

# THE FARMER'S EDGE



HURLEY & ASSOCIATES

Agri-Marketing Centers

## Rail Transportation Update

By Tom Williamson

Railroads now have had over a year to refine Precision Scheduled Railroading. However, they continue to focus on trainload shippers, leaving most “manifest (single car) shippers” with serious service failures. We continue to deal with local service issues and cannot seem to find a permanent solution. Railroads have blamed Covid, holidays, and even spring break. Somehow they cannot plan for holidays and have crews available timely to provide the service shippers and receivers need.

**U.S. RAILROAD REGULATIONS:** President Biden has issued an executive order: to “Encourage the Surface Transportation Board to take up a longstanding proposed rule on so-called reciprocal or competitive switching, the practice whereby shippers served by a single railroad can request bids from a nearby competing railroad if service is available”.

Additionally, in its actions targeting the transportation sector, the administration is highlighting what it calls the dangers of consolidation. Three ocean freight alliances control 80% of the container shipping market. In 2000 the 10 largest container shipping companies controlled just 12% of the ocean-going freight business. The White House says that dominance has come at a cost for American exporters, allowing the companies to extract higher rates and to exercise greater power to charge fees like those for demurrage, essentially late fees on shipments that aren't

picked up from freight terminals on time.

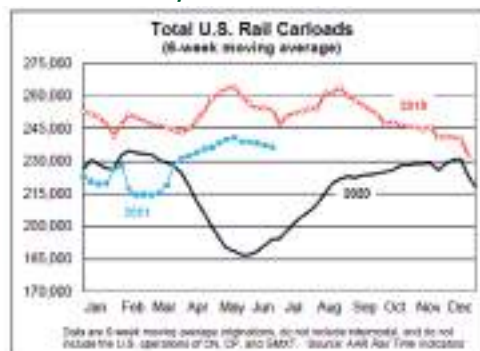
The economies of the U.S., Canada, and Mexico are in recovery stages, they are not back to normal, which means rail carloadings are less than expected this year.

**U.S. RAILROADS CARLOADINGS:** U.S. rail volumes in 2ND quarter of 2021 were consistent with an economy that's growing but has more growing to do and were up 23.8% over the same period in 2020 as Covid comps led to big year-over-year percentage gains. Total carloads in Q2 2021 were the most for any quarter since Q4 2019.

Volumes by commodity were mixed:

- I. Coal carloads have been trending down for years, but they've ticked up in recent months. In June 2021, they were higher than in any month since January 2020.
- II. Carloads of chemicals in the first half of 2021 were the most ever for the first six months of the year.

**CHART 1: SOURCE AMERICAN ASSOCIATION OF RAILROADS, RAIL TIME INDICATORS**



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# Rail Transportation Update

By Tom Williamson

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III. Carloads of industrial products, an aggregation of seven major carload categories, and the rail traffic category most closely correlated with GDP, were higher in Q2 2021 than in any quarter since Q3 2019.

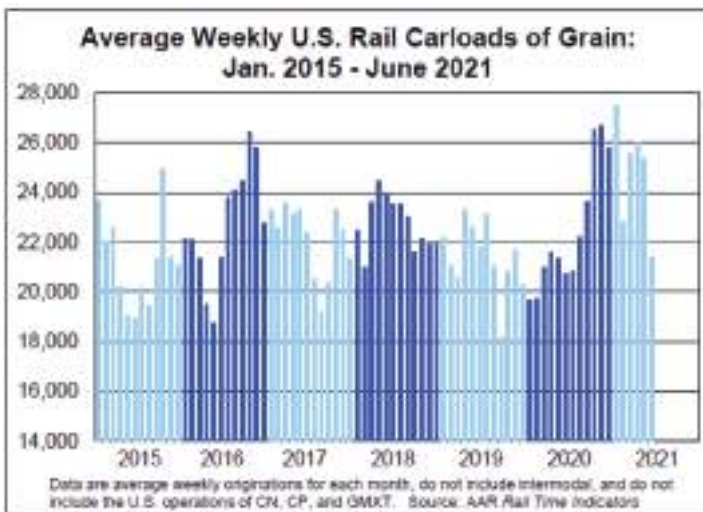
(See chart one)

**GRAIN CARLOADINGS:** Today BNSF and UP together are running more than 225-grain shuttle trains. Both have more capacity to add shuttle trains for grain if needed. These shuttles require grains to be concentrated by shuttle train loaders and put single-car shippers at a huge disadvantage from both a railroad rate and service-provided standpoint.

