

THE FARMER'S EDGE



HURLEY & ASSOCIATES

Agri-Marketing Centers

Higher Interest Costs Loom Ahead Amid Global Shortages in Food, Energy, and Transportation

By John A. Johnson

The world's economy is in a more nervous and chaotic state than it has been for many years, as Russia's brutal invasion of Ukraine has greatly disturbed the relative peace that we have enjoyed for several decades. The ensuing embargos of oil and other goods have disrupted the world's supply chain, especially as is evidenced at our local gas stations and grocery stores. Many store shelves are sparsely stocked as both international and domestic transportation has failed to catch up with the pent-up demand of our Covid 19-suppressed economies.

Countries around the World are scrambling to effect new strategic alliances and shore up old ones, as energy and food suddenly become some of the most important things on earth. The U.S.'s decision to reduce development and production of fossil fuels couldn't have come at a more inopportune time, as we have become beholden to Russian oil production to augment our own energy supply. The spike in fuel prices at the pump attests to how badly we want/need the fuel. We know it must be serious when our country has to appeal to Venezuela to bail us out.

The U.S. recently decided to cut off buying oil from Russia it has to come from

somewhere, and as we find a new source, that oil is taken away from someone else. When we stop buying oil from Russia and find a new supplier, we will almost surely displace the supply that some other country was using. When that happens someone else has to take oil that they weren't getting before, and on it goes. Our guess is that at some point it will revolve right back around to Russian oil for someone. They will still be able to sell it in an energy-hungry world.

The countries involved in the current war are some of the World's major producers and exporters of wheat (Ukraine) and petroleum (Russia). As various countries, either by choice or by force, leave Russia and/or Ukraine as customers, their people still have to be fed and the machinery still has to run.

The global food situation is in jeopardy, and possibly more critical, than the energy situation. The perfect storm of too much cash chasing too few goods is coming more into focus each day. The western 2/3 of the U.S. is suffering from drought, ranging from moderate to extreme (extreme being the most severe designation that the Weather Service has), right here at planting time for Spring/Summer crops. Brazil has lowered its estimates of soybean production each month for the past 4 months, and Ukraine



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Higher Interest Costs Loom Ahead Amid Global Shortages in Food, Energy, and Transportation

By John A. Johnson

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(number 3 in the World for grain production), has announced that at least 40% of its grain crops, will not get planted as a result of this current Russian invasion.

Another “fly in the ointment” for food production is the world-wide shortage of commercial fertilizer. Nobody knows yet if we will have available fertilizer for our crops, much less at what price it will be available. Again, pandemic related production issues, in addition to the snarled, global transportation system is making life and economics very uncertain.

Sky-rocketing food prices and shortages will not go away with the passage of a government edict; it will require a lot of work, favorable weather, and peaceful conditions to bring about solutions.

Turning to our domestic economy, The U.S. Federal Reserve Bank (aka the “Fed”) is beginning to embark on a tightening phase of our economy following its March meeting.

The Fed's job is to regulate our economy's inflation and stability by either raising or lowering the interest rate that reserve banks charge to their member banks. The cash that the Fed uses to fund these loans is raised through the sale of U.S. Government bonds. The member banks, in turn, use the money to fund loans to their credit-worthy customers. When the economy shows signs of overheating, that is when the money supply becomes too large for the amount of goods available for purchase, prices begin to surge out of control. That's when the Fed steps in and begins to incrementally raise rates until the demand for loans slacks off, thus reducing the money supply and therefore stabilizing prices for goods and services.

The other major tool that the Fed has for regulating the money supply is to adjust the number and amount of bonds that are sold. When they sell more bonds, and “inject” that money into the system it expands the money supply. That, coupled with reducing interest rates, has come to be known

as a part of “quantitative easing”. On the other hand, when they begin to allow more bonds to be paid off and retired, or not replaced as interest rates rise, that is known as “quantitative tightening”. We are about to enter the tightening phase of higher interest rates and bond reduction as the Fed attempts to reign in the inflation that is racking the country. The topline rate on the PPI Report (PPI is the acronym for Producer's Price Index) of March 15th, shows the U.S. to be suffering through an inflation rate of 10% if annualized.

The 50-basis point rate hike, (1/2 of 1%), that was widely touted as expected by many Fed watchers, seems to be fairly well off the table at this time. The economic direction and velocity became somewhat muddled by the flare-up of open warfare as the result of Russia's invasion across their border of their neighboring Ukraine. At this time, nobody knows how far-reaching and destructive to the World's economy that conflict will become.

