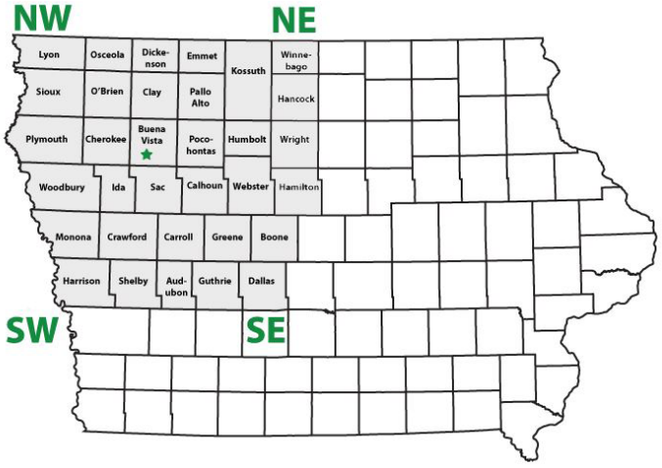
Stalcup Ag Service

Today's LAND OWNER

Summer 2019 Volume XL No 2

NW Iowa Progress Report



Northwest Crop Conditions (Chad reporting)

Weather troubles in this area started in late-March when heavy snow cover combined with rain and rapid warming caused extensive flooding. The worst hit areas were southwest of our region in Nebraska, but the Big Sioux and Little Sioux Rivers in NW Iowa also had major flooding. These were the same areas that flooded multiple times last year.

April and May were cold and wet. Much of this area received more than 15 inches of rain during that time, which is about twice the average amount. Standing water on farms with poor drainage was common. For the second year in a row the northern tier of this area had the heaviest rainfall amounts. This is also where planting was delayed the worst. More than half of the corn was planted after May 15th, and a large portion of the soybeans were planted in June. This late start will limit yield potential on both crops, but the weather during the second half of the growing season will also have an influence - good or bad. In the wettest areas, some farms intended to go to corn this year will sit idle. The "prevent plant" provision in multi-peril insurance coverage allows for a payment of 55% of the revenue guarantee.

The best crop conditions in this region are on rolling loess soils with natural drainage or the well-tiled farms. In both cases the excess water can drain away. Farms with good drainage have had a big advantage in recent years. Corn and soybeans that were able to be planted on time have good potential for the most part, even though they are still behind schedule from cool temps. To finish the season with the best possible outcome, we need warm enough weather to mature the crop before the first freeze, but not an intense switch to hot and dry as that would also be problematic for crops with shallow, underdeveloped roots.

Northeast Crop Conditions (Nathan reporting)

A lot of what Chad relates in the Northwest quadrant applies to this area as well, with 2019 starting where 2018 left off with continued wetness challenges.

Roughly ¼ of the corn was planted before May 5th, and this corn, after a slow start, is now taking off. Stands are good, with very little drown out. May was a tough month, with much cooler than normal conditions and frequent, but not excessive rains. Any corn planted in a small window mid-month struggled with emergence, and it is easy

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Stalcup Ag Service

Today's LAND OWNER

Stalcup Ag Service, located in Storm Lake, Iowa is an employee-owned partnership that has prospered by serving farm management, real estate, and appraisal needs of Northwest Iowa farm owners since 1942.

Stalcup's Team

Rex Wilcox, AFM
Kent Smith, AFM
Dennis Reyman, AFM, ARA
Nathan Deters, AFM
Chad Husman, AFM
Travis Nissen
Grant Aschinger, AFM
Dan Niemeier, AFM

Contact Us

Stalcup Ag Service, Inc.
1705 N Lake Ave
Storm Lake, IA 50588
Phone: (712) 732-4811
Fax: (712) 732-7371

stalcupag.com
stalcup@stalcupag.com

Today's Land Market

Dennis Reyman, AFM, ARA

Over the past decade it has been common to see an active land market all twelve months of the year. Prior to that, it was common for spring to be very quiet for land activity. April, May, and early June would see only a handful of sales around the region. By late June, activity would begin to increase as estate settlement sales would begin again, with increasing activity each month thereon.

2019's activity has been somewhat of a reversion to the "old days" with few public auction offerings during the spring months. We did see several auction sales in April, mainly in the northwestern-most counties of the state, but tracked only one public auction in our territory for the month of May. Limited activity resumed beginning in mid-June.