U.S. grain carloads in June 2021 were the fewest since July 2020 and up just 3.4% over June 2020. U.S. grain carloads averaged 21,431 per week. For the previous nine months, the average year-over-year gain was 24.5%. Grain exports have fallen off lately, which helps explain the drop in carloads of grain.

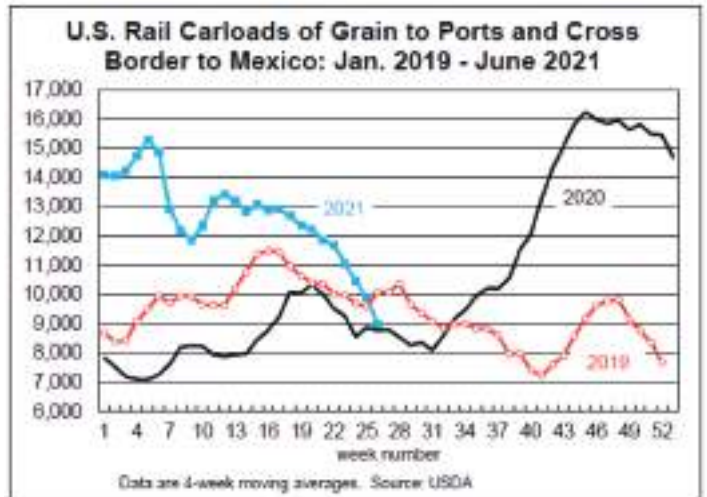
**In the first half of 2021, U.S. railroads originated 641,967 carloads of grain, the most for the first half of a year since 1990.**

**CHART TWO: SOURCE AMERICAN ASSOCIATION OF RAILROADS, RAIL TIME INDICATORS**



AAR's rail traffic figures for the carload category "grain" include barley, corn, oats, rice, rye, sorghum, soybeans, wheat, and grain not elsewhere classified. Most years, corn accounts for roughly a half grain carried by U.S. railroads, followed by wheat and

**CHART THREE: SOURCE AMERICAN ASSOCIATION OF RAILROADS, RAIL TIME INDICATORS**



soybeans. The complexity and variability of the grain market mean there's much more variation from one month and from one year to the next in rail carloads of grain than in rail carloads of most other

**CHART FOUR: SOURCE USDA GRAIN TRANSPORTATION REPORT**

Class 1 rail carrier grain carloads (grain carloads originated)

For the week ending 6/16/2021	FAR		TRN			U.S. total		Canada	
	COCT	NS	BNSF	UP	SP	CN	CP		
This week	1,948	2,427	18,258	1,138	3,898	21,973	1,888	528	
The week last year	1,802	2,687	8,898	1,011	4,734	19,732	4,787	1,689	
2021 YTD	48,854	64,895	518,908	35,051	81,273	632,981	122,638	133,865	
2020 YTD	44,422	48,540	277,988	38,971	128,588	469,969	102,673	110,748	
2021 YTD as % of 2020 YTD	110	134	187	93	63	136	120	120	
Last 4 weeks as % of 2021	38	50	9	130	110	95	95	101	
Total 2020	18,898	23,898	188,898	12,721	286,761	1,962,358	238,819	262,778	

commodities. Because huge amounts of U.S. grain are exported each year, there's a very strong correlation between rail carloads of grain to ports and total grain carloads. (See charts two and three)

Average July shuttle secondary railcar bids/offers (per car) were \$308 below tariff for the week ending July 1. This was \$49 less than last week and \$345 lower than this week last year. There were no non-shuttle bids/offers this week.

