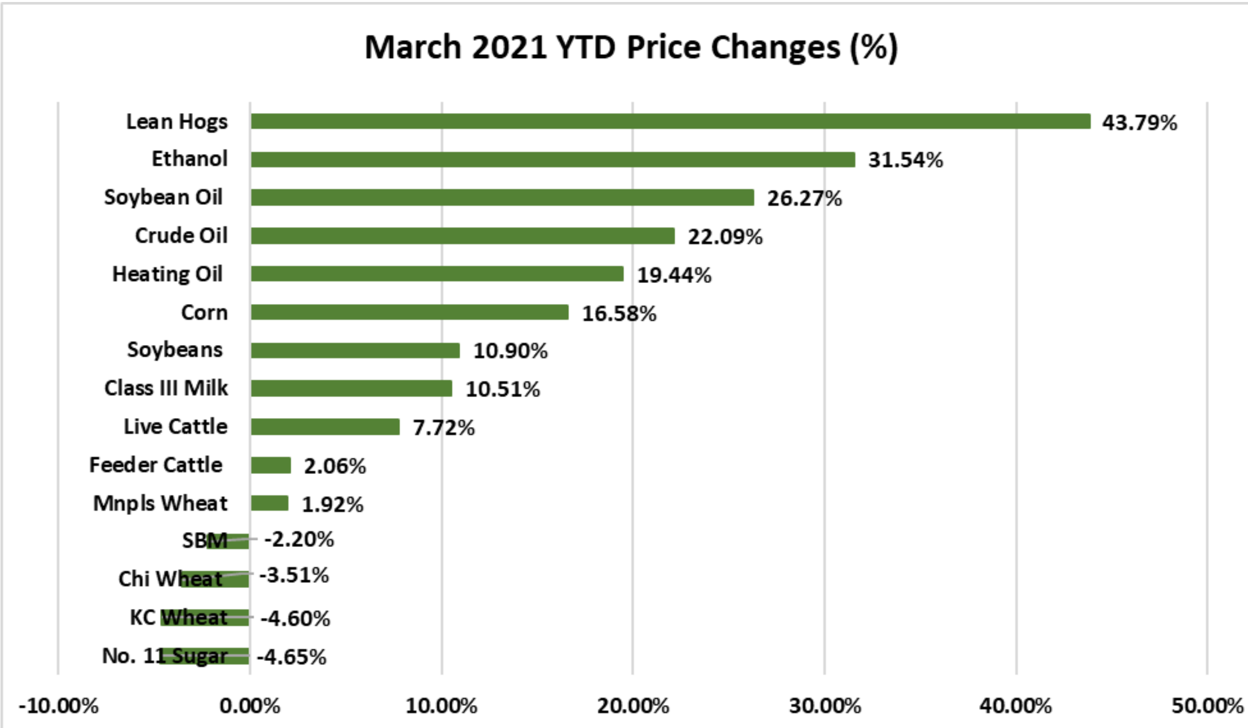
March 2021 Market Update



Corn

The arrival of March marks a transition time in grain markets with attention torn between current old crop concerns and growing consideration of new crop fundamentals. This March did not disappoint. While the United States Department of Agriculture World Agricultural Supply and Demand Estimates (WASDE) numbers were unchanged from the month before, export sales were stellar. In all, six sales were large enough to require USDA to report them through the daily system. Those sales are outlined below:

Date	Marketing Year	Amount (mt)	Destination
03/16/2021	2020/2021	1,156,000	China
03/17/2021	2020/2021	1,224,000	China
03/18/2021	2020/2021	696,000	China
03/19/2021	2020/2021	800,000	China
03/25/2021	2020/2021	111,000	Japan
03/30/2021	2020/2021	100,800	Unknown

First, note the destination on the vast majority of these purchases continues to be China. Secondarily, none of those sales over the four-day period mid-March registered on the list of top 10 export sales ever. However, the total of those four sales (3,876,000 metric tons, or roughly 152.5 million bushels) would have been the number one export sale on record, beating out a 3.7 million ton sale to the USSR in January of 1991. Interestingly enough, the second sale on the list of largest ever came in January of this year (to China), as did the number seven sale on the list (also in January, to China)

At this point, it appears USDA may have to adjust their export demand number higher. The timing of that increase is somewhat questionable, as these are sales, not shipments. Theoretically, they could still be cancelled, and USDA may wait before making any major moves. Regardless, demand for old crop bushels remains strong as we head into the last half of the old crop marketing year. South American production will play into that somewhat, with harvest there expected primarily in June.

