

THE FARMER'S EDGE

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HURLEY & ASSOCIATES

AGRI-MARKETING CENTERS

Fuel: A Market at a Crossroads

By Nathan Keown

The petroleum market, especially that of refined fuels like gasoline and diesel, has been one that's faced some of the most significant changes over the past couple of years...and we're just getting started. Petroleum markets are still facing their own long-covid symptoms, and now we're seeing government intervention and environmental standards upend an already precarious situation.

The fuel market lost a considerable amount of refining capacity when petroleum values crashed, and financial conditions reached new lows for refiners. Production of crude oil has rebounded significantly, but the petroleum market is still fighting to get on stable ground with its aging refining sector. Overall, refinery capacity is still tight, and higher and more volatile fuel costs are the long-covid symptoms consumers are forced to pay. Now, during this precarious situation, increasing government intervention to reduce GHG emissions is throwing a wrench in the market, and these are having blowback effects for both agricultural producers and petroleum marketers alike.

Just recently, Reuters published an article warns that an increasingly complex regulatory environment that is going to change refined products under the Renewable Fuels Standard (RFS) and add further barriers to agricultural producers. The article was entitled, "White House set to back tougher climate model for ethanol, sources say." The exact details of this adjustment aren't yet clear, but what we do know is this is

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Fuel: A Market at a Crossroads

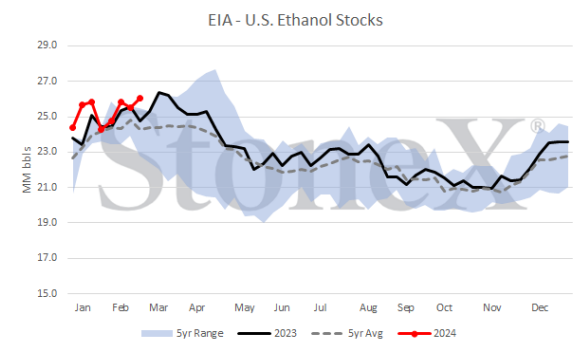
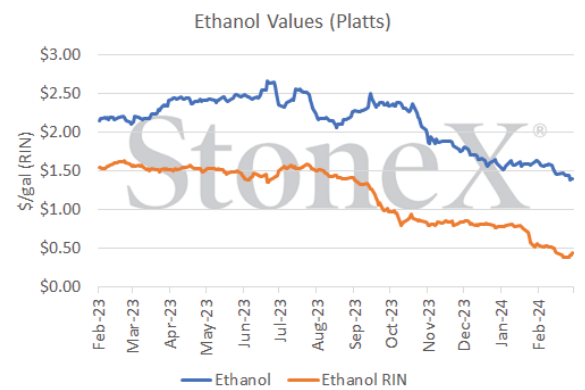
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a sharp pivot from December when the Biden administration backed a climate model that was strongly supported by the ethanol industry.

The latest adjustment is one that will lower the value of ethanol in reducing greenhouse gas (GHG) emissions. Prior models didn't "accurately account for the environmental damage caused when land is converted into farms to grow corn," per Reuters sources that contributed under anonymity. The new model will "reward climate smart farming techniques like no-till farming and covered crops."

Ethanol producers earn tax credits that are also applied to other eco-friendly fuels such as sustainable aviation fuel, etc. This latest adjustment will downgrade the financial incentive for producing ethanol, and we're already seeing the market respond. Ethanol values and their RIN credits are down significantly over the last couple months, and this latest development is likely to exacerbate the issue.

In conclusion, fuel markets are under increasingly tight scrutiny by the Biden administration, and the regulatory framework for reducing GHG emissions in the liquid fuels markets can only be described as the most complex rats' nest imaginable, with each state implementing their own flavor of punishments and incentives for carbon. The dominos continue to fall, and western states' carbon programs are being adopted elsewhere, gradually moving east. Expect these markets to get more convoluted over the coming years, leaving us with one major takeaway: volatility is here to stay. Unfortunately, it looks like the volatility is hurting producers right now, but the supply/demand balances have been (and are likely to continue) shifting quickly, so increased attention to your risk management is key.



