

THE FARMER'S EDGE



HURLEY & ASSOCIATES

Agri-Marketing Centers

U.S. Economic Hardships Forecasted Due to a Culmination of Multiple Factors

By John A. Johnson

The U.S. economy is showing effects of the Federal Reserve Bank's effort to thwart the runaway inflation that has resulted from the over-supply of cash printed and distributed to combat the effects of the production and distribution slowdowns created by the recent Covid pandemic. We have entered the early stages of what will surely be a series of tightening measures by the Fed designed to reduce demand for goods and services, and hopefully will allow the supply chain to catch up to the artificially created demand. The Fed has recently raised interest rates and indicated a willingness to continue on the higher-rate path until inflation is under control. The current rate of inflation, at a 40+ year high of 9.1%, has many economists believing that interest rates are still too low to rein in the runaway growth in the inflation cycle, and are expecting much higher rates for at least the next 12 months. The inflation/interest ratio is still "underwater" according to many investors. Considering that we have a 2.9%, 10-year yield on bonds, and a 9+% inflation rate, it isn't hard to see the math. We have begun to conjure up visions of Paul Volker's rate hikes which brought on double digit interest rates for much of the 1980's.

One of the most interest rate sensitive areas of the economy is the housing market, both new and existing. High lumber prices, difficulty in sourcing components, and a tight labor market have hampered building for the past 18 months, and interest rates are beginning to be just another stumbling block for the housing industry. Regardless of those problems, a growing population will continue to demand housing. The numbers indicate that an increasingly larger percentage of housing starts in the near term will be for multi-family residences. Apartment building construction is still going strong in and around many of our major cities.

The U.S. domestic inflation issue is being exacerbated by other factors as well. Crop production is being hampered by a rough start due to a less than favorable spring that delayed or affected planting in many of our crop areas. Also, an unusually hot, dry summer is reducing potential yields of many of our crop acres, as well as much of the pastureland in the Central and Southwest U.S. Recently there was a local auction barn in East Texas that had trucks hauling in cattle for sale, backed up for 1 ½ miles each way on the road leading into

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the barn. That's over three miles of trucks with sale cattle! We steak lovers will notice the effects of this sell-off of the U.S. cow herd until late in 2024.

In addition to the ongoing drought conditions in the Southwest, the current weather forecast calls for triple-digit temperatures with no significant rain in sight, for the central one-third of our country from South Texas to Canada. In fact, longer term models suggest a continuing hot, dry spell for the rest of the 2022 cropping season. This could be vital for yield outcomes in the nation's corn crop, as we are in the critical pollination stage in many very important areas of our country. Soybeans will be in the fruiting or pod setting phase by early August.

We would be remiss if we failed mention that bad government policies for the past 30 years have resulted in the U.S. not having enough refining capacity to be able to process fossil fuels into the myriad of usable products that they provide in quantities that would sustain the domestic systems for production and distribution of necessary goods. U.S. refineries are working at 94% capacity, and still unable to provide a stable and reliable fuel supply to meet the increasing demand as our economy struggles to expand. We have been forced to solicit foreign producers to sell us fuel to cover our shortfall.

Internationally, almost all of the world's economies have been roiled by multiple rounds of Covid 19 and its variants, causing numerous lockdowns and the ensuing periods of lack of productivity and distribution around the world.

These nonproductive periods have coincided with the Russian invasion of Ukraine, which has aided the skyrocketing cost of fossil fuels. That unrest has also derailed nearly all exports of grain out of Ukraine. It is fairly common knowledge by now that Ukraine is the number 3 producer of exportable grain in the world. The markets have missed that contribution, and it is being reflected in grain prices. Those price increases coupled with lower production in the U.S. are helping to fan the flames of inflationary pressure around the world.

Some of the poorer nations around the world are also suffering through a hot, dry, unproductive period, and facing famine-like starvation. Crop failures and lack of available pasture is creating a seemingly insurmountable problem for many.

There aren't many things in worldwide economics that drive inflation-inducing hardship any more than the costs of food and energy, two of the most basic necessities of life, lacking only healthcare to be the virtual "three-legged economic stool" that provides the basic sustaining support for us all.

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.

“Trust in the Lord, and do good; Dwell in the land and cultivate faithfulness.”