Switching to new crop analysis, the market received its first official estimate of acres for the 2021 season. This is the first survey-based estimate that USDA releases, serving as a benchmark going into the production season.

At this time, USDA is projecting 2021 corn acres at 91.14 million acres, up slightly from 2020. This was a big surprise to the trade that was looking for a number closer to 93.2 million acres. This is particularly true given far better planting conditions and more attractive prices. As to where those “additional” acres went, the trade is uncertain. There is some speculation that USDA statistically is skewed on prevent plant numbers because of the oddity of the past two years. However, that is simply speculation at this point as USDA does not specifically forecast a Prevent Plant number, it is only implied. At 91 million acres, the 2021 corn balance sheet remains steady with the 2020 crop season. That will create some very interesting spread dynamics for the next few months as the crop goes into the ground. Producers (and their lenders) should also be aware that volatility in the grain markets is unlikely to cool anytime soon, which may stretch hedge line limits for some.

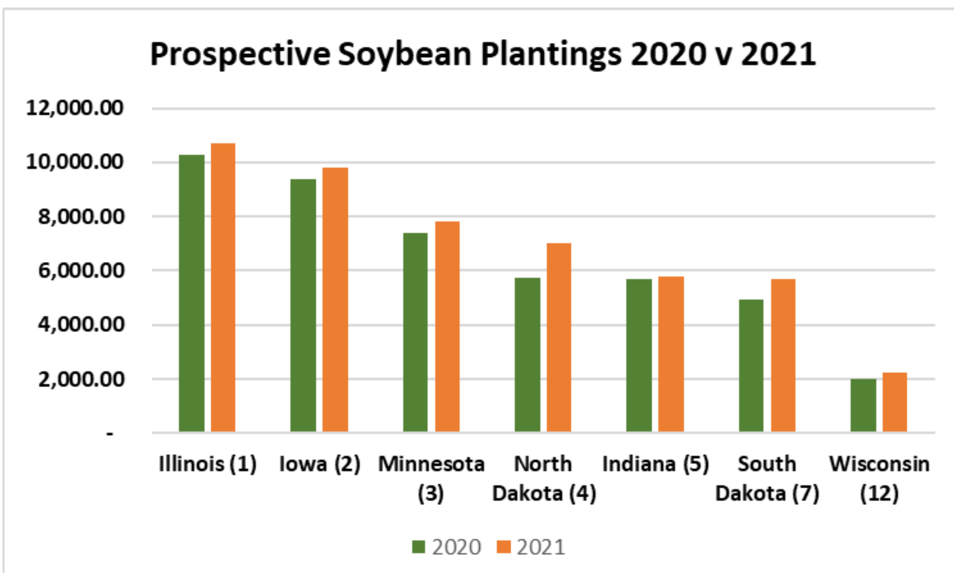
Soybeans

If corn markets saw additional demand, soybean markets are seeing their seasonal slowdown with Brazil officially taking over as the world exporter of soybeans. With this change, export programs off the Pacific Northwest have officially ended. It would be easy to assume that basis levels in North Dakota, South Dakota and Minnesota would cool accordingly, but this would be incorrect at this time. The exceedingly tight balance sheet (stocks to use ratio remains just below the low seen in 2013) means soybeans from all over are now being used to fill the needs of soybean crush facilities. For our local service area (LSA), this largely means Ag Processing Inc. (AGP) plants at Aberdeen, South Dakota and Dawson, Minnesota, as well as South Dakota Soybean processors in Volga, South Dakota and CHS and ADM plants in Mankato, Minnesota.

Basis levels remain historically narrow, although the inverted markets are a hot potato that few merchandisers are going to want to deal with. Available beans going forward will be an issue and any end users of soybean meal should communicate very closely about their needs for the last quarter of the 2020 marketing year. No changes were made to the 2020 balance sheet in the monthly WASDE report, but the market feels little relief.

As for new crop, traders were very sensitive to the release of Quarterly Grain Stocks and Prospective Planting numbers released March 31st. Like corn, the Quarterly Grain Stock number held little surprise and was nearly identical to the average trade expectation pre-report. Also, like corn, intended soybean acres were well below what the trade expected. Currently, USDA is projecting 87.6 million acres of soybeans, up substantially from 2020, but well below the 90 million acres the trade was looking for.