As we collectively try to figure out how high the Fed rate could go, educated guesses range from 3 to 7 rate hikes of 25 basis points each, (1/4 of 1%), for the balance of this year, and as many as 12 rate hikes by this time next year. Hopefully we won't see the cruel, 15% Fed funds rate that we experienced during the Paul Volker years!

In summary, let us simply point out that we have some economic issues, both global and domestic. Each of the several problems we have, in order of importance; war, food, energy, transportation and last but not least the availability of capital and the cost of that resource will determine our global and domestic economic destinies for many years to come.

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.

The following article was written by our founder, Ida V. Hurley, in September 1996. Today, twenty-five years later, this article still holds true. As a company, we continue to embrace Ida's vision and we hope it resonates with you as well. The fact that volatility provides opportunity remains constant...Are you taking advantage of these opportunities to grow?

Coping with Volatility

By Ida V. Hurley
September 6th, 1996

We have all just come through the most volatile summer in history of agriculture for corn and wheat prices. The risks seemed insurmountable at times. The basis for corn in many areas was as much as \$1.00 over September futures for August delivery. It took a record southern corn crop to pull us out of a very tight supply of feed grains. Once the supply came to the market, the basis dropped \$1.00 a bushel.

Some producers are hoping they never see another year like this one. Others are saying that this is the opportunity they have been looking for. Why do some people view volatility as an insurmountable risk and others view it as the opportunity of a lifetime? The answer lies in one's ability to adapt to change.

Volatility is rapid change and change is frightening. This makes it increasingly important to be focused. Often when change is going on around us, we feel out of control. If you feel that way, take a few hours away from the "pressure chambers" and think through the following:

1. What is really going on around me to bring about the changes I am seeing? Why is demand coming from China for our products? Is the industrialization of China and other Asian countries going to cause more demand for raw products as they gear up to add value? Will it increase their meat consumption? What are other producers doing to manage their rise without the government programs? How can I adapt to competing in a world market? How can I surround myself with people to motivate me and support me as I attempt to adapt to these changes?
2. Where there is change there are needs. Where there are needs there are opportunities. How can you help meet those needs? Where do you fit in? All of us are suited for different roles in agriculture. This is going to the era of specialization. It is going to become more important to be able to relate to people. Decisions will have to be made jointly with other family members or with outside consultants. What can you do better in your area of expertise and what can you delegate?
3. What do I really want out of life? More money? For what? This is the primary reason for not making good marketing

decisions. If your life is balanced between your needs and the needs of others, with you as the caretaker of both, you will have no real goals and your motivation for farming will simply be to get a rush out the marketplace. This is pure and simply an addiction to adrenaline. We all have a purpose in life and the more we are in tune to what that purpose is, the more we will understand what it is we really want out of life.

4. Have I lost faith in a power higher than myself that I know is ultimately in charge and will, if I allow Him to, guide me and give me the wisdom to go through times of uncertainty?

The more thoroughly you think all the above matters through, the more focused you will become. What you think is what you become. It is the difference between reacting to circumstances in your life or making opportunities out of the circumstances in your life. In this age of information and knowledge, and with the vast amount of needs around us, money problems are a combination of not having an idea of how and where we can help meet needs; a plan of action to incorporate our ideas; and the discipline to follow through. Once you are truly focused, your emotions will not rule. When your emotions no longer rule you are in charge. You have a choice.

There is one thing you cannot change and that is -change. You have to keep growing. You have to keep thinking. You have to keep learning. If you balance your business correctly, the joy will come back into it, and you will have the motivation you need to adapt and you will lead others to adjust along with you.

To determine if you are leadership material, look at where you spend your free time. How many productive hours do you put in your work week? How many of the fifty-two weeks in a year are truly productive? If you worked hard physically in agriculture, you were successful in the past. We have reached a new level accountability. We now have to spend

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Who's On Your Team?

By Matt Kuerth

What are the areas of farming you enjoy doing most? In a calendar year, what qualities of your position can you confidently say you find joy in doing and drive your passion for farming? Conversely, what are the areas of farming that you don't look forward to? What are the physical chores, in-town meetings, or business decisions that you simply aren't excited to do? However, are each necessary to the operation's success? What areas of the farm do you utilize outside teammates to achieve the goals you have set for your operation?

A common theme shared in educational events I have attended this winter, regardless of the meeting's specific focus, has been the concept of a team. The commitment to working towards accomplishing a common goal or specific objective is what defines a team. The ag industry continues to evolve. Successful operators continue to identify areas that a shift in technology, farming practice, or trusted advisor may pay dividends. By asking yourself the questions above and evaluating different areas of the operation that apply, you can determine where opportunity may lie. Farming is a practice that offers much independence. Finding trusted advisors may be a difficult decision to make, but essential to forming a successful team. Plain and simple, people need people.