Results of the sales we have seen have remained at price levels which we consider "steady". Those sales of good land in the northwestern counties ranged from $10,500 to $14,200 per acre. It is worthwhile to note that the size of these tracts ranged from 55 acres to 88 acres, putting those purchase prices between $781,000 and $1,163,000. Purchase prices of $1 million or less will find more potential buyers these days than those exceeding that level by very much. Sales in other areas brought $7,000 to $9,000 per acre for average to good-quality land.

While those capable of buying land have solid balance sheets, it simply takes longer to "refill the pot" when grain prices have stayed range-bound for the past five years. That's one of the reasons why the strongest land prices show up in the most livestock-intensive areas, where that source of farm income supercedes crop income.

How will $4.00 or higher corn prices affect land values later this year? Areas with very good crops the past several years will probably see some strengthening, but areas which have had average or poorer crops the past two years may be in for another down year of yields. Those areas have not been generating enough revenue per acre to improve the psychology, let alone balance sheets and cash supplies. While corn may have a good income year round here, beans may struggle to break even until you add in the MFP-2 payment(s).

A University of Iowa researcher recently published a study showing that Iowa leads the nation in total production of effluent per capita, the end result of our heavy concentration of cattle, hog, chicken, and turkey production across the state. Our great soils across the state are enhanced with the application of organic fertilizers from livestock which are not only a great source of the macro-nutrients, nitrogen, phosphorous, and potassium, but also micro-nutrients which, beyond

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NW Iowa Progress Report

to pick out these fields while driving through the area, as they are quite uneven. Extensive replanting in early June was needed on many fields. Some soybeans were also planted in mid-May, but they seemed to fare better than the corn, as they are more forgiving of less than optimum soil conditions at planting.

The first week in June was our busiest week of the spring. Roughly 30% of the corn and the majority of the soybeans were planted. It was also our first really warm week, and both crops were emerging within a week with mostly very good stands. With such a large percentage of the crop planted later than optimum, we will need a very good and long remainder of the growing season to reach trend line yields in this area.

Southeast Crop Conditions (Grant reporting)

This region has been pretty fortunate so far this growing season. A good portion of the corn was planted during the last week of April into the first week of May followed by cool and wet weather. Farmers returned to corn planting around May 14-16 and were able to finish the majority of the corn planting and get started on the soybeans. Soybean planting was mostly finished up during the first week of June.

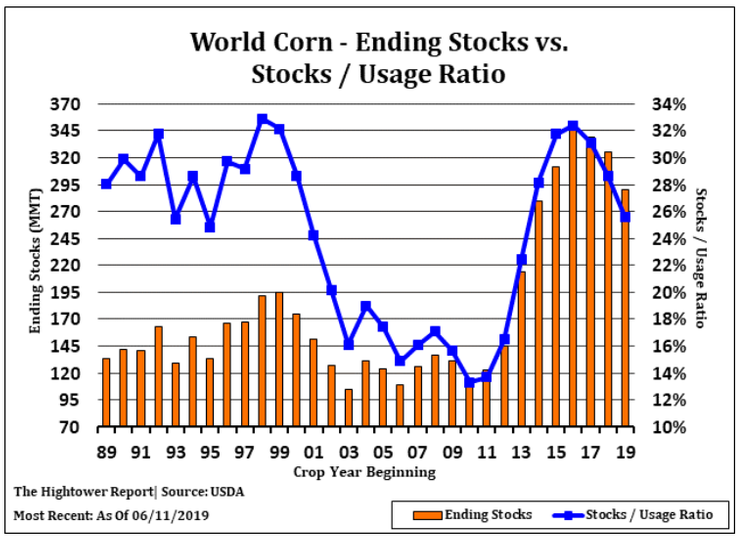
So far the crops in this region are looking "good" but not what we would rate as "excellent" with few large drown out areas from mostly moderate rain amounts prior to some heavier amounts in mid-June. Most corn fields have had the second pass of herbicide and are beginning to grow rapidly. Soybeans are very short and will need excellent summer weather to achieve normal height. Trend line yields are probably the top end of this year's crop although there is a lot of growing season left to go.

Southwest Crop Conditions (Dennis reporting)

This territory was probably one of the bright spots of the entire Corn Belt this spring. Early spring work was non-existent, but by the 3rd week of April corn planters were beginning to run. April 20th was some of the earliest corn and much was planted between April 22nd and 25th. Most corn was planted by May 5th, and soybeans began for some in early May, but most started during mid-May and wrapped up the first few days of June. Corn emerged very well but stayed at the 4" stage for several weeks due to cold, wet, cloudy weather. It is now growing well and is around 30-36" tall in many fields (as of late June). Few fields rate "excellent" in our view, but most rate "good". Soybeans also emerged well, for the most part, but some fields did fight crust and a few were replanted. Generally, both crops are positioned for trend-line or better yields in this area, but we feel most of these fields will probably not set new records.