Nathan Keown is a Risk Manager at StoneX Financial Inc. - FCM Division with seven years of experience in the energy industry. Nathan consults with energy market participants across the entire value chain in crafting hedging strategies guided by market fundamentals. Prior to StoneX, Nathan started his career in the physical energy space at a midstream company called Crestwood. He leans on this midstream experience where he served as a risk and fundamental analyst and authorized trader to guide his risk management recommendations and analysis on petroleum markets.

HA Portal Highlight

Cash Flow Review

The Hurley Portal is a great place to confirm that your consultant is working with correct information for your operation. During the springtime, we recommend that you update your consultant or marketing associate with any cash flow changes that you may incur. Once planting is finalized, it is a good practice to validate what is listed as your production acres in the Hurley Advantage Portal. Variations in those numbers can impact your break evens and total production, so it's important to keep those accurate and communicate it with your Hurley team.

You can review your acres on the Executive Summary, below your cash flow numbers. Your financial details can be reviewed in the cash flow section (shown below). Scroll to the bottom of the page to e-mail or call your Hurley team with any changes.

Henry Hurley - Cash Flow ← 2024 →

Summary Current Scenario Tool

	Corn	Soybeans	Total
Acres / Head	603	610	
Yield	210	60	
Production	126,630	36,600	
Break-even			
Expenses	\$2.63	\$6.81	
...With Debt	\$3.33	\$9.37	
...With Debt & Goals	\$3.80	\$11.03	
Current Unit Value	\$4.56	\$11.69	
Current Product Revenue	\$577,449	\$427,772	\$1,005,221

Current Cash Flow Per Acre/Head Export

	Corn	Soybeans	Total
Expand All			
Total Revenue	\$963.14	\$706.30	
Total Expenses	\$558.09	\$413.60	
Total Debts	\$145.92	\$153.52	
Cash Surplus	\$259.13	\$139.18	
Total Goals	\$100.00	\$100.00	
Cash Surplus	\$159.13	\$39.18	

U.S. Inflation Numbers Remain Persistent

By John A. Johnson

We begin this installment with the news of the tragic wildfires in the Texas Panhandle, known as the "Smokehouse Creek Fire". This fire will be long remembered as one of the greatest destructive wildfires in that state's history. A helicopter report stated that at one point on Thursday, February 29, 2024, the fire was 180 miles wide. As of this writing, it has covered in excess of a million acres of grass, homes, fences, and outbuildings. The worst tragedies involve at least two human lives and many other human injuries, as well as thousands of cattle, horses and pets. One of the ranchers interviewed by our news media has 10,000 head of steers turned out, with no grass remaining and nowhere or facilities to transport them to. He said that his fences, windmills and emergency hay supplies have all been burned beyond repair.

There has been a hotline established to offer aid and assistance to the thousands of disadvantaged residents of this area. General questions about donations or relief efforts can be answered at (806) 354-5800, according to Texas A&M AgriLife Extension Service.

Meanwhile, the U.S. domestic economy is rolling along with continued reports showing that our consumers are spending robustly, even though inflationary pressures are creating more concerns, as well as increasing credit card debts for many. Recent reports, however, are showing increasingly divergent versions of the economy.

The Labor Department publishes the Consumer Price Index, (CPI) which came in at a 3.4% annualized rate, month over month, which is well above the Fed's target rate of 2% inflation. This index is fairly well weighed in favor of housing and energy costs.

The Commerce Department, on the other hand publishes the Personal Consumer Expenditure Index (PCE). Fed Chairman Jerome Powell prefers this index since it relies more on statistics rather than expectations.

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CONSULTANT SPOTLIGHT

ELLEN SCHLECHTER

What do you most enjoy about your job?

I enjoy getting to know each operation that I work with on an individual level while building a roadmap to reach their long-term goals.

How did you get started in your career?

Growing up on a farm, I knew I wanted to continue working in agriculture. During college, I was lucky enough to intern with Hurley and was eventually hired to be a consultant!

What are you the most passionate about when it comes to serving our clients?

I enjoy finding ways to help guide our clients through the unknowns of their operations, whether it be production or goal related.

What would be your ideal vacation?

Going somewhere new and exploring what the area has to offer.