– Psalm 37:3

Two Decades with Hurley

By Dave Dolan

A calendar year seems like a long time but as we are aware, it goes by quickly. I have decided at the end of June 2023 I will retire from my positions at Hurley & Associates. On that date, I will have been a Marketing Consultant for 19 ½ years and Group Leader for several Midwest offices for 17 years. Why retire? It just feels like the right time. In the offices I've had the privilege to manage, we have assembled a fantastic staff with very capable consultants. I feel very comfortable turning the Hurley clients I have worked with over to them. Also, new management with fresh ideas, energy and enthusiasm will keep the Glenwood, Wheaton and Britton offices moving forward well into the future. So, this will be the last newsletter article I will write at Hurley's. I felt like sharing my path to Hurley & Associates was worth my last time on the podium.

I was at the back half of my tenure merchandising for Prairie Lakes Coop when Peggy Raisanen stopped by to discuss the Hurley & Associates office she was starting up in Wheaton. Peggy and I were no strangers to each other. She had managed our Coop's Stone X Financial Inc. account for several years when she worked there. The marketing program she described was very intriguing to me. Many farmer producers I worked with could benefit from some marketing structure, plus the philosophy of the company seemed sound. Basing marketing decisions on your farm operation rather than market direction. Peggy introduced a first step of the Coop hosting a marketing information meeting. I was receptive to the idea and later that winter, we held one in the Glenwood area.

Ida Hurley and Karen Marshall came from Charleston, Mo (the Bootheel) to speak at the meeting. If you've never had the chance to listen to Ida speak about her belief of the proper way to market your grain, you have missed out on a special speech. Her passion for seeing farmers succeed with a structured marketing approach was well received that day. We had several farmer clients attending who became Hurley clients. That meeting also planted a thought in my mind of joining Hurley & Associates when the opportunity presented itself.

I became a Hurley Consultant in Jan 2004. In the past two decades, we have seen drastic price swings in the commodities we market; from lows that brought about LDP payments, to highs on corn in the \$8.00 range. The company philosophy became a corner stone to managing these price swings and helping me advise my clients in making good business decisions, and the emotions that went with them I've been proud to pass on. This philosophy, which was taught to me in my early years here, within the Hurley offices and I've seen the difference we have made to a lot of farm operations. It's been rewarding to say the least. Hurley & Associates, as company, continues to evolve. We are changing with advancements in technology, software, and market conditions. Yet, our core philosophy remains. My hope is that it always will.

Finally, I'd like to say **thank you!** I've met so many great people along the way, farmer producers, industry professionals, and Hurley staff. Relationships I will not forget. I hope to cross paths with many of you in the months ahead, but if I don't, I wish you continued success. I'm confident success will find you as you continue to partner with Hurley & Associates.

Dave was born and raised in the small Southwestern Minnesota town of Milroy. He has worked in the grain business since 1981. Dave spent six years in Milroy working as book-keeper/office manager for the local Co-op, two years for Cenex-Harvest States in St. Paul as an accountant and merchandiser and fifteen years in Glenwood, MN serving as Branch Manager and Grain Merchandiser for the local Co-op. In 2004, Dave started working for Hurley and Associates, where he is a marketing consultant and broker. When joining Hurley, Dave was impressed with their individualized approach to risk management marketing. Dave is also the Group Leader for the Hurley & Associates offices of Wheaton MN, Glenwood MN and Britton SD. Dave, his wife and four children have lived in Alexandria MN since 1989.

Consultant Spotlight:

MATT KUNERTH



What do you most enjoy about your job?

The farmers I am fortunate enough to work with are what brings me the most enjoyment. I greatly value the relationships I'm able to have with producers directly, and the ability to continue to stay involved in agriculture at it's roots.

How did you get started in your career?

Growing up I enjoyed the family farm and was fascinated by it as a business. Summers working at the local coop, a soybean processing plant down in Iowa, and eventually a summer as a Hurley intern led me to desire working directly with farmers and use the insights and intrigue I already had in the grain industry.

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

I have been fortunate to see goals of expanding the operation, purchasing equipment, transitioning to next generation, and enjoying farming more all be achieved. Those big goals can make the smaller decisions very simple when it's clearly defined what you're aiming for. It's great to see each client work towards their own definition of success. My passion comes from seeing the goals become reality.

What would be your ideal vacation?

Hiking on a warm, fall day in the mountains.