The most valuable commodity on your farm is your time. There are professional resources available that allow you to free up your time and incorporate another teammate's insight. The determination then comes to how you value the qualities everyone brings to your team. Identifying which outside qualities you value or desire collaboration on is the art of creating your own team around your own strengths and weaknesses.

The structure of a team for each farming operation is different. Family members are typically the first teammates that come to mind. This is a unique quality of the ag industry. There are numerous benefits to having family involved directly in day-to-day operations, and arguably one of the biggest benefits to farming. Having that next generation sitting next to you in the buddy seat of the tractor is a special quality that can't be matched. Beyond family, other teammates may include lender, accountant, bookkeeper, agronomist, crop insurance agent, marketing consultant, nutritionist, etc. Look to find those potential people that could be a good fit for your operation, and prove to be a good resource for not only you, but others operators you know. The concept of "good peo-

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Consultant Spotlight: SCOTT DETHLEFSEN



What do you most enjoy about your job?

Working with like-minded people to make a difference in our clients, lives and businesses. It is tremendously fulfilling to have that common goal of helping farm families achieve their

goals.

How did you get started in your career?

I was a former lender and had Hurley & Associates present to our customers. Hurley's approach to marketing and explanation of tools used made sense and started to chip away at the farmers fear of unknowns.

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

Finding solutions that work for the client and drawing on my experience to help clients make informed decisions. Additionally, I enjoy creating networks, and introducing clients to needed resources. "It takes a village to raise a farmer!"

What would be your ideal vacation?

Either on a sailboat in the BVI or on a mountain top skiing!

Scott grew up on a diversified livestock/grain farm in southeast North Dakota. He attended North Dakota State University, graduating with a bachelor's degree. After graduation, he started his career with USDA, APHIS in Denver, Colorado. A desire to get back to his roots in North Dakota found him accepting a position with Bell Farms of Wahpeton, North Dakota. While working fulltime, he also farmed and raised cattle by expanding his parent's operation near Oakes, North Dakota. An opportunity to exit production ag and enter finance/insurance found Scott accepting a loan officer position with AgCountry Farm Credit Services in Fergus Falls, Minnesota and he eventually became Branch Manager.

Today, Scott's career path has brought him to Hurley & Associates, finding solutions for producers' farm marketing needs. A solid background and understanding of finance, insurance, production agriculture and regulations will promote successful partnerships with farmer clients.

Scott and his wife currently reside in Starbuck, Minnesota. They have two grown sons and a passion for international travel and sailing.

Who's On Your Team?

By Matt Kunerth

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ple knowing other good people" rings true in the ag industry.

Once you have your teammates in place, leverage them. The business we are in offers many unknowns and variables outside of our control. However, we can influence what our plan is moving forward, and how we respond to environments we are in. Together a team can create clarity amidst chaos. Concepts teammates have implemented with others may be viable for your operation as well. Once you know that your operation has its own unique differentiators, you can discover what suits you by gathering insight from additional teammates. Each person's education and life experience will allow them to see the opportunity through their own unique lens. You can then circle back, and address questions or concerns considered by others. When you have decisions that you want your trusted advisors to collectively weigh in on and clearly define the plan of action, invite them to participate in a joint meeting. Create a network of teammates that share information from one to the other. People who are equally informed, seldom disagree. By taking this course, a new idea may take time to discover and apply, but small pebbles can make big ripples.

Lastly, as the one creating the team, your role of outlining and communicating clear expectations is vital to realizing success. Before success can be realized, it needs to be defined. Define for yourself, and your team, what success looks like for your operation. Communicate how their service provides value, not only for the direct area of the farm they impact, but how it holistically works toward achieving the goals

you have for your farm. The team you create around you works to achieve your farm's definition of success.

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.

Coping with Volatility

By Ida V. Hurley

September 6th, 1996

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a great deal of time in acquiring knowledge, reflecting on the changing needs around us, communicating with other people, planning and implementing plans.

In many motivational seminars across the country, they talk about the "law of the farm". They mean that farming is the one industry in which there can be no procrastination. If you don't plant in a timely manner—you don't reap when the fields are ready, the product of your labor immediately de-

teriorates. You cannot be indecisive in agriculture. Weather won't let you. Markets won't let you. People won't let you.