Here is a look at a state-by-state breakdown of some of the major producing states, as well as all states in our LSA (number after the state indicates rank by planted acres):



The largest increases are consistently located in our LSA. Specifically, North Dakota and Minnesota, although Wisconsin is looking for a small increase. South Dakota is not in our LSA, but was included because some producers do farm in that state.

The problem with this acreage projection, at least as far as the market is concerned, is that it is simply not enough. Using 87.6 million acres and a trendline yield of 50.8, as well as the demand projections from the February Ag Outlook Meeting, the resulting carryout would be 25.8 mbu. To put it another way, that is about two days' worth. Because of that, the market will now be entering a new phase where its goal will be to: 1. Attract additional soybean acres for 2021 and

2. Start destroying demand. While this sounds very profitable for producers (and should be!), like corn, the industry needs to be aware of the impending volatility for hedgers as well as the longer-term implications to demand.

Wheat

Of the three major grains, wheat has lagged price wise. That impact can be seen on the performance year-to-date chart at the top of this report. Earlier this year, wheat was hanging around midway through the list of commodities but has, for the most part, sorted itself to the bottom.

There's a combination of factors at play here. First, wheat has moved into the last quarter of its marketing year, which ends May 31st rather than August 31st like corn and soybeans. Therefore, the risk of a major downside swing in projected carryout is fairly minimal. Further, the Quarterly Grain Stocks report was higher than expected, indicating a possible revision higher in the April WASDE report.

As for new crop, wheat also had a higher than expected amount of planted area. Interestingly enough, this was a revision higher in winter wheat area, with some late reported acres being added into the January prospective planting number. Remember, wheat runs a little different report schedule than other crops. Below is the class-by-class breakdown in acreage:

	Pros. Plantings	Trade Average	2020
All Wheat	46.358	44.971	44.349
Winter Wheat	33.078	31.811	30.415
Spring Wheat	11.740	11.644	12.250
Durum	1.540	1.641	1.684

As you can see, winter wheat total plantings ran about 1.2 million acres more than expected, and well above the 2020 level. Spring wheat was slightly higher than expected, but down from 2020. Durum was short of both.

Weather is important at this point. Drought areas of the southern plains have improved substantially, with drought virtually erased in most of Kansas and Oklahoma. While there's undoubtedly some issues with fields that were stressed early on, at this point condition scores are quite respectable with 50% rated good to excellent in Kansas and 62% good to excellent in Oklahoma.

Sugarbeets

While the March WASDE report held no change for U.S. corn, soybean or wheat balance sheets, the sugar outlook did improve. This tightening of the bottom line came despite additional increases in projected production with USDA raising figures from 9.31 million tons to 9.37 million tons. The increase was roughly two-thirds from beet sugar production and one-third from Louisiana cane sugar production. Texas saw a small decrease - likely due to the weather in February. Instead, projected lower imports were the highlight of the balance sheet, falling 282,000 tons from February. Overall, total supply was reduced by 220,000 tons month-over-month.

Demand was weakened by lower food deliveries, but none the less, total projected ending stocks are now 1.848 million tons, down from 1.993 million tons last month. Accordingly, the stocks to use ratio falls to 15.1%, although that's still higher than the past two years.

As for the 2021 outlook, there are no widely published expectations on planted area. What we do know is that USDA National Agricultural Statistics Service (NASS) data indicates sugarbeet acres are expected to rise to 1.169 million acres, up 7,000 acres from 2020. The largest increases are expected in Minnesota (up 8,000 acres) with North Dakota and Nebraska each expected to add just under 2,000 each. Other states projected to lose production area were Montana and Wyoming. Balance sheet estimates at this time are nearly impossible, as Mexican export limits are expected to be adjusted in the near future. The very preliminary carryout estimate (that was made prior to the prospective plantings report) was 1.679 million tons and a stocks to use of 13.5%, roughly equal to the 2018 crop year.

Dry Beans

The 2020 dry bean market has been largely stable with little change in the past month. Published bids for the major classes of dry beans (pintos, navies, blacks, and kidneys) were largely unchanged and likely to stay quiet through the planting season.