In summary, a less than ideal beginning to our growing season in the north with some definite weather challenges, while the south is generally off to a better start but still with a long way to go. U.S. highway 20 is the dividing line again this year.

We encourage you to get bi-weekly updates from the managers in these quadrants by logging onto our website **www.stalcupag.com** and clicking on the crop conditions tab. The southwest and northeast areas report on a rotating basis with the northwest and southeast, so there are fresh reports each week. You can also request to have reports from any or all quadrants automatically sent to your email as they are submitted by going to our website and clicking on the **"Subscribe to Updates"** box in the top right corner. You choose which reports you would like to have sent to you, submit your email address and you're done.



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Today's Land Market

sulfur and zinc, are rarely applied with commercial fertilizer.

Iowa's northwestern-most counties lead the region and the state in the production of most of the major species of livestock. It is therefore no coincidence that they also show up very well when the county crop yields are released each year, and are near the top in land value per acre. Over a century of manure applications has its advantages!

It is not only the obvious areas of Sioux and surrounding counties which enjoy the livestock influence on their local economies. There are other communities around this region with strong livestock influence that trickles down into localized land values. It is important to understand this influence and scope when considering the value of land in your area.

Following is a table of selected sales of "good" farmland which have sold recently in the region.

Selected Sales of Good Farmland

Date	Acres	County	$/Acre	CSR2	%/tillable
March	104.9	Lyon	$11,000	67.9	94%
March	67.8	O'Brien	$10,000	97.6	100%
March	80.0	Lyon	$11,400	69.8	98%
March	79.9	Sioux	$10,800	67.1	97%
March	152.0	Ida	$8,425	81.7	70%
March	160.0	Kossuth	$8,300	81.6	95%
March	160.0	Clay	$10,600	95.0	92%
April	88.1	Plymouth	$13,200	90.0	100%
April	80.0	Clay	$12,600	95.4	97%
April	80.0	Dickinson	$7,000	80.3	90%
April	55.0	Sioux	$14,200	71.3	98%
May	64.2	Kossuth	$8,050	81.0	100%
June	150.0	Kossuth	$9,300	76.0	97%
June	115.0	Sac	$10,500	87.6	98%

Current Listings

Pocahontas County - 160 ac m/l. Located in the NW1/4 of Sec. 12-1-31 Lake Twp. Contact Nathan Deters (712) 213-4863.

45 Years of Ag Learning

Rex Wilcox, AFM

Beginning a new job with Stalcup Ag Service in the fall of 1973, I truly had no idea what was ahead and how much I would learn. Below are some observations to pass along as I approach retirement this summer:

•Mentors from Stalcup (Buck Stalcup, Arne Waldstein, Dwight Young) and from the American Society of Farm Managers and Rural Appraisers throughout the nation were some of the best in the business. Each of them contributed to an excellent foundation of knowledge. I owe them my career and have tried to pay it forward by teaching farm management and also mentoring those who will succeed me.

• Farm management is a combination of ag knowledge and people skills, both equally important to succeed.

• The majority of clients and farm operators I worked with were excellent people who made my work enjoyable:

- Clients, because they trusted us to manage one of their important investments,

- Farm operators who are smart, resourceful people doing their best to cooperate with us and our clients.

• Ag innovation will continue delivering increasing yields/profits to those who apply technology and continue to improve their farms. Selecting top performing inputs, managing soil fertility/nutrient application timing, and grid tiling of poorly drained farms will continue to show substantial profit increases.

• Teaching and traveling has provided the opportunity to see a wide array of U.S. agricultural regions. Northwest Iowa is among the best for soil quality, climate, farming infrastructure, and farm operators willing to work with absentee farm owners. Northwest Iowa is an excellent place to own farmland.

• There is a saying about how to be a successful farmland investor – "Buy good land; pay cash; it works every time." I worked with several clients to purchase dozens of farms, all good long term profitable additions to their investment holdings. I encourage more of our clients to add more land to their holdings. It is an opportunity for a solid investment which can be managed and improved to your benefit.

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Grain Marketing Update

Dennis Reyman, AFM, ARA

Watchers of the Weather Channel already know this story – continual rains and flooding which began in March did not let up for many areas of the Corn Belt until well into June.

Nebraska made the news in March when the "bomb cyclone" tore across Nebraska, South Dakota, and into Minnesota and Wisconsin, resulting in blizzards, heavy rains, and historic flood damages across Nebraska. That was followed by rainfall which would not abate across not only South Dakota and Minnesota, but also the southern and eastern Corn Belt. Both the Mississippi and Missouri Rivers have run at historic flood stages. Many of their tributaries are similar.