Matt grew up on a grain farm near Fulda, MN where he learned to work hard and to enjoy his work. Through his family's seed business, Matt developed a business mind in agriculture and a passion for the Ag industry.

He graduated from South Dakota State University with a degree in Agricultural Business and a minor in Agricultural Marketing. Matt developed an interest in a career in grain marketing through internship opportunities at both a grain co-op and soybean processing plant. He worked as a Commodity Marketing Research Assistant while an undergrad at SDSU. Matt also spent three months studying Spanish in Quito, Ecuador where he was able to experience another culture by living with a host family just outside the capital city.

Matt first joined the Hurley & Associates marketing team as a Hog Consultant Intern the summer of 2017 in Glenwood, MN and full-time in December of 2017 as a Farm Marketing Consultant in Brookings, SD. Matt enjoys partnering first-hand with agricultural producers, learning about what makes their operation unique, and ultimately seeing the success of farm families.

Currently Matt and his fiancée, Mikayla, are busy planning their wedding coming up the end of August near Mitchell, SD.

Put Options: A Foundational Risk Management Tool

By Jesse Klebe

What comes to mind when we think of price "risk" as an agriculture producer? For many producers, price risk can be a source of stress without proper management practices. The art of risk management starts with identifying where our operation sits today and what level of "risk" we are both willing and able to accept. Dr. William W. Wilson, an agriculture business professor at North Dakota State University, once said, "If risk can be measured, it can be managed". Put options can be a great way to help manage risk. This article will further explain put options and their foundational role within any market plan.