BNSF continues to dominate rail carloadings of grain originating over 318,000 carloads in 2021 to date with UP second at 162,000 YTD. Grain carloadings by the railroad are shown in chart four.

**RAILROAD MERGER:** Both Canadian National and Canadian Pacific have been seeking to merge with Kansas City Southern, with CN winning at this time. This will reduce the number of Class

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# China's Hog Market in Turmoil Again

By Darin Friedrichs

Hog prices in China have fallen steadily during 2021 and have reached new lows in the post-African Swine Fever period. Prices began the year at 37 yuan per kilogram but fell to only 12.65 yuan/kg at the end of June. This situation was exacerbated for farmers as they continue to deal with historically high feed prices, and their margins were pushed to some of the lowest points in the past 20 years. This huge reversal has the government scrambling to reverse course and to buy pork into their stockpiles and prop up hog prices after spending the past 2 years selling from stockpiles and encouraging more production.

Several factors may have led to this situation and examining these will also help guide expectations of how the market will look in the future.

First, hogs were too big. Since June 2019, hog prices have been incredibly high, but also volatile. If prices were low one month, they were probably going to be higher the next month. Farmers started delaying slaughter if prices were low, feeding their pigs to heavier weights, and then selling an even bigger pig in a month or two when prices were higher. In 2021, when prices fell from January until March, many farmers held back their pigs to keep feeding them to heavier weights and were betting on a rally. That rally never came, and farmers had to throw in the towel and sell. This led to a wave of much larger hogs hitting the market which pushed prices down.

Second, imports were strong. Since ASF began, China has been importing record amounts of beef and pork to help supplement the domestic market. But these imports have also been subject to strict scrutiny at the ports as China continues to aggressively test imported cold-chain products for coronavirus. This slows down the supply chain and a lot of product sits in cold storage longer than it did before. A lot of this imported supply came into the market earlier in 2021 which helped depress prices.

Lastly, consumption is lower. There is usually a seasonal decline in pork consumption over the summer. But consumption overall seems to be at a lower baseline now. Consumers dealt with

incredibly high pork prices for nearly two years, and this likely shifted some buying habits. Some consumers spent a bit more and began eating more beef, while others looked for cheaper options like poultry or eggs.

In the short term, prices are low and this will likely weigh on import demand. However, prices of 12.65 CNY/KG aren't sustainable for the industry. As China's pork industry has become more professional, it has also had to deal with more costs for things like biosecurity to prevent ASF, environmental protection, and full-time employees. These added costs have raised the breakeven cost for the industry.

Depressed prices may not be good for imports in the short term, but over the long-term consumers have become more accustomed to imported and frozen meats. Consumers are also increasingly buying groceries online and having them delivered, a trend that was supercharged by COVID-19 and the lockdowns. This means less focus on fresh pork in the local market. Instead, it means grocery apps showing pre-packaged local pork alongside imported alternatives.

The volatility that has been a hallmark of the hog industry in China seems likely to continue, but African Swine Fever has led to major changes in the market that are likely to persist for years.

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*Darin Friedrichs is a senior Asia commodity analyst with StoneX Financial Inc. – FCM Division. He writes a market intelligence service called China Direct and can be contacted at [Darin.Friedrichs@StoneX.com](mailto:Darin.Friedrichs@StoneX.com)*

# The Dangers of Thinking in Absolutes

By Jackson Waage

A few weeks ago, I found myself back in my hometown of Groton, SD catching up with friends on life and family. As we stretched further into the night inevitably, coming from a rural farm community, the crop markets got brought up. We happened to be talking about how the crops were dealing with the heat stress and I got asked a question that I have heard numerous times over the past few months: "There's no way the markets go down from here, is there?". I smiled and thanked him for giving me the topic to my next newsletter article – The Dangers of Thinking in Absolutes.