Ellen grew up in central South Dakota in a family with strong farming and ranching roots as both sides of her family run farming operations. Ellen has spent her formative years involved in all aspects of the operation alongside her father, brother, sister, cousins, and uncles. She quickly learned how to work with a plethora of personalities while maneuvering through farm decisions. Ellen's passion for agriculture and her strong work ethic are two traits she brings to the Hurley table.

She attended South Dakota State University majoring in Agriculture Business and Business Economics with a minor in Agriculture Marketing. Ellen's talent for working with technology enabled her to develop a cattle record-keeping app used by her family farm and others around the world.

She spent most of her summer breaks on the farm but spent a month in Barcelona, Spain working as a consulting intern at a business-wellness startup company. The following summer, she interned as a Farm Marketing Consultant at Hurley and Associates and joined their team.

Ellen values building relationships and giving back to the community. With that same mindset, she looks forward to partnering with producers to grow their operations for generations to come.

U.S. Inflation Numbers Remain Persistent

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The latest report shows an increase of 2.4% on an annualized basis. The difference in the two indices is primarily in the structure of their respective lists of commodities and services, as well as the weighting of the different expenses such as food, energy, clothing, housing etc.

The reason for mentioning these two reports is that they are much more divergent than is the "norm". They are usually within one-tenth of one percent of each other.

The consensus for the past two months in economic circles has been that interest rates cuts will begin sometime in early spring, probably March. Many opinions are shifting after seeing these two reports to the idea that any rate cuts will be pushed farther down the calendar to at least June or July. Some analysts have given up on the idea of a rate cut this year at all.

Our observation of the consumers' plight in today's U.S. economy is that it is clearly taking from \$700-900 per month for a family of four to maintain the same standard of living that they enjoyed pre-pandemic. The exact number depends on who is doing the figuring. The calculations were based on the amount of money that would be required to pay for the basic household expenses that every family has to bear. Those are housing, food, clothing and energy. Guess what expenses have been hit the very hardest in the recent three years' inflation? If the guess was housing, food clothing and energy – it was correct! Given the absolute necessity of the foregoing expenses, the hardest hit amongst us is the lower end of whatever economic class one finds himself in. The lower one's income is, the bigger the percentage is the bite that the absolute necessities take from us.

We will have to admit that the chaos in our nation's capital has clouded the news cycles with so much confusion and bitterness from our political leaders that it is becoming confusing to say the least. Honest, open

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U.S. Inflation Numbers Remain Persistent

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policy debate has been largely replaced by inuendo, congressional hearings, and criminal prosecutions. Political pundits are on both sides, dominating every available newscast. Our numerous 24-hour news channels have changed the American landscape to “every state is a border state”, and “every season is election season”. It is hard to imagine when we will be able to overcome the bitterness and bickering among our elected representatives to actually make meaningful progress in our national economy that will reach to, and help everyone.

Globally the wars in Ukraine and Gaza have attracted a lot of attention. The devastation and bloodshed are horrendous to see.

The Ukrainians have fought valiantly with support from the U.S. and others. Now that the latest aid package is running out, the shortage of weapons and munitions has begun to take a toll on their ability to maintain a strong defense of their homeland, not to mention the prospect of reclaiming all their lost territory and claiming complete victory by expelling the Russians.

Israel has been waging a very destructive war on the Gaza strip, which is presently occupied by a militant group known as Hamas. We were surprised by the amount of support to be found in

the U.S. for the Hamas fighters. The present administration, which was very vocal in their support for Israel in this conflict in the beginning, has begun to waver and push for a cease fire and negotiations to end the fighting. Israel’s leader, Benjamin Netanyahu, has vowed not to stop fighting until Hamas as a group is eliminated.

China’s economy has staggered during the past couple of years as they come to grips with the fact that many of their vast and expensive infrastructure projects have been overbuilt to accommodate a rapidly growing population, while theirs is actually stabilizing in number. The one-child policy that they pursued for years is resulting in a work force that is too small to continue the exponential growth that they were able to experience for so many years. The Chinese national debt is beginning to weigh on their financing capabilities, limiting the economy-stimulating projects that can be undertaken.

Russia, Venezuela, and the Middle Eastern countries that have ample oil to provide exports, are very glad to see oil in the \$70-\$80/barrel range rather than the \$30-\$40/barrel that we enjoyed as recently as two years ago. It is hard to remember when in mid-April 2020, on our futures exchange, crude oil actually fell to a negative!