The end result was terrifically slow planting progress in at least half the 18 major corn states. Ideally, most corn is planted by mid-May. This year, Iowa was 48% planted as of May 13th (weekly USDA progress report) but the 18-state average was only 30%. Shockingly, Illinois was only 11% as of that date. Indiana, Ohio, Michigan, and South Dakota were only 4-6% planted. By May 19th, the US stood at 49% planted, and only 67% by June 2nd. That is the slowest pace on record - amazing when you consider how many higher-speed 24-row or larger planters are in the country, bulk seed delivery tenders, and how much drainage improvement has been made in the past decade. The Corn Belt is geared up for high efficiency and still could not get millions of acres planted by the 1st of June. As we say, Mother Nature will win when she wants to!

As we've noted before, the global corn supply has been downtrending for several years thanks to strong demand. Real concern over US production made the speculative funds move from a large "short" position to "long" on corn, a shift of more than 400,000 contracts. By late May, that concern spurred local cash prices to their highest prices since June 2016. By the end of that month, local corn exceeded $4.00 and by mid-June, had achieved the $4.30 to $4.40 range. For those with 2018 corn left to sell, this was a windfall, especially if their 2019 crop is off to a relatively decent start. When the spec funds decide to overload the boat, one never knows how far they will go before finding the tipping point. Bottom line is, these cash prices offered **the best opportunity for old-crop and new-crop corn sales in the past five years.**

What about soybeans? They have been burdened by record global supplies; hence the lowest prices of the past decade. However, corn and beans do walk somewhat in tandem. The corn rally pulled beans higher by more than $1.20 per bushel. On May 13th, local cash beans were $7.11. We have to go back to August 2007 to find a lower price. By mid-June, beans had achieved their highest cash price of this marketing year, beating out the $8.30 market from last December. For reference sake, the ratio of corn price to soybean price averages about 2.65. Lately, it's been less than 2.0, which indicates a strong advantage to corn. The narrowest corn-soybean ratio we've seen in the past twenty years was 1.75.

What happens from here? More price volatility is a given, at least into early 2020. With much of the US corn crop planted late and into less than ideal conditions, we will see areas which do not have enough nitrogen, poorly developed root systems due to "sidewall compaction" (created by planting into too-wet soil), shallow roots which never had to go deep for moisture early in life, and late pollination which can shorten the grain fill period and leave corn susceptible to damage from early frost. It usually takes about 60 days from mid-pollination to grain maturity, so pollination in early August coupled with a mid to late-September freeze could be fairly damaging. Watch GDU accumulation (growing degree days, or "heat units"), which will provide an indication of risk from frost damage. Summer heat will speed GDU accumulation, but excessive heat will be damaging to corn without a good root system. So far, we remain behind normal in GDU accumulation. Temps higher than 86° do not accumulate more units.

Bottom line is, we have a good set-up for summer time weather market rallies. There is an old saying that "short crops have long tails". That means that prices peak early as end-users fight over supply, then markets adjust lower as next year's crop begins to develop. The market for the famous "half-crop" of 1993 peaked in February 1994 and was followed by a record harvest. However, as happened in the ethanol hey-day of 2010-2013, three straight short crops led to record prices for both corn and soybeans.

The major rally of 2007-2008 took several years to develop its peak, as did the 2010-2013 market, which topped in August 2012. The 2019 U.S. corn crop looks to be seriously short of projections, which started out at 15 billion bushels. It

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Leasing Considerations

Chad Husman, AFM

2019 cash rents held firm despite the fourth year of falling net farm profits. 2020 will be a different year with volatile changes in farm profit from one farm to the next. Some things to consider:

1. Planting date of the 2019 crops – in some areas corn was planted in late April and early May while in other areas it was not planted until the first week of June. Timely planted corn will have normal yield prospects but June planted corn is looking at a 30 to 40% yield reduction and potentially Federal Crop Insurance claims.

2. Grain prices – especially corn are higher due to delayed planting across the Corn Belt and concerns of the number of acres that will not be planted this year or taken as "Prevent Plant" under crop insurance. How high prices go will depend on harvested acres and actual yields.

3. Tile drainage is huge. Farm operators will be asking for more tile on most of the farms they operate. The rain events were so close together this year that it limited the days or hours when it was fit to plant. Pattern tiled farms will rent for premium prices in 2020.

4. Uncertainty in the crop production year with late planting could cause yield potential to go even lower than any are currently expecting. This will provide an increase in grain market prices but only if you are the fortunate one to grow bushels.

