AgCountry Farm Credit Services
NOVEMBER 2021 MARKET UPDATE
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Corn

The harvest December 2021 contract finished 12 cents off its highs for the month of November, but also 19 cents off its lows, both set in the first half of the month. Regardless of the volatility, futures remain around the top 25% of prices offered over the life of the contract with northwestern cornbelt basis values historically strong. Additionally, the December 2022 contract has received more attention than typical due to skyrocketing input costs.

Fundamentally, the November World Agricultural Supply and Demand report provided few surprises. Corn yields were raised a half bushel from the October estimate to 177 bu/ac, which will be a new national record if it stands in the January final production numbers. On a state by state basis, Minnesota showed the largest increase from October, up eight bushels to 186 bushel per acre and up 20 bushels from the original August estimate. South Dakota was up four bushels while North Dakota increased one bushel to 108 bushels an acre. Record yields were predicted for the majority of the eastern cornbelt, offsetting some of the lower yields to the north and west.

On the balance sheet proper, USDA's domestic balance sheet reflected the near profitability of ethanol, increasing corn demand to generate the product by 50 million bushels. All other categories remained steady. Of note, total exports for the 2021 crop remain at 2.5 billion bushels, which is down from the 2.753 billion recorded for the 2020 crop. While this drop is significant, it still represents the second largest export demand number behind last year and just topping notable years 2007 and 2017. At this time the projected carryout for 2021 is 1.493 billion bushels for a ending stocks to use ratio of 10.07%. USDA kept the projected market year average price on the 2021 crop at $5.45 per bushel. If this price is realized, it would represent the 5th highest national average price in the last 30 years.

Globally, USDA's numbers were less supportive with projected world ending stocks coming it at 304.42 million metric ton, an increase of 2.68 mmt from last month and well above the 300.82 mmt ton expected by the trade prior to the report. Of note, there was the small uptick in U.S. production (noted above), plus an increase in Argentine and EU production for the 2021 crop year. The EU is anticipated to use more feed corn while both Argentina and EU are anticipated to sell more into the export market. China is expected to carry 210.68 mmt into the 2022 crop year, representing around 69% of the worlds corn stocks at year end. The validity of this number remains in question following their upwards adjustment in 2017 just prior to opening trade negotiations with the U.S.

Soybeans

U.S. soybean futures remain range bound in November but received moderate support after USDA unexpectedly reduced the projected yield for the 2021 crop. The 2021 November national yield estimate from the National Ag Statistics Service was 51.2 bushels an acre, well below the 51.9 bushels the trade was expecting pre report and also below the 51.5 bushel an acre estimated in the October report. Notable changes were an increase in projected Nebraska yield by 1 bushel to 62 bushel an acre (a new record) with South Dakota and many of the Delta states also up one bushel an acre. Lower revisions included a bushel an acre less out of Iowa to 60 bushel an acre (which ties a record) and a two bushel an acre revision lower to Ohio's state yield to 56 bushel an acre, also a record. Kansas was revised one bushel lower. Minnesota and North Dakota were both unchanged from October's estimate at 49 and 26 bushel an acre, respectively.

Despite the lower-than-expected production estimates, demand weakened in the November report. USDA reduced projected exports of the 2021 soybean crop by 40 million bushels to 2.05 billion bushels. This is less than the 2020 record export year but still historically respectable. The reduction also means that soybeans are within the pace needed to meet the projections, especially given how seasonally front-loaded U.S. soybean exports are. No change was made to projected crush amounts, although the December WASDE (which provided little to no change for corn or soybeans) did raise the amount of soybean oil yielded through the crush process. The projected market year average price for 2021 soybeans was reduced by 25 cents per bushel in November to $12.10 per bushel but was left unchanged in the December estimate.

Global estimates by USDA in December noted a very small reduction in global carry in from 2020 but reduced expected 2021/2022 production by 2.3 million metric ton to 381.78 mmt. This reduction was entirely on the part of China with no other production estimates altered. Chinese crush demand was reduced by 1 mmt. Anticipated carryout for the 2021/22 season is now at 102 mmt with a stocks to use ratio of 27.02%. This is very consistent with what's been estimated for 2019 and 2020 crop years. As we get further into the South American production season USDA will make further adjustments, very possibly starting in the January WASDE release. Major South American shipment season for soybeans traditionally starts in February, although port bids in December for January shipment as of this writing are competitive with U.S. Pacific Northwest port bids.

Wheat

Chicago and Kansas City wheat futures peaked in mid-November before returning to levels of late October. More specific to AgCountry's lending service area, the Minneapolis Hard Red Spring contract hit a high in mid-November and has consolidated near that level ever since. This widening in the spread of hard red spring wheat compared to other classes is reflective of their individual balance sheets. The all-class balance sheet has tightened for four consecutive years and the U.S. remains at a 28.82% stocks to use ratio. This higher than the last low of 24.22% seen in 2013. For the Hard Red Spring balance sheet specifically, the carryout has grown over the past two months on lessening export demand (high prices are doing their job), but the projected stocks to use ratio remains at 29.33% in the December estimate. That's nearly identical to the number seen in 2013. The record low for hard red spring wheat was seen on the 2007 crop when the stocks to use shrunk to 12.43%. Further of note, the durum balance sheet is currently at 18.28% stocks to use ratio for the 2021 crop year which is the lowest since that same 2007 crop year.