Let us first take a step back in time to June 2020 and remember the headlines. The United States just made it through a spring mired with COVID lockdowns leading to an expected record decrease in oil consumption. There was growing fear of ethanol plants closing their doors due to lack of profitability. The USDA announced in the monthly WASDE report that we had a projected record carryout of 3.32 billion bushels of corn and 395 million bushels of soybeans after the 2020-21 Crop Year. As we made our way through the summer of 2020 there was a sentiment within the ag community that higher prices were a thing of the past and that it would be years before we would have an opportunity to see sustained profitability.

Fast-forward to July 2021 and the headlines flipped the script. Crude oil prices climbed back to pre-COVID levels as global demand recovers. Ethanol plants and export facilities are competing for bushels, offering corn basis bids at levels we have not seen since the 2012 drought. The USDA announced in the July WASDE report that we will have an estimated record carryout of 1.08 billion bushels of corn and 135 million bushels of soybeans after the 2020-21 Crop Year, slashing their June 2020 estimates into 1/3. As we make our way through the summer of 2021 there is a new sentiment that \$5.00 corn and \$13.00 soybeans are here to stay.

If someone would have told you last June that we would see crop prices rally to our current levels, you would have laughed them out of the room. And that is the point. Attempting to predict something with as many variables as the corn and soybean

market is setting an unrealistic expectation where a person will consistently fail. Whether it be June 2020 when the assumed outlook in agriculture was grim or July 2021 where the growing assumption is assured years of financial prosperity, I would caution the idea of absolute thinking as the only thing that is guaranteed is what we have today.

Instead of investing time attempting to outguess the market, I would challenge you to sit down to analyze your own operation's current opportunities and threats. Challenge the status quo and determine if there are key decisions you can make today to reach goals and milestones down the road. Here are a few questions you can answer to get started:

- How do you define success regarding your farm operation?
- What are my 1-year, 5-year, and 10-year financial goals for the operation? Can I reach any of those goals today with where 2021, 2022, & 2023 prices are?
- Am I allowing the fear of rapidly increasing input costs to hold me back from making strong business decisions to secure revenue? Is my fear of increasing input costs for next year rational based on history?

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*Jackson was raised in Groton, South Dakota and enjoyed helping at the family farm run by his grandfather and uncle near Houghton, SD. He attended South Dakota State University where he studied Agricultural Economics, as well as Ag Marketing. After completing a Grain Marketing Internship at a large Co-op in Northeast South Dakota, Jackson realized how complex, yet key, creating a strong marketing plan is to the success of the family farm. He was then afforded the opportunity to intern with Hurley & Associates in 2014 where he strengthened his knowledge about farm risk management.*

*Jackson was hired on as a Farm Marketing Consultant with Hurley & Associates in January of 2015. His favorite part of the job is applying personalized marketing plans to each individual producer, as well as furthering clients' education in the marketing tools available. Jackson enjoys golfing, hunting, and helping at the family farm during harvest during his free time.*



# The New Delta Variant and Continued Fallout from Covid-19

By John A. Johnson

Just when we thought the Covid-19 virus was about to go off our radar, we discovered the Delta variant, which is as contagious if not more, than the original strain. The discovery of this heretofore unknown variant raises fears of more lockdowns, more mask-wearing, more public facility closures, and generally a return to the sequestered lifestyle that will forever memorialize 2020 and early 2021.

At this writing, the Dow opened some 850 points lower and traded at a loss in the 700-800 range for most of the day. A lot of the stock market volatility is driven by the shrillness of the rhetoric from both sides of the political spectrum as our views seem to become more segmented and polarized. There is more unrest in our country than we have seen in years, due to the problems at our southern border, crime rising in our cities, and the ever-looming threat of economic inflation as the Federal Reserve continues to pump "liquidity", (aka cash), into our system like glucose to a very sick or weak patient. It is very unnerving for people who have saved diligently for years to provide for security in later years or to help face unexpected emergencies to see the prospect of those savings melting away as inflationary pressures begin to show up in the price of everything that we have to have.