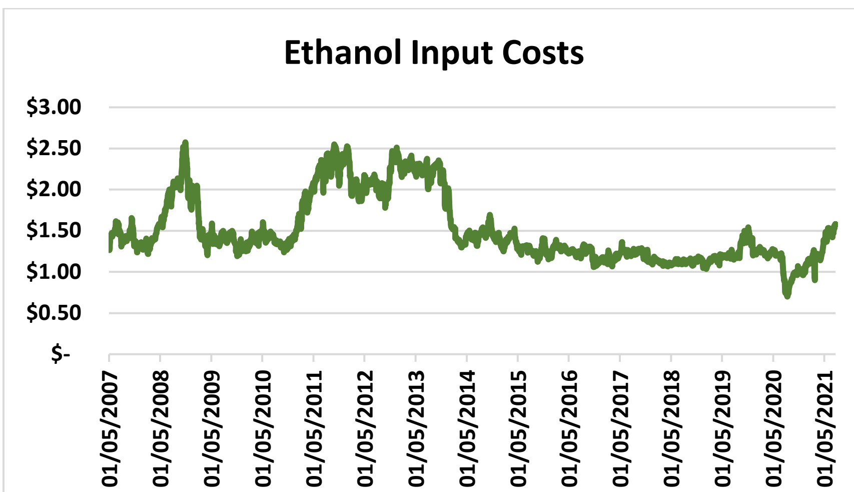
As for the 2021 crop, contracts have been offered but attractive prices for competing crops served to draw attention away from specialties as a whole. Dry beans were no exception with USDA's prospective plantings report showing U.S. growers planning to put in 200,000 less acres of dry beans than last year. Currently, no class by class breakdown is available. Traditionally, however, these "lost" acres would come from pinto and black beans where production is less intensive, and growers tend to have more flex. On a state by state breakdown, Minnesota is projected to plant 230,000 acres of dry beans, compared to 275,000 last year. North Dakota is projected to plant 770,000, down from 815,000 last year. In both cases, area still exceeds the low acre mark of 2019.

Conversely, lentil area in North Dakota is expected to rise by 15,000 acres, while dry peas lose 100,000 acres. A class-by class-breakdown will be available from USDA this summer.

Ethanol

Ethanol profitability continues to improve as the U.S. emerges from the now year-long COVID-induced lockdown. While some limitation in travel, etc., still exist, people are showing far more willingness and eagerness to travel. As of late March, the U.S. Energy Information Administration (EIA) is showing total gasoline demand down just 2.63% from pre-COVID levels. Further, the U.S. ethanol production is now down just 3.4% from pre-COVID levels. As you can see from the graph at top, ethanol price has responded accordingly and is up roughly 30% on the year.

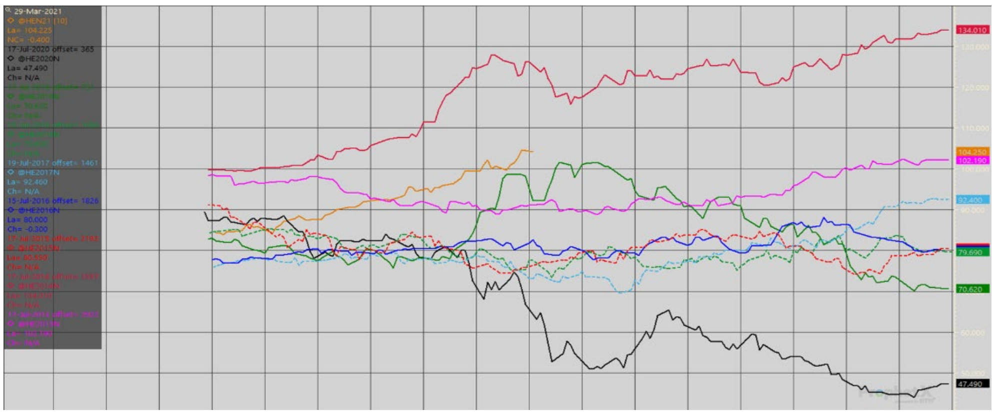
Unfortunately, while ethanol prices themselves have recovered, the prices of primary inputs are also much higher. Corn and natural gas, specifically, have risen sharply. Below is a graph of estimated input costs from Iowa State Center for Agricultural and Rural Development. This chart goes through March 26th, 2021:



