The Cost-Price Squeeze Once Again?
Agricultural Market Outlook

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Macro Data
Inflation

![Consumer Price Index for All Urban Consumers: All Items Less Food and Energy in U.S. City Average](chart)

- Index: 1982-1984 = 100
- Jan 2017 to Jul 2021
Interest Rates

FRED Market Yield on U.S. Treasury Securities at 10-Year Constant Maturity

Shaded areas indicate U.S. recessions. Source: Board of Governors of the Federal Reserve System (US) fred.stlouisfed.org
Exchange Rates

Source: Board of Governors of the Federal Reserve System (US)  
fred.stlouisfed.org
Good, Bad, Ugly Analysis
Good—Farm Financial Health

- Borrowing by farms to cover operating expenses has been declining (probably not 2022)
- Not a perfect picture, but a leading indicator that farm balance sheets have improved
Good—Prices are strong across the board

- Cotton trading at contract highs
- Weather and input uncertainty may make it dangerous to price
- Options?? Put option out of the money (90 cents) to protect from sudden downward move?
Prices

+ Wheat a bit weaker but expect it to rise
  Russia and drought
+ Spring planting still not out of the mix
Prices

- Corn (and Sorghum) steady.
- Sorghum potentially a good option for dry and high nitrogen prices.
- Insurance not likely to be as good compared to cotton.
Bad but getting a bit better

+ Producer prices for some items moderating
+ Delivery times have been shortening some
+ Product is moving, but there are still serious issues
Ugly—Energy Prices

Crude oil on a big bullish run—translate into higher diesel and other derivative prices.

Natural gas prices have been much worse in recent months but has moderated a bit.
Ugly—Input prices

Table 6: Representative Cotton Farm Results.

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<thead>
<tr>
<th>Farm</th>
<th>Planted Area -Acres-</th>
<th>Ending Cash Base -1,000-</th>
<th>Ending Cash Alternative -1,000-</th>
<th>NPK Costs Base -1,000-</th>
<th>NPK Costs Alternative -1,000-</th>
<th>NPK Costs Difference -1,000-</th>
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Source: Outlaw et al., “Economic Impact of Higher Fertilizer Prices on AFPC’s Representative Crop Farms”, January 2022

“DTN Retail Fertilizer Trends,” by Russ Quinn. DTN (January 5, 2022).
Ugly—Input Prices
Of course, short supply and higher prices are two sides of the same coin...
Ugly—Weather
Considerations

+ Nitrogen application rates?
  Is soil testing for residual N viable?
  Water/rainfall timing and N?

+ STAX for cotton?
  La Niña dryness and county-level yield performance?
  ARC/PLC participation vs. STAX

+ When to fix/contract price for 2022? What contract?
Visit:  
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