John A. Johnson has worked for Hurley & Associates since 2000. John is semi-retired now living the life of chasing grandkids. John is based in Sikeston, MO.

NOW HIRING

Farm Marketing Consultant

Locations: Brookings, SD; Glenwood, MN & Charleston, MO

- Passion for Serving Producers
- Growth Mindset
- Excellent Interpersonal Skills

Hog Marketing Consultant

Locations: Brookings, SD; Glenwood, MN or Grundy Center, IA

- Passion for Serving Hog Producers
- Growth Mindset
- Team Focused

Business Development Specialist

Locations: Nebraska or Kansas

- Passion for Serving Producers
- Making New Connections
- Building Brand Awareness
- Embodying the Hurley Philosophy

HR Intern

Location: Grundy Center, IA

- Self-Motivation
- Proficient in Research
- Knowledgeable about Employment Labor Law
- Team Focused

Keep Your Eyes Up and Other Lessons from the Racetrack

By Jason Moritz

As a road course race driver, instructor, and high-performance driving coach, I have had the opportunity to work with all types of drivers at various talent levels. Numerous lessons on the racetrack can be applied to successful farm operations and marketing decisions - specifically, lessons learned about preparing, knowing critical details, focusing, and keeping your eyes up.

Preparation and planning are critical to their success before a driver and race car hit the track.

Preparation for a race & race season includes:

- Success - Setting the goals for the desired outcome at the end of the race and season. It may not always be winning, especially for newer teams; first-place trophies do not always measure success. Each team must adjust their goals to their differentiators, including budgets, equipment, experience, logistics, etc.
- Assembling the right team of drivers, mechanics, and support personnel with the skills and experience to deliver the desired outcome.
- Investing in the time, learning, and assessing performance while making adjustments needed. They control what they can control.

How does a producer get started in the goal-setting process? Before they can determine their goals for success, there are aspects to consider. Like each race team, success and goals can differ from producer to producer depending on their values, vision, and differentiators. Let's look at how these relate to a successful farm operation.

Success

Differentiators of an agriculture operation that could influence goal-setting decisions could include several areas:

- Financial - Cash flow needs, cash flow timing, and financial risk tolerance
- Environmental - Production variability and diversification of production
- Logistical - Storage, basis locations, and transportation availability
- Personal - Stage in business and emotional risk tolerance

There are different types of goals:

- Financial goals: "What are some things that you would do if you had a successful year?" These are goals related to the operation's revenue, profit, cash flow, and growth. Examples may include upgrading equipment, building working capital, or prepaying expenses.
- Strategic / Operational goals: "What does your ag operation look like in 5 years?" These goals are related to your business's long-term vision, mission, and values and are overarching/aspirational goals. For example, bringing someone back to the operation, reducing stress, or expanding the operation.

Determining goals is only the first step in the goal-setting process. A goal should have a defined timeline. Having a clear end date helps to prioritize and stay focused and allows measuring progress based on time. Goals must include a written action goal, and a written goal increases the level of commitment and accountability. The goal should be shared with those who are part of the trusted team. This adds an accountability mechanism and allows the opportunity to leverage others' talents. Finally, the goals, timelines, action plans, and informing others are nothing without follow-through.

Assembling the Right Team

When a race team is assembling the right team of drivers, mechanics, and support personnel, their talents and experiences are essential; however, their ability to be part of a shared vision of success is critical. A farmer has the opportunity to locate "trusted advisors" to build their team and share a vision of success. Farmers can wear many hats - CEO of the operation, planting, tending to livestock, harvesting, spouse, parent, community involvement, family member, and more. Their self-awareness and ability to identify "gaps" is a must to build their trusted team of advisors. Some possible trusted advisors include - Lenders, CPAs, Marketing Consultants, Crop Insurance Agents, Agronomists, and Peer Groups. A farmer and their trusted team know the details of building a marketing plan - the cost of production, cash flow needs, profitability, goals, return to storage, risk tolerance, and production variability. They are aligned and ready to "hit the race track."