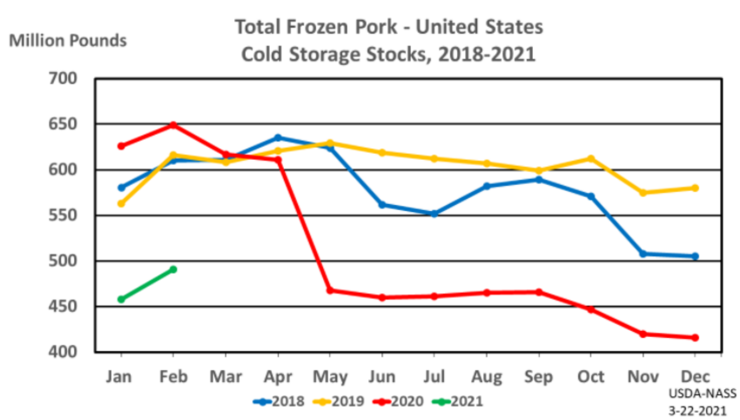
As you can see, while ethanol prices have risen, inputs have as well. Overall, profitability has improved, but it is still very borderline for many plants. ADM has announced they will be adding back two mills into production, but the industry remains somewhat insecure. With little respite in corn prices in the immediate future, it would appear that remaining in breakeven to loss mode will remain the tone for the immediate future.

Lean Hogs

Lean hog prices were a sleeper early in the year. They were, however, historically "higher" but not moving as much as one maybe would have expected given meat stocks. That quietness disappeared in the month of March, as the approach of seasonal demand and little growth in freezers came to the forefront. While prices remain well below the highs of the 2014 PEDV-induced rally, as you can see from the chart below, the July 2021 contract (orange line) offers some opportunity for hog producers:



Further, the quarterly hogs and pigs report released March 25th was a bullish surprise, with nearly all inventory categories coming in less than the trade expected. This was not true just for the most immediate 180 pound plus category (which was 97.5% of last year, compared to expectations of 98.8%), but for every single weight category down to pigs less than 50 pounds. In fact, the trade was looking for some small expansion at that weight, with pre-report estimates of inventory at 100.2% of last year, but instead say a 98.2% number. Planned farrowings were also less than expected, all the way out to the June-August timeframe. In short, it appears at least for the intermediate timeframe, freezer inventory will not be improving. To emphasize where we are, below is a look at how total frozen pork inventory compares to levels the past three years:

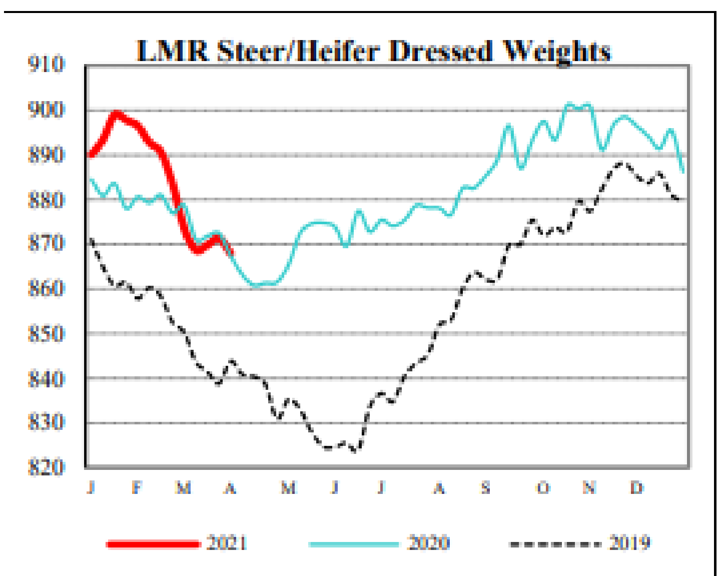


As strong as all this sounds, there are some complicating factors. First, export demand. The U.S. has sold an incredible amount of pork into the export market, partially to China directly, and partially as a backfill for other countries that are currently not exporting due to ASF. That demand could curtail very quickly and is subject to some political influence. Second, feed prices remain high. While that will limit carcass weights and probably expansion plans, it's a damper on profitability so producers will still have to carefully manage their bottom line in order to take advantage of higher pig prices.