The U.S. winter wheat crop is largely located south and west of AgCountry territory but a comment is appropriate due to its influence on overall wheat price. According to USDA-National Ag Statistics Service, the U.S. winter wheat crop entered dormancy in less than ideal shape. Ratings the last week were the lowest since 2012, although they remain well above that year. Long term forecasts for the

Pacific Northwest in through Montana have an average chance of precip this winter season. Forecasts for the Southern Plains appear drier than normal. Please note condition of the crop going into dormancy is not well correlated with final yields. However, due to the tightened U.S. balance sheet, winter precipitation patterns will be watched more closely than usual.

Globally, noted changes on the noted changes in the December WASDE were 2.6 mmt of additional production during the 2021 crop year. This production is attributed to a 2.5 mmt expected increase for out of Australia. If the 34 mmt projection is realized, it will be a new record for the country. Smaller increases were seen in Canada, Russia, and the European Union with a small decrease for the middle east. Increases in demand were noted for Australia, Russia and Southeast Asia while the middle east increases imports to offset the lower production number. Due to political issues as well as the proximity to major wheat producers like Russia and Ukraine, the U.S. is likely to be excluded from the additional import business. Of risk to the global market is continuing political unrest between Russia and Ukraine that has the potential to interfere with port operations in the event of increased aggression. Overall, ending stocks rose 2.38 mmt from the November report but remains 11.46 mmt less than last year (a decrease of 3.95%).

Sugarbeets

USDA's December WASDE offered a few changes for both the 2020 and 2021 balance sheets. On the 2020 crop year balance sheet, USDA increased the amount of sugar consumed domestically for food use by 26,000 mt tons compared to their estimate from November. With no other changes, that reduced the official carryout for the 2020 season to 1.7 million short tons. That smaller number was then carried into the 2021 balance sheet for December.

While production does not typically change for major crops like corn, wheat and soybeans in the December WASDE, USDA does offer production changes in other more minor crops. This was true for sugar with USDA reducing total production by 92,000 tons compared to the November estimate to 9.241 million tons. The reduction came from both beet and cane production; beet sugar production was down 20,000 short tons with Louisiana cane production dropped by the remaining 72,000 short tons. Imports from Mexico were reduced by 19,000 short tons but "Other" high tier sugar and syrup imports were raised by 31,000 tons. Total estimated domestic sugar supply for 2021 was 14.02 million tons compared to 14.12 million tons in November. Usage of the 2021 crop was unchanged so estimated ending stocks came to 1.678 million tons. The estimated stocks to use ratio is 13.6%, down from 13.8% in 2020 and the 14.3% USDA projected in November.

Dry Beans

Dry conditions and reduced acreage from 2021 have kept U.S. dry bean prices stronger to much stronger than last year. Due to the limited production nature of this crop, USDA has not provided updated production estimates since October, with the next release expected with the final numbers in mid-January. At that time, total dry bean planted area for 2021 was estimated at 1.399 million acres, down from 1.740 million acres in 2020. The projected average yield for all classes and types, excluding chickpea, was estimated at 1,686 pounds per acre, down from 1,966 pounds per acre in 2020. These changes dropped total production by 31% from the year prior.

Production in North Dakota (the largest production state) was estimated to fall by 52% to 5.952 million pounds compared to 12.794 million pounds in 2020. Minnesota, the third largest production state, saw a more moderate projected decline of 10.3%.

Published prices in the daily Dry Edible Beans Daily Grower Bids report by USDA-AMS continue to show historically strong prices through December. Major bean classes of blacks are averaging $46.50/cwt while pintos are showing an average bid of $45.00/cwt. These bids are up $20.50 and $17.00/cwt from 2020, respectively. Dark Red Kidney, located primarily in MN are also stronger, quoted up $8.50/cwt from 2020 to $46.50 while Light Red Kidneys were up $3.50/cwt to $45.00

Contracts for the 2022 growing season have not been released and typically are not until mid to late January. However, with tight supplies and high prices in competing crops, it is anticipated that offers will remain strong.

Ethanol

The fourth quarter of 2021 has been a exceptionally strong for U.S. ethanol production with at least one new plant coming on line and industry returns as estimated by the Iowa State Center for Agricultural and Rural Development estimated at the highest levels since 2014. Figures under that model have shown returns of greater than $1 per gallon produced since November 1, a point that's only been exceed six times since the model began in 2007. Those timeframes were in 2007 (historically viewed as the initial industry boom), a short time in 2011, then four different periods between 2013 and 2014. Additionally, the average return on operating costs per gallon over the life of the model has been $0.28/gallon produced

This profitability can primarily be attributed to ethanol prices themselves running sharply above average as consumption rises coming out of the COVID-19 induced demand lull. Total stocks of ethanol did build slightly through November in to December but production remains well below summer and year ago inventories (Same week data from 2020 shows inventories of 22.950 million barrels with production of 957,000 barrels per day; 2021 number indicate inventories of 20.464 million barrels with production of 1.09 million barrels per day – based on week of Dec 8 data)

Also of note, the Environmental Protection Service (EPA) released renewable fuel obligations early in December. Those numbers were released retroactively for 2020 at 17.13 billion gallons, down from the 20.09 billion set in the finalized rule before COVID-19 sent energy markets spiraling. This was not a shock to the market as it was in line with previously leaked data but still well below the peak 19.92 billion gallons of biofuel. Requirements for 2021 would then be 18.52 billion gallons and rise to 20.77 billion gallons in 2022. For the conventional biofuel category that is largely corn based ethanol, EPA has mandated 12.5 billion gallons for 2020, 13.32 billion gallons for 202

Lean Hogs

Tough third quarter for lean hog contracts with the front month December trading to 10 month lows going into expiration. Some of this pattern is seasonal in nature with demand for hams and such generally filled in October to early November before tailing off. Total kill numbers are well off last years pace, which is not a surprise to the market given PRRS issues and production adjustments made following the COVID-19 market collapse. That said, live weights are coming in around 291 pounds, roughly equal to this time last year but about 8 pounds heavier than the 5 year average as reported by USDA-AMS Weekly Average Weight of Barrows and Gilts report. The next quarterly hogs and pigs report will be released at the end of December and will provide the market with updated numbers; however market consensus continues to be the pork industry is just barely undertaking an expansion plan.

This is supported by the December WASDE report which shows expected pork production for 2022 not rising above 2021 levels until at least the third quarter. Pigs finishing at that time would have been farrowed around the first of the year and bred in October at the earliest. At this time USDA is projecting total pork production in 2022 to total 27.595 billion pounds, below the current total of 27.733 billion pounds estimated for 2021 and well below the 28.303 billion produced in 2020. It is, however, up slightly from the 27.585 billion estimated in November. The lower production does lead to higher average projected prices by USDA-WASDE in Q1 of 2022, but other quarters are expected to average lower than 2021. The average projected price for barrows and gilts on a live weight basis for 2022 is $60 per hundredweight, compared to the $67.20/cwt estimated for 2021 but still well above the $43.18 realized in 2020.

One unknown in the market is the impact of California's Proposition 12 which mandates that all sow housing have certain space requirements that the vast majority of hog producers do not meet. Current lawsuits have upheld California's right to mandate such requirements for pork sold within its borders but it does raise the specter of too much pork in areas outside of California and extremely high priced limited supplies of pork within California.

<u>Feeder Cattle/Fat Cattle</u>

Very volatile cattle futures through November with January futures rallying $18/hundredweight before consolidating that move going in to December. Of further note is that despite the rally, feeder futures are showing more carry than we've seen in the past ten years for this time of the year. Live cattle futures on the other hand rallied through November before consolidating near the top of their range, in fact hitting two year highs on the continuous futures chart in late November. Cash prices at the bellwether five state area market are being reported between $135 and $140 for November and December (USDA-AMS National Daily Cattle and Beef Summary Report), a level $20 to $25 per hundredweight over the 5 year average.

The December USDA WASDE report, the elevated prices are projected to remain supported into 2022. Total U.S. beef production in 2021 is estimated at 27.895 billion pounds, up from the 27.885 billion pounds projected in November. However, supplies are expected to fall through next year with total 2022 production total 27.00 billion pounds, down 3% from 2021. The projected average 5 state area steer price for 2021 was raised by $1.25/cwt from the November report to $122.56/cwt compared to just $108.51 for 2020. Steer prices for 2022 are projected rise another $12.56/cwt to $135/cwt. The semi-annual cattle inventory report released in July reflected the beef cow production cycle getting underway, and updated numbers are scheduled to be released in January.

Dairy

Class III milk futures traded higher to sharply higher through November and into December. Holiday demand appears to be in full swing with midwestern cheese manufactures and fluid milk buyers offering cash prices steady to a $1 over Class III futures. USDA AMS Weekly Dairy Market News is reporting cream supplies are strong in the west to Midwest but tight in the east. The same report is also calling bulk inventories of butter tight with strong export interest. Monthly milk production reports by USDA reflect production in early 2021 well above that of 2020, with totals returning to near identical amounts by September and into October.

U.S. milk production is still expected to climb going into 2022, but the most recent projections have moderated from November. USDA's World Agricultural Supply and Demand report in December projected total U.S. 2021 milk production at 226.2 billion pounds. This was slightly lower than the 226.4 billion pounds projected in November. Total production in 2022 is estimated at 227.7 billion pounds, higher than the 2021 number but also down from the November estimate. The all class milk price as projected by USDA also firmed with the average estimated price for 2021 raised 10 cents from $18.50/cwt to $18.60/cwt; prices for 2022 were raised 50 cents from $20.25/cwt to $20.75/cwt

Product prices were also raised from last month: Cheese value estimates were raised a penny from $1.765 per pound to $1.775 per pound, up 10 cents a pound from 2021; butter raised three cents from $1.91 per pound to $1.93 per pound and up 21 cents from 2021.