Keeping Your Eyes Up: A Lesson in Focus

A lesson that goes a long way in increasing speed on the track is keeping your eyes up and looking ahead. While a novice driver naturally tends to focus on what is right in front of them, a skilled driver looks much farther down the track. Look ahead to the next corner--where the eyes go, the car will go.

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Keep Your Eyes Up and Other Lessons from the Racetrack

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Producers choosing a "business-minded" approach to marketing make choices based on what they know will benefit their family, business, and future. A proactive mindset drives their decisions for today and the future; they keep their eyes up. With a "market-minded" approach, producers make choices based on what they think the markets will do. Control of their marketing is given to the market and becomes based on emotions and opinions. Like on the racetrack, they were reacting to a flurry of items coming at high speed - market commentary, market bias, politics, South America production, USDA reports, etc.

Race drivers know what's behind them; however, they do not "race in their mirrors." They know focusing too much on the past and not looking further down the racetrack will only distract and slow them down. A farmer looking in the mirror at a commodity's price two years ago or that "one year" was different may prevent a producer from executing the next "corner" in their plan. They must shift their attention forward to the place they want to be.

Adapting to Change and Continuous Improvement

A race team invests the time and effort to assess performance and make the needed changes. They do not dismiss opportunities to improve with a "We've always done it this way" mentality. On the farm, we know planting practices in the past got the job done, however, today's precision planting with downforce control to seed delivery can increase accuracy, productivity, and efficiency. Again, a race team shifts their attention forward to the place they want to be.

As a business leader or race driver, your growth will be limited if you do not apply lessons from your experiences. *"In racing, there are always things you can learn every single day. There is always space for improvement, and I think that applies to everything in life."* — Lewis Hamilton, Formula One World Champion.

A race driver's eyes stray from the course, or change may create a temporary setback. A race driver knows now isn't the time for brakes; it is time to ease into the accelerator. Market volatility can create negative emotions and anxiety in market-minded producers and opportunities for business-minded producers. A renewed focus and efforts will accelerate a business-minded producer towards their success.

Slow down to go faster... A race driver must be smooth in their actions and not throw their car into imbalance. Sudden steering wheel jerks, over-aggressive braking, or accelerating can destabilize a race car. Overly aggressive braking shifts the car's weight from the rear of the car to the front tires; a driver who does this while turning will likely spin out. A fast driver is a smooth driver with smooth inputs, turning the wheel, gently applying the brakes, and accelerating like an egg under the pedal. A farmer's reaction to an event and their market plan can be the difference between failure and success. A producer's marketing plan must be dynamic and is a working document that can be altered as needed. However, sudden, knee-jerk, market-minded reactions can veer the producer from the ultimate business objectives.

Now it's your turn... Keep your eyes up.

Put in place mechanisms to help you race towards your goals - determine what success looks like, define the timeline, create an action plan, inform others, and follow through. Write your goal down and place it where you'll see it daily. Shift your attention to where you want your operation to be, not where it has been.

You nailed it! - The time has come that you have nailed your goal and found success. Now, what is next? A race driver knows others are on the track with the same level of focus. It's time to put that turn in your mirror and focus on your skills and efforts on the next "corner" in your story.

What is your next corner? - Expansion of your operation? Ability to give back more to the community? Bring someone into the operation? You have your corner in sight, and now it is time to attack with your effort, talent, and focus.

"In racing, they say that your car goes where your eyes go. The driver who cannot tear his eyes away from the wall as he spins out of control will meet that wall; the driver who looks down the track as he feels his tires break free will regain control of his vehicle."

Jason grew up near the Iowa border in Coal Valley, Illinois, and is a Rock Island High School graduate. At a young age, he started his career focusing on serving others. His passion for service and the fulfillment it gives still motivates him over three decades later. He finds that his experiences and beliefs match the Hurley & Associates mission.

Jason has spent time as a road course race driver, instructor, and high-performance driving coach; working with all types of drivers at various talent levels. Over the years, he learned many lessons from the racetrack that can be applied to business, minimizing risk while getting the desired outcome. The lessons he learned were the value of preparation, knowing critical details, focusing, keeping your eyes up, and executing a plan.

Jason and his wife, Heather, live in Cedar Falls, Iowa, with their Schnauzer, Truman. He enjoys spending time with his family, meeting new people, and all things automotive.



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