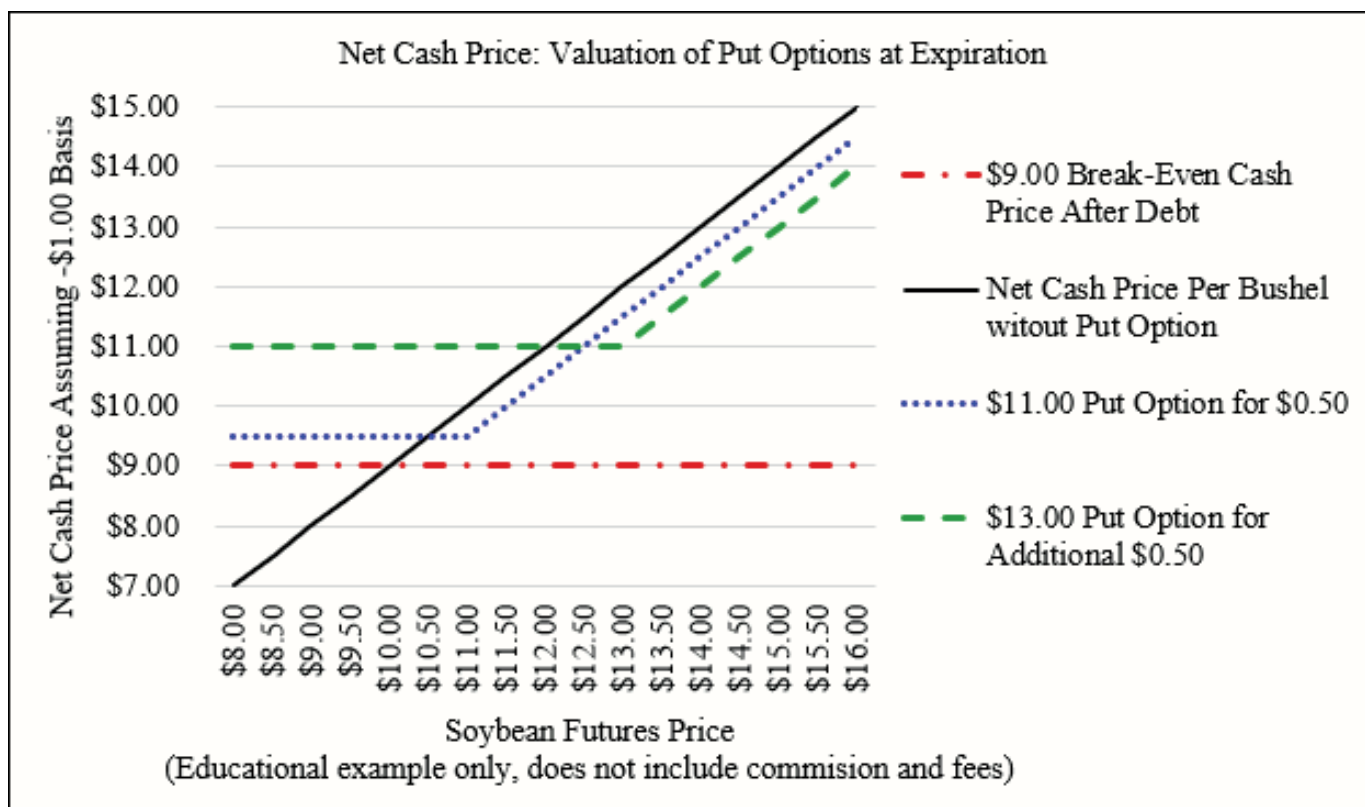
Put Option Basics

As a producer, a put options give us a price floor for a purchased amount of time. The figure below uses a soybean \$11.00 put option to help illustrate how this tool may work within our operation. In this example, the \$11.00 put option would initially cost \$0.50 per bushel with an expected basis of \$1.00 under futures price. We can therefore assume an

\$11.00 put option would be protecting a \$9.50 cash floor at option expiration ($\$11.00 \text{ put option} - \$0.50 \text{ premium} - \$1.00 \text{ basis} = \9.50 cash). This \$9.50 net cash floor is represented by the dotted blue line. In this example, we have also identified our cash price to achieve break-even after debt on soybeans is \$9.00 per bushel (represented by the dot-dash red line). The \$11.00 put option can be used to secure an expected \$0.50 per bushel above operational needs (educational example only, does not include commissions and fees).

Securing Additional Revenue

The solid black line represents a net cash price without revenue secured. As illustrated in this example, a \$11.00 put option would prevent the net cash price from falling below break-even. However, the best-case scenario is for



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Put Options: A Foundational Risk Management Tool

By Jesse Klebe

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the futures price to increase, which would result in a higher net cash price. In some cases, price can increase to point where it makes economic sense to secure additional revenue. Rolling the option to a higher strike price is how as hedgers we secure this additional revenue.

The value of a put option decreases as the underlying market increases. In this example, futures price may increase to a point where the premium difference between a \$13.00 put option and an \$11.00 put option is \$0.50 per bushel. In this scenario, it would make economic sense to roll the option up as the revenue secured is \$2.00 ($\$13.00 - \$11.00 = \2.00) and the additional premium is 25% of the revenue secured ($\$0.50/\$2.00 = 25\%$). The new net cash price at expiration, represented by the dashed green line, would be \$11.00 per bushel ($\13.00 put option - $\$0.50$ premium to roll - $\$0.50$ initial premium - $\$1.00$ basis = $\$11.00$ cash). By spending an additional \$0.50 per bushel, this operation would have secured an additional \$1.50 in net revenue. For an operation that raises 50 bushel per acre soybeans, this is a net revenue increase of \$75 per acre (50 bushel per acre x $\$1.50$ gain = $\$75$ per acre).

Managing Risk and Converting to Cash

For all operational hedgers, the final goal of marketing is converting to cash. Prior to harvest, an operation can only

estimate what their final break-even after debt price will be. Factors such as fluctuating input costs, planted acres, yield, etc., can make this cash price a moving target. Put options can be a strong foundational way to manage price risk and secure revenue during periods of uncertainty.

Jesse was raised on a family farm & ranch near Bottineau, ND where they primarily grew barley and raised cattle. Jesse graduated from North Dakota State University with a Master of Science in Agribusiness and Applied Economics with an emphasis on risk and inventory management.

Before joining the Hurley team, Jesse was a spring wheat merchandiser for Archer Daniels Midland (ADM) in Minneapolis, MN. Jesse's merchant desk managed the trade of milling quality spring wheat trains to domestic mills. He hopes his prior knowledge and experience will help clients achieve economic stability and maintain the dignity and value found in the farm family.

Jesse lives in Little Falls, MN with his wife and three children. In his spare time, Jesse enjoys landscaping, spending time outdoors, and going on adventures with his kids.

“There is not one life which God ever loses out of His sight; not one which is not so near to Him that whatever touches it touches Him with sorrow or with joy.”

Taken from our March 1, 1996 newsletter edition, this article, written by Jim Matthews, is just as relevant today as it was the day it was originally published.

What Will You Raise?