Recent price increases in food, fuel (neither of which are included in the federal government's inflation calculation, by the way), and other necessities are primarily driven by a combination of shortages of products to buy and consumers that have the cash available and desire to purchase those goods. Those shortages are due to several things. One, our productivity is down due to so many of our manufacturing facilities being closed to avoid the possibility of Covid-19 infections among their workers. Other plants are unable to acquire parts or materials because their suppliers are shut down. Production in most cases is a chain, if any one of the links breaks, the chain breaks. There are some weak links in a lot of our production chains.

Also, many of our goods that are normally imported either can't get into and unloaded at our shipping ports, due again

to pandemic-related short crews. When they do manage to get the goods to the docks, our internal transportation is somewhat bound up by, you guessed it, Covid-19 related driver shortages for the big rigs that are responsible for moving goods from our ports of entry to interior markets.

Most of the supply bottlenecks are attributed to the lack of available workers, some of which are being blamed on the generous unemployment benefits that are presently being bestowed on so many of our workers.

Our country is beginning to see the possibility of the same dilemma that many third-world countries have run into throughout history. No matter how much fiat currency one prints and delivers, if there's no product to buy, especially food, fuel, clothing, and shelter among others, there is hardship, privation, and ultimately chaos.

The Federal Government's economists are attempting to pour "oil on the waters" to calm the current state of anxiety by declaring that the shortages of goods, the inflationary pressure, and a spike in Corona cases are all temporary and just a function of the re-opening process. As one well-read economist used to say "Time only shall tell".

The rest of the world is involved in the same issues with the pandemic as the U.S., and facing many of the same problems.

Meanwhile, we are having to deal with mischief out of Russia and China in that we are suffering a rash of cyber-attacks on some of our major industries. The problem started when a well-known meatpacker paid a hefty ransom to a group of hackers that had burrowed into their software systems and caused the company to have to close several locations for a few days. As soon as the dust cleared from the first announcement of the ransom being paid, there was very soon another attack, which also yielded a multi-million-

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## Consultant Spotlight: JAMES MILLER



### What do you most enjoy about your job?

I enjoy harvesting the most. It is the time of the year for our clients to get paid! All the fruits of our planning and scheming come to fruition.

### How did you get started in your career?

For 10 years, after graduating from Texas Tech, I owned a custom harvesting and manure spreading business in Hereford, Tx. After selling that business I somehow was put in touch with Dr. John Miller. At the time, my family and I were living in San Antonio, and we were thrilled to be given the opportunity to move back to the Texas Panhandle.

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

Teaching the proper integration of a trade account into a client's business. We can always re-own your "gut feeling" in the trading account after making cash sales or we can buy a profitable floor using puts if cash sales are not advisable at the time. At the end of the day, our job is to make sure our clients pay the bank back and can pay themselves.

### What would be your ideal vacation?

A ski trip to the mountains where it is not too cold and I do not get too sore.

James was born and raised in Hereford, Tx where his family has lived and farmed since the 1960s. He graduated from Hereford High School in 2000. In the fall of 2000, he enrolled at Texas Tech in Lubbock. There he earned two undergraduate degrees in both accounting and finance. In the summer of 2005, he received a Master's of Science in Finance. From 2005-2014 he owned and operated a full-service custom farming and harvesting business specializing in silage harvesting based out of Hereford, Tx. Since 2016 he has worked at Southwest Agribusiness Consulting. James and his family currently live in Canyon, Tx.

## The New Delta Variant and Continued Fallout from Covid-19

By John A. Johnson

*Continued from page 5*

dollar payment. Since then, reports are coming almost daily of another business being attacked. All of this is in the shadow of no reaction or action from our federal government. What else should we expect?

The only way to retain one's sanity amid all these developments is to keep our eye on the big picture. Despite major ups and downs, the markets are all higher than they were at the turn of the year, and we were jubilant at the levels seen then. Consumer spending continues to drive a robust retail economy. Lastly, the Federal Reserve is continuing to promise lower rates for at least the balance of 2021. Cheap loans almost always promote prosperity in the longer term.

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*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.*

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## Rail Transportation Update

By Tom Williamson

*Continued from page 2*

One railroads from 7 to 6 if the U.S. Surface Transportation Board approves the consolidation. It does not reduce competition, as it is an end-to-end merger for the most part.