Feeder Cattle/Live Cattle

The cattle industry remains at a disconnect with other ag markets, in more ways than one. Prices for both fats and feeders have increased, of that there is no doubt. Unfortunately, that increase is not proportional to other commodities and is resulting in continued margin compression throughout. Additionally, while box beef prices have been, and remain strong, that strength has not been passed down to the producer level. This is a flashpoint for the industry that is not likely to go away and is, unfortunately, resulting in several different factions. The detachment of cash from the futures market makes the current environment difficult to protect and is likely to result in continued consolidation.

As for the immediate outlook, the good news is that weights are now roughly even with last year at this time after running heavy for almost a full year:



The above data is from the USDA AMS National Daily Cattle and Beef Summary from April 2, 2021. Obviously, further adjustment is needed to be back in line with "normal." High-priced feed will take some of that edge off, but increased kill capacity (along with several other pricing adjustments) would go further.

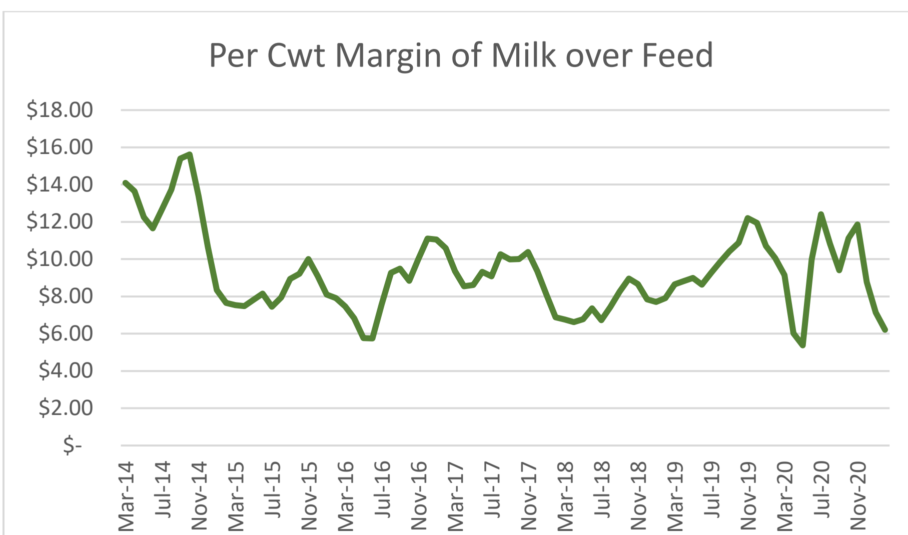
Longer term, there has been some small herd liquidation through 2020 as evidenced by the Annual Cattle Inventory report in January (total inventory down 0.2% from 2021). The February Ag Outlook report from USDA projected herd rebuilding to begin in 2022, but that, as always, will be weather dependent. Drought over the northern plains and encroaching on the southern plains could extend that cycle and will be watched closely this summer.

USDA WASDE March estimates reflected slightly higher beef production estimates for the whole of 2021, with total production estimated at 27.58 billion pounds, compared to 27.54 billion in February's report. Regardless, exports are expected to rise over 6% in 2021, resulting in higher projected prices for beef in quarters two through four of 2021.

Dairy

The dairy industry appears to be on the edge of a down cycle, which sounds particularly painful after last year's COVID-induced challenges. However, the January inventory report showed total cow numbers up 1% compared to 2020, but also with less heifer retention than a year prior (down 1%). Further, demand itself has been at times questionable and feed prices show no signs of turning lower. The uncertainty alone is likely going to be enough to stem any planned herd building.

Below is a chart comparing the price of milk to feed costs and where the industry sits historically. This chart does not include some large variable costs, such as labor. It is meant only to illustrate one of the current pressing challenges to profitability on a national level (local levels will vary substantially depending on basis levels for milk, etc.):



In terms of product price, in March, USDA raised its projected 2021 price for butter to $1.615 per pound, up from $1.455 per pound in February; Nonfat dry milk price projections were raised 1.5 cents a pound to $1.14, and dry whey prices were raised 2 cent per pound to $.50 per pound. Cheese prices were left flat and down from 2020. Projected prices for Class III milk were raised 15 cent per cwt to $16.75; Class IV prices were raised 75 cent per cwt to $14.45 and all class milk prices were raised 60 cents per cwt to $17.75.