By Jim Matthews

In the midst of high commodity prices and an uncertain farm bill, one of the most asked questions this year is, "what are you going to raise on your farm?" When one farmer was posed this question, he responded with a classic answer, "The main thing I raise on my farm are kids." His response reminded me that one of the greatest priorities of a farmer with children is not to the crop, but to his children. Even though volumes could be written on the subject of raising children, I would like to mention three words to keep in mind as you undertake your farm operation's greatest challenge.

TIME – We all know that it not only takes the right growing conditions to raise a crop, but it also takes time. So it is with raising children. Your children not only need time, they need your time. I encourage you to take advantage of the time that you and your children have together. If your children are old enough to work on the farm, always remember your main objective is not merely to produce a crop, but to build a relationship with your child. Therefore, use this time not to become your child's boss, but his friend and co-laborer. It has been said that "rules without relationships lead to rebellion." In addition to spending time together on the farm, love your children enough to do things together off the farm as well. Sometimes this will mean shutting down the tractors or combines, but the time you spend with your children may well reap a greater harvest.

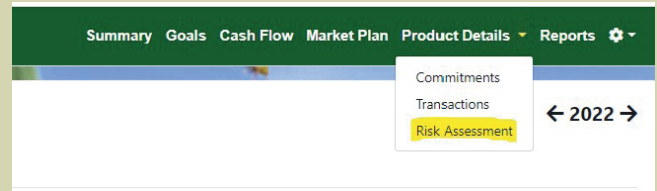
TALENT – One of the results of spending time with your children is that you will realize their particular God-given abilities and talents. Even though God is the giver of talents, we as parents have the responsibility of helping our children discover and develop them. Just as a football coach must separate the linemen from the running backs and work them differently, so we must do with our children. If you will match the right child with the right job on the farm, this child will find a sense of motivation and purpose that will not only make his/her life more enjoyable, but yours as well.

TRUST – In farming, there are many things that you must do to make a crop, yet there are some things that only God can do. So it will be in raising children. In spite of how hard we try, sometimes as parents we still can not provide all of the provisions, protection, and preparation that our children need. Therefore, we are reminded that our greatest responsibility is to introduce them to our Heavenly Father and trust Him to do what we cannot do.

HA Portal Highlight

Risk Assessment

As our producers gain a better sense of what their production looks like, it's a good time to look at what steps have been taken to secure revenue. The Risk Assessment is a great snapshot for producers and their lending partners. This page shows what has been set, the average value of those units, and what remains at risk (unset).



Henry Hurley-Nebraska - Risk Assessment

Summary

	Corn			Soybeans		
Floored	75			40		
Upside	190			40		
Hedged	50			30		
Committed	25			10		
Basis	25			10		

Corn	SET			UNSET			TOTAL	
	Units	Avg Value	Total	Units	Avg Value	Total	Units	Total
Futures	100,000	\$5,325	\$532,500	300,000	\$6,108	\$2,320,850	400,000	\$2,853,350
Basis	50,000	(\$0,150)	(\$7,500)	400,000	(\$0,270)	(\$116,100)	480,000	(\$123,600)
						Option Value		(\$5,275)
						Fee/Premium		(\$372)
						Current Product Revenue		\$2,724,103

Soybeans	SET			UNSET			TOTAL	
	Units	Avg Value	Total	Units	Avg Value	Total	Units	Total
Futures	30,000	\$12,750	\$382,500	40,000	\$13,803	\$552,100	70,000	\$934,600
Basis	10,000	(\$0,400)	(\$4,000)	60,000	(\$0,600)	(\$36,000)	70,000	(\$40,000)
						Option Value		(\$5,144)
						Fee/Premium		(\$149)
						Current Product Revenue		\$889,307

To view the Risk Assessment in the portal, go to the Product Details menu and select Risk Assessment.



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Trent Hurley, Chief Executive Officer
David Hurley, President of Hurley & Associates, Inc.
Ida V. Hurley, Founder
Dennis E. Hurley, Chairman of the Board

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Grundy Center, IA
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Britton, SD
605-277-1750

Cologne, MN
320-634-4001

Brookings, SD
605-705-4040

Glenwood, MN
320-634-4001

Wessington, SD
605-554-0230

Wheaton, MN
320-563-8490

Canyon, TX
979-272-2182

Caruthersville, MO
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Snook, TX
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573-683-3371

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