**RAILROAD SERVICE:** Generally, railroad service continues to improve according to most metrics reported by AAR. Car dwell time, train velocity and on-time performance are improved y/y. However, these metrics do not show how often railroads meet their stated service for trip plans. Using a small recent sample, over 80% of BNSF's grain carloadings are in shuttle trains and have excellent turn times. The other 20% are not in shuttle trains and have marginal service.

### Conclusions:

We need to revisit railroad regulation and permit "OPEN ACCESS".

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# Rail Transportation Update

By Tom Williamson

*Continued from page 6*

Railroad rates continue to increase but service is not improving to offset the increased costs for shippers, this is especially negatively impacting grain shippers.

Railroads are Oligopolies and their pricing power is being used to continue to increase rates substantially above their increased cost of operations. Their operating ratios and stock prices reflect this fact.

**MY VIEW:** *I have not been a proponent of additional regulations. But I now find myself supporting OPEN ACCESS. That is, allowing shippers to have access to ship via any railroad that serves the town in which they are located. When a company's plant was open to reciprocal switching was determined years ago and changed substantially as mergers took place. Why not open all facilities in a town to reciprocal switching and set a reasonable rate for the switch? This will allow shippers to access more options for their shipping needs. Railroads are oligopolies and are utilizing their market power to set rates. We have always understood that railroads priced their services at "WHAT THE MARKET WILL BEAR". With only 7 Class One (soon to be 6) railroads, railroads have the marketing power and know-how to use it. Rail shippers need more options and OPEN ACCESS is a move in the right direction. .*

Tom Williamson owns Transportation Consultants Co. (TCC) which he started in 1984. TCC is used by many major agriculture firms for the outsourcing of some or all of their corporate transportation functions. Tom has extensive experience in transportation of bulk and consumer commodities on every Class I railroad and on every navigable river in the U.S. TCC clients include grain, grain processing, ethanol, alcohol and food companies. TCC also charters both barge freight and ocean freight.

Tom was Director of Transportation for Anaconda Company from 1970 to 1975 and Assistant Vice President of Continental Grain from 1975 to 1981.

Tom and his wife Terry own Iron Horse Railcar Management that manages private rail car fleets and tracks the rail car leasing market and negotiates leases for railcars for clients. They also own Locomotive Leasing which buys, rebuilds and leases switch engines.

Williamson was raised on a farm in West Texas, graduated from Texas Tech with a BBA in Transportation and graduated from the New York Academy of Advanced Traffic.

Tom has a married son that splits his time between Boston and Tokyo and has twin (boy and girl) grandchildren.

## HA Portal Highlight

### Delivery Commitments

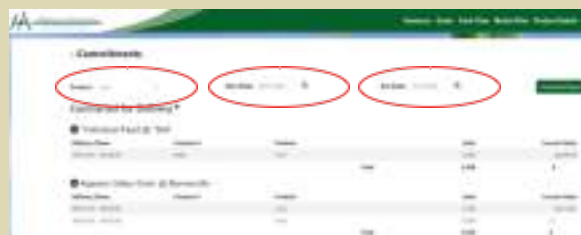
By: Mindy Whitehill

The Hurley portal is a great place to help you prepare for your harvest delivery plans. You can review the location, timeframe, and quantity factors of your delivery commitments and then customize a delivery printout for whomever is hauling your crop. For example, you can specify a certain crop and a date range to narrow down your specific delivery needs. Here's how you can do it.

1. Go to Product Details and then select Commitments



2. Then select your product(s) and specify the start and end date.



3. Lastly, you can click on the green Download Report button to e-mail or print it. This report will not have any values (\$) on it, so you can keep that information private from your drivers.

Delivery Dates	Commit #	Product	Units
10/1/19 - 10/31/19	1000	Feed	2,000
		Total	2,000

Delivery Dates	Commit #	Product	Units
10/1/19 - 10/31/19	1000	Grain	2,750
10/1/19 - 10/31/19	1000	Grain	6,750
		Total	9,500



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