It is more important than ever to understand the income range that your farm produced in recent years when considering next year's lease. Differences in profitability between farms and farm operations are more volatile in years like this. Weather extremes and quickly changing grain markets will boost profits for some and crush them for others. We expect to see changes for 2020 in the cash rent and land market depending on your farm's crop performance, and the general performance in your farm's specific neighborhood.

The same areas and farms in Northwest Iowa that had reduced crops last year are struggling again this year. On the flip side, areas and farms that exceed last year are looking better again this year (at least in NW Iowa). The cash rent market is likely to reflect this trend. What's interesting is how these extremes of good and bad can occur in such close proximity to each other. It is impossible to make blanket statements without knowing farm specific facts.

Contact one of our farm managers if you have questions about the factors on your farm which may affect the rent you will receive in 2020. We can also discuss the benefits and costs of tile drainage.

Iowa Lease Termination Deadline Is Prior to September 1

The Iowa lease law requires notification from either party, which could be the landowner or farm tenant, in writing prior to September 1 if changes are to be made to your current lease for the upcoming 2020 lease year which is March 1, 2020 to February 28, 2021. **You do not have to have a new lease in place prior to September 1, just notification by either party if they want to change lease terms.**

It does not matter if your lease is verbal or written. Proper notification must be in writing from either party prior to September 1. Written termination as provided by Iowa Code must be either served via certified mail or acknowledged by the tenant's signature prior to September 1.

If you need assistance terminating your lease, contact one of Stalcup's farm managers.

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45 Years of Ag Learning

• My wife Cathy, our children (2), and grandchildren (9), have provided support throughout these 45 years but still don't fully understand why I have to evaluate every corn and soybean field I see.

•Stalcup staff have all been top performers, great to work with, made my job easier, and did an excellent job of client relations for the company and for me personally.

•Stalcup Ag Service originated in 1942. I've been here since 1973, became a partner in 1976, and was president from 1995 until 2015. The partnership structure of Stalcup Ag Service provides an ownership stake in the business which promotes continuity and performance. Take my word from decades of experience, this company is dedicated to providing excellent client service and results

In summary, Stalcup Ag Service was a great career which provided an unparalleled opportunity to a western Iowa farm kid hoping to participate in agriculture.

As I complete my career in the next few weeks, I say thank you to my family, the Stalcup crew, clients, and farm operators who were all part of a great experience.

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Grain Marketing Update

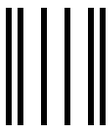
received a historic 10-bushel per acre revision in the June 10th report, putting the estimated crop at 13.68 billion bushels. It is our guess that further downward revisions will ensue.

The 2019 soybean crop was not revised in the June report, but remained only 77% planted across the US as of June 16th. USDA's chief economist correctly stated that it was too early for such revisions. Look for downward revisions from the 49.5 bushel per acre estimated yield, and 4.15 billion bushel crop. However, with a 1 billion bushel surplus, it will take quite a bit to light up bean prices. The last time we had "beans in the teens" was in 2014 when carry-over supplies were 80% less than today's supplies. Look for the corn-bean ratio to hold beans up in the $8-9 range, perhaps to $10 if weather concerns affect beans. One thing to know about bean prices - almost every year they have a surprise up their sleeve.

The Trump administration will initiate another round of Market Facilitation Payments (MFP-2) beginning in August. This will be calculated on a $/planted acre per county basis rather than so much per bushel. This will be paid in thirds, with USDA retaining the right to cancel the second or third payments if economic conditions improve. Rates have not yet been announced.

What are the monkey wrenches in the market besides weather? African Swine Fever is potentially a big one. It has killed 10-20% of China's swine herd, from what we understand. China has 10x the hogs as the US, and most of their losses have occurred in "backyard" herds, where a few hogs, a few chickens, etc comprise the farm. An outbreak of ASF in the US may be contained quickly, but the psychological impact would likely affect the markets. Large crops in other parts of the world also must be considered. For example, Argentina, Brazil, and Ukraine have larger than normal corn supplies which can compete for our export markets.

Hot markets are just as hard to sell into as a stale market, maybe harder. We'd love to capture the top of the market, but with unprecedented weather factors, everyone is scratching their head on just what that might be! The weekly Commitment of Traders Report from the Chicago Mercantile Exchange shows the weekly change in positions of various traders. Watch for "Managed Money" to top out on long positions. When they start liquidating, that's a good indicator that the bull market is no longer being fed.



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www.stalcupag.com

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List items particular to your farm you would like to discuss with a professional farm manager:

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