AgCountry Farm Credit Services
JUNE 2022 MARKET UPDATE
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<u>**June 2022 Market Summary**</u>

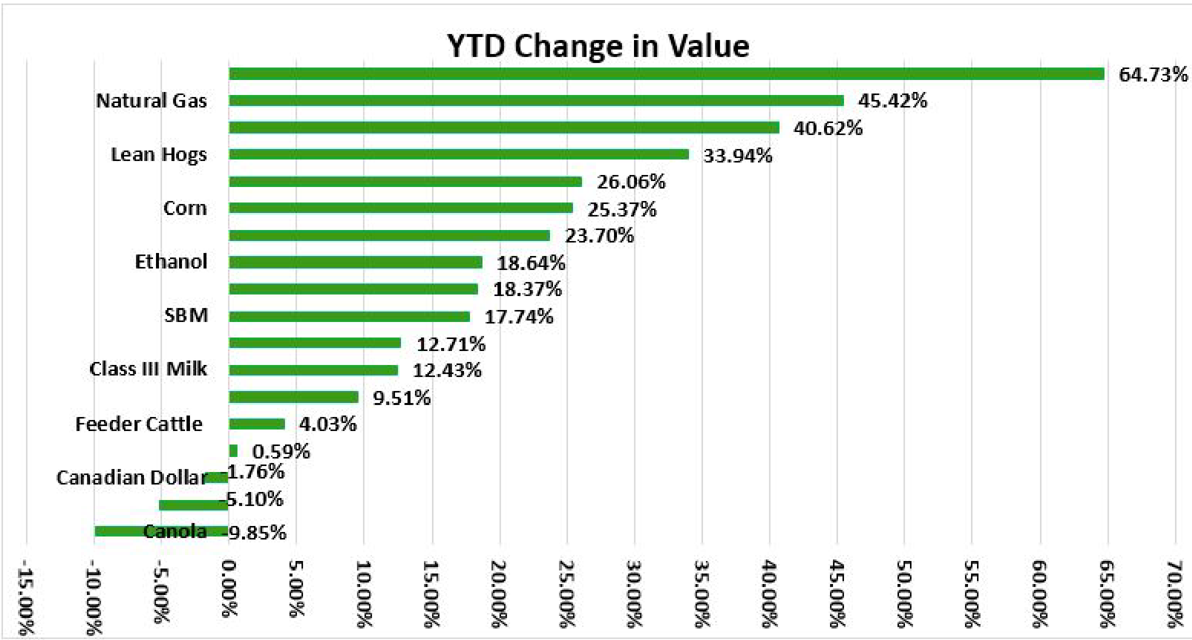

Figure 1. Represents front month, most active contract

Corn

It was an eventful second quarter of the calendar year for corn with a sharp split between old and new crop prices and plenty of volatility all around. Historically tighter supplies of old crop pushed nearby futures to the highest levels since August of 2012; new crop contracts initially followed, then weakened as acres got in the ground and forecasts by the end of June called for sufficient rains through much of pollination. End of quarter grain stock estimates from USDA National Agricultural Statistics Service were consistent with the trade's pre-report expectations. Nationally, positions of those stocks remain primarily in off farm locations. In the AgCountry territory more corn is being held on farm than off farm. This could indicate little to no cash stress on most operations in the territory and a tendency for basis levels to hold firm until closer to harvest.

Soybeans

U.S. soybean futures held relatively firm through Q2. However, an inverted spread between old and new crop futures was a defining feature here as well. U.S. Census data and USDA export inspection data both backed a late surge of export sales/shipments from the U.S., starting in February, as it became apparent that Brazil's crop was going to be less than originally thought. That trend continued into the second quarter. USDA's Prospective Plantings report on March 30th indicated that producers were planning to put just over 92 million acres of soybeans in the ground, much higher than the trade had expected. The June 30 Final Intentions report dropped the estimate to around 89 million acres of soybeans. Note the late planting in North Dakota, Minnesota and South Dakota means the USDA will resurvey planted area in those states in July and may revise numbers in August.

Wheat
The second quarter of the 2022 calendar year is also the final quarter of the 2021 wheat crop year. That means the June 30th stocks report is also the final carryout for 2021 wheat, which is now officially 660 million bushels. That's the lowest carryout number since 2014 and represents a final stocks-to-use ratio of 34.18%, the lowest since 2013. Spring wheat won't be finalized until the July World Supply and Demand (WASDE) report, but as of the June report, the carryout of 2021 is estimated at 112 million bushels, the smallest amount since 2008. The stocks-to-use ratio of spring wheat is 24.35%, the lowest since 2007 at 12.43%. USDA's Final Planting intentions showed that 11.1 million acres of spring wheat had been planted for 2022. Similar to soybeans, three of the major producing states are subject to resurvey in July due to late planting. Old crop spring wheat prices peaked in mid-May at $14.00/bushel before falling nearly $4.00 at quarter end.