Volatility, therefore, should be looked upon as an opportunity to grow. Not something to fear. Faith is a force that is greater than fear if you exercise it. The mission of Hurley is to help you adapt to change and to adapt to volatility. If we can be a part of your management, please call one of our consultants.

Working Through Uncertainty

By Andrew Fink

Uncertainty is all around us in almost every aspect of life. For some people, navigating uncertainty is exciting and gives them great amounts of thrill (i.e., cliff diving)! Others, myself included, find uncertainty to be rather undesirable. If you think about it, most of the decisions we are confronted with daily revolve around eliminating uncertainty. What am I going to wear, what am I going to eat, how am I going to get everything done, what impact am I going to have on those around me, and what topic am I going to write about for the company newsletter?

In business, uncertainty may prevent us from taking decisive action. However, there are a myriad of technologies and processes that we have developed in agriculture to minimize uncertainty. Drain tile, irrigation, seed technology, conservation practices, confinement structures, and improved animal genetics are all designed to reduce variability of production. On top of that, revenue insurance products and government programs can minimize the impact to our businesses in the event we do realize a production setback.

There is no doubt that commodity markets are unpredictable and inherently introduce uncertainty. Fortunately, there are a tremendous amount of tools available to manage revenue and cost variation due to market price fluctuations. If the question, "What if prices go (up or down) overnight?" is keeping you awake, then your marketing plan probably needs to be revisited and adjusted.

From a personal standpoint, the recent events of war and devastation in Ukraine have most definitely put some perspective around the uncertainties that I allow to cause stress in my life. My basic needs are met, and I am fortunate to live in a country where personal freedoms are the norm, rather than the exception. Simple conveniences that I can't imag-

ine living without would have been considered luxuries just a few generations ago.

Finally, I am grateful for the certainty of salvation bestowed on us through faith in Jesus Christ. There is so much comfort in having certainty, and if you have been to a funeral recently you have probably witnessed that. If you are experiencing stress from uncertainty in any aspect of your life or business, I would be willing to bet there is a solution waiting to be found! It may not be an easy search, but the effort required to find clarity is a small price to pay for the peace of mind that clarity can provide.

Andrew grew up on a grain and livestock farm near Delmont, SD where he developed an appreciation for agriculture and the work ethic that goes along with it. He was active in 4H along with his three siblings and enjoyed showing hogs each summer at the county fair.

Andrew attended SDSU in Brookings and has a degree in Agricultural Engineering and a minor in Economics. After graduating he went to work for Pella Corporation at their custom facility in Shenandoah, IA as a manufacturing engineer. Most recently he held the position of engineer team leader, leading the engineering, IT, and maintenance departments.

Andrew joined the farm marketing team in 2016 when he and his family moved back to South Dakota where his wife could pursue a cancer research career with SDSU and they could be closer to family. Andrew is excited to be working in agriculture again and believes that the Hurley approach offers producers a competitive advantage.

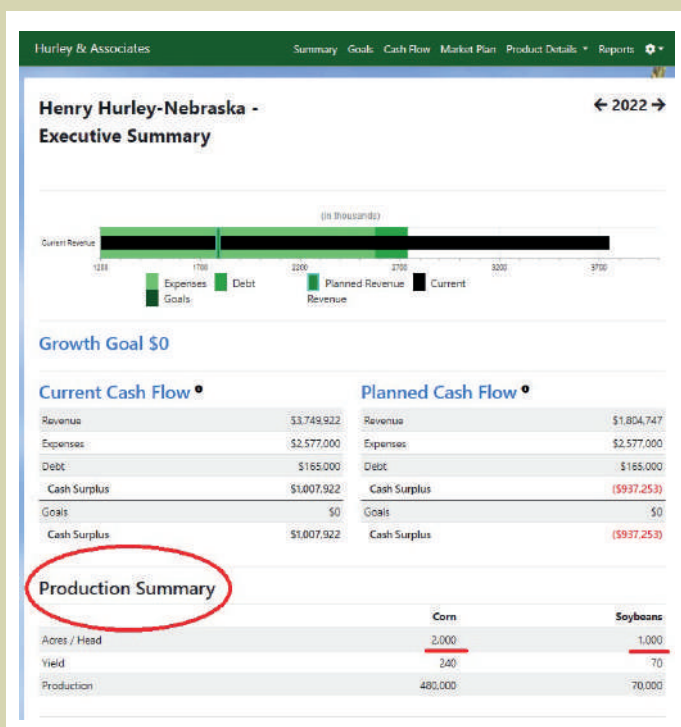
The farmer has to be an optimist, or he wouldn't still be a farmer.

– Will Rogers

