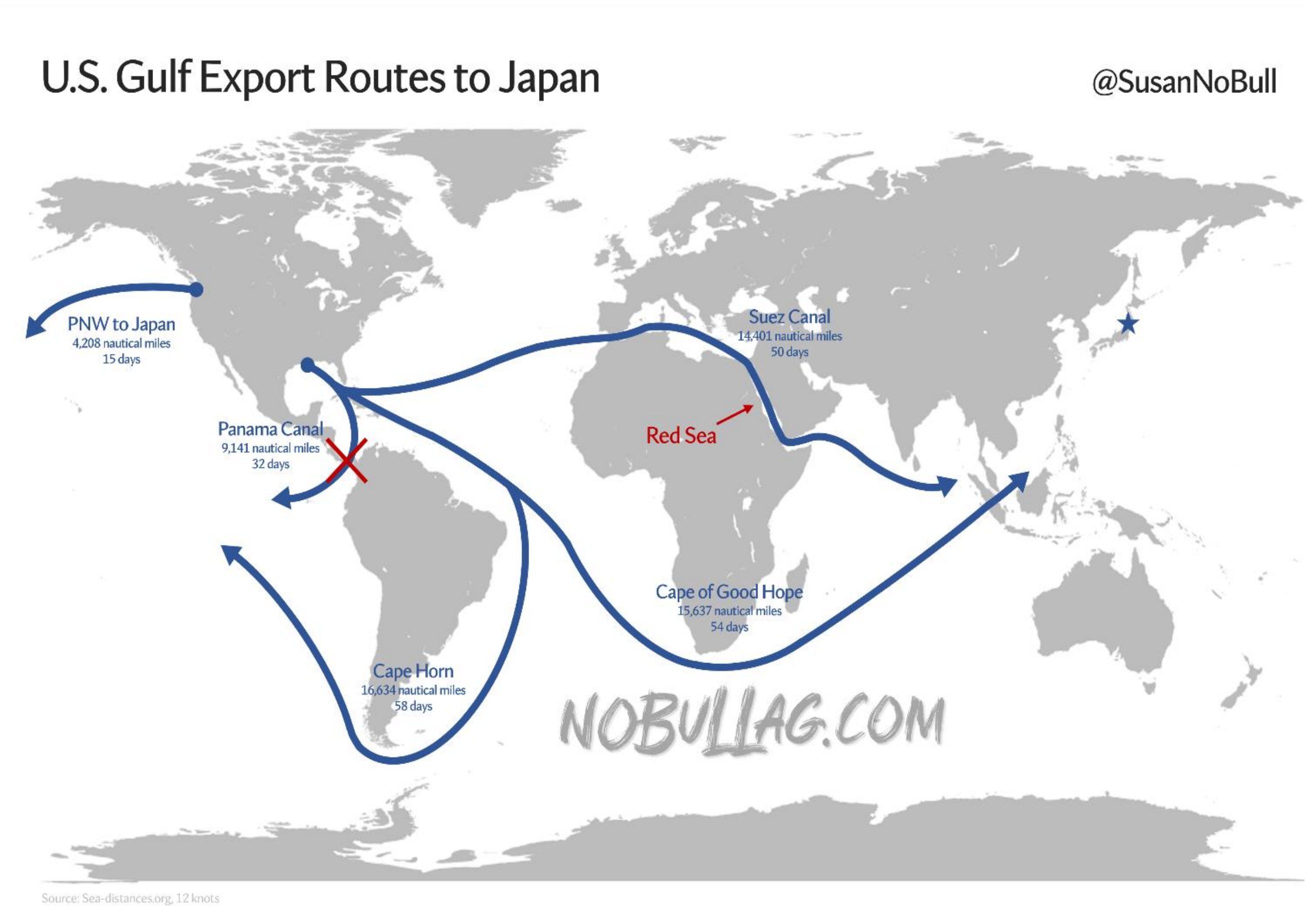


- **The last 7 days produced desperately needed rains** in the Southern and High Plains, and much better-than-expected rains in the Midwest, says Nutrien chief atmospheric scientist Eric Snodgrass. And he says the current weather is good for another couple weeks. "Mild overall until the pattern changes (which may not be until mid-January.) New multi-model forecast through the rest of winter. Still looking like a "back-half-weighted winter" with the access to colder air holding off until later in January." Why? Snodgrass says, "December's temperature pattern is aligning very well with typical El Niño temperature patterns, but it is getting a lot of help from a near constant trough of cold air over Alaska. This will likely change in mid-January. Again, the best guidance I can offer is that winter 2023-24 will be "back-half weighted" meaning January through March will be much different than December." And Snodgrass also expresses some of his concerns about the weather:
  - ✓ We should expect the risk for much colder conditions to develop for mid-January to March.
  - ✓ Spring tends to be wetter across most growing regions across the US except the Pacific Northwest and the Appalachian Mts. This could lead to tight spring planting windows.
  - ✓ If the Atlantic stays as warm as it has been for the last 10 months and La Niña builds later in summer, the 2024 hurricane season could be much above average with a higher likelihood of Gulf of Mexico tropical development.
  - ✓ June to September could see drought development across the South (from the Southern Plains to the Southeast and up the East Coast) while the Cornbelt tends to see a lot of ridge riding storms.
- **The critical El Niño monitoring region** in the equatorial Pacific, Niño 3.4, has registered a 30-day anomaly of 2.0˚C above average for the first time during this El Niño event. However, all climate models indicate the current El Niño waning this spring. And, quite interesting, models indicate increasing chances for the development of a La Niña by summer. There is a 100% chance for El Niño until spring, but only around 10% during the summer. Meanwhile, chance for La Niña increase to 44% by summer. Taking a look at past El Niño events indicates a quick return to an La Niño is not all that unusual. In fact, odds actually favor a return to an La Niña the following winter after a strong El Niño.



Trade and International Issues--

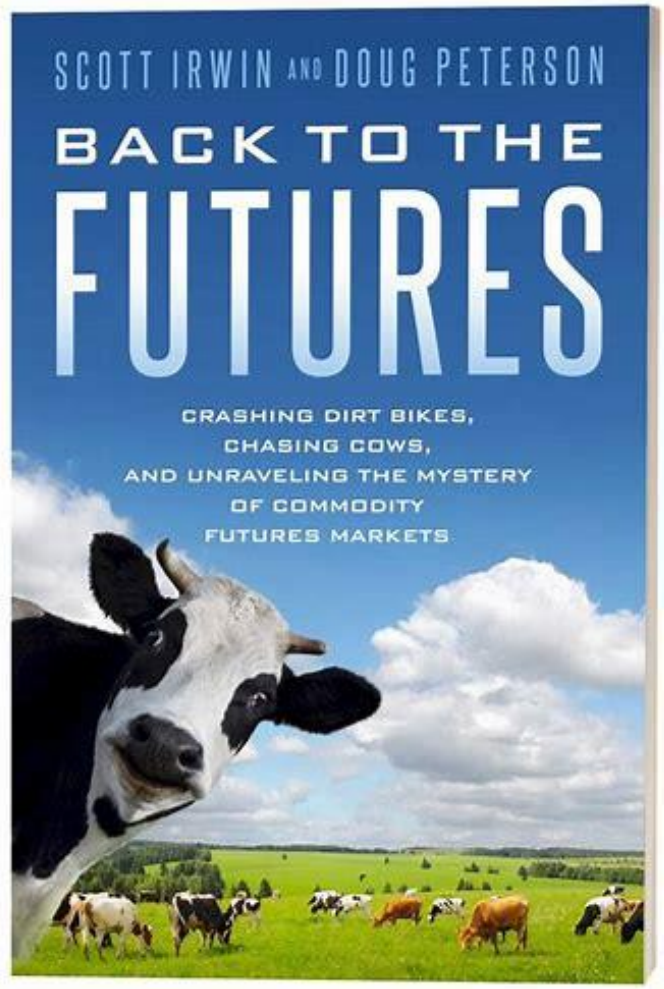
- **Agricultural commodities** will be among nearly all goods subject to major changes in global trade flows from one continent to another. And that means changes in cost of transportation, which either makes prices higher for the destination port, or prices lower for the departure point. While drought problems are limiting grain freighters passing through the Panama Canal between the Gulf ports enroute to Oriental destinations, rebels firing rockets are limiting trade via the Suez Canal. And that was the prime alternative from US Gulf ports to oriental ports. Susan Stroud of [NoBullAg.com]() provides the illustration with high mileage alternatives.



Many of the world's biggest shipping lines, including [Maersk, Hapag-Lloyd and MSC have started diverting vessels]() from the region. These new attacks are compounding disruptions to global trade already suffering from a historic drought in the Panama Canal. A containership traveling from the Far East to Europe takes 21 days via the Suez Canal but 42 days if going around Africa, according to the bank. A tanker from the Middle East takes 17 days to get to Europe using the Suez Canal but 41 days if going around Africa. Repeated disruptions to key trading routes are bad news for global trade and consumers.

Farm Folks—

- **If you know of anyone who grew up on the farm,** there is a book that will be quite reminiscent of the shenanigans played by farm boys, as well as reminiscent of how they managed to escape serious injury. And all of that is linked to how the futures market was developed in the US. The book is entitled "Back to the Futures," and was written by IL ag economist Scott Irwin, who grew up on an IA farm with a risk-loving best friend, and Scott's father who liked speed and racing. The book would make a great holiday gift or birthday gift, or a wintertime read for anyone curious about what goes through the mind a farm boy. A visit with Scott about the book can be seen on this short video. It is also available in both print and audio book form, both on Amazon. Whether you want to know the details of what goes through the mind of a farm boy, or how today's futures markets evolved, they are both in the book and related to each other in genius form by Irwin and co-author Doug Peterson.



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