Sugarbeets
With nearly 60% of anticipated U.S. sugarbeet acres located in North Dakota or Minnesota, the late spring raised some concerns about the 2022 sugarbeet crop. Private yield estimates have been reduced due to the late planting for both Minn-Dak, Southern Minn, and Crystal Sugar acres, but as of June 30th, it looks like the majority of acres are in. Over the course of Q2, USDA's WASDE report increased the projected carryout of 2021 U.S. sugar from 1.692 million short tons of sugar to 1.717 million short tons, although with rounding the stocks-to-use ratio remained at 13.6%. The June projection for the 2022 U.S. sugar balance sheet was just 963 million short tons and a tight 7.6% stocks-to-use ratio. The bulk of the reduction is due to lower beet sugar production estimates.

Dry Beans
Dry bean prices remain elevated compared to one year ago as the 2021 crop was heavily impacted by drought. The impact varies by class but is most apparent in black beans and pinto beans where reported prices to end Q2 were $45-46/cwt and $45-$48/cwt, respectively. For black beans, that's a $7-$8/cwt increase and a whopping $8-$11/cwt increase for pintos. Dark red kidneys are higher as well, although less impacted by drought due to location and irrigation tendencies. USDA's acreage report released on June 30th showed planted dry bean acres for 2022 at 1.281 million, down from 1.313 million estimated in March and down 113,000 acres from 2021. Minnesota is expected to reduce their year over year dry bean area by 45,000 acres in 2022, while North Dakota is anticipating an 80,000-acre decrease.

Ethanol Biofuels
Trading patterns for ethanol during Q2 of 2022 were very similar to that of crude oil with a historically high peak in mid-June followed by a sharp sell off into quarter end. Price levels in Q2 fell short of the record peak seen in November of 2021, but consistently traded at levels comparable to the period of 2011 to 2013. In terms of profitability, Iowa State's Center for Agriculture and Rural Development estimates that the average Iowa ethanol plant had a return over operating costs of $0.306/gallon produced, up five cents from both Q1 of 2022 and Q2 of 2021. This is despite the cost of corn per gallon of ethanol averaging $0.26 higher than Q1 of 2022 and $0.28 cents higher than Q2 of 2021. The price of crude oil will remain an important influence, but ongoing profitability means few if any plant closures are expected outside of routine maintenance.

Lean Hogs
Livestock futures, including lean hogs, traded a different pattern than grains and energies with prices peaking in mid-February, setting a low in early to mid-May, then staging a mild, grinding recovery into quarter end. On the other hand, Western Corn Belt-weighted cash prices peaked in early June and fell

slightly. Pork wholesale values remain well supported with year-to-date pork production down 3.5% compared to the same time period last year. The June USDA WASDE report is calling for more annual pork production than in May, but still down from 2021. Projected per capita pork consumption was also increased after previously showing a decrease from 2021. That increase is expected to continue into 2023 despite projected declines in total per capita red meat consumption. The same report also lowered the annual projected per cwt live equivalent price from May to $70.60/cwt, still $3.31/cwt higher than in 2021.

Feeder Cattle/Fat Cattle

Similar to the lean hog complex, feeder cattle futures and the cash market have not run in the same direction with futures peaking in February, hitting a low in early May, then rebounding. The CME Feeder Cattle Index, however, has hit new highs as we move into June with a seasonal tendency to continue climbing through year-end. The late Q2 collapse of corn futures likely contributed to some of the strength as feed cost projections became more moderate. Meanwhile, USDA's five area weekly average steer price is running roughly $20/cwt higher than last year at this time, and, at least at the end of Q2, appears to continue strong in a counter-seasonal move. There is some margin compression as weekly choice cutouts are trading below levels a year ago; however, given packer profits over the past few years, a slow in chain speed appears unlikely. USDA's June WASDE is calling for U.S. beef production to slow through 2022 and into 2023, with an accompanying drop in per capita consumption over that time frame. Projected five area direct prices are estimated to rise by $17/cwt from 2021 to 2022 with a $9/cwt jump estimated in Q4. Prices are expected to continue to rise into 2023.

Dairy

Class III Milk futures peaked in early May before selling off sharply into the end of Q2. However, on a product-by-product basis, the breakdown is clear that butter and cheese products have risen considerably through the end of Q2 while dry whey products struggled. USDA WASDE's June report continues to show 2022 milk production increasing from 2021, although estimates were trimmed back between May and June. USDA attributed the small decrease to slower growth in milk per cow than they had anticipated in previous reports. Further increases are anticipated for 2023. Demand for nearly all products remains strong. USDA's Class III projected milk prices show an average annual price of $22.90/cwt for 2022, which is much higher than the $17.08/cwt in 2021. Prices are projected to moderate back to $20.65/cwt in 2023, which is still historically on the high end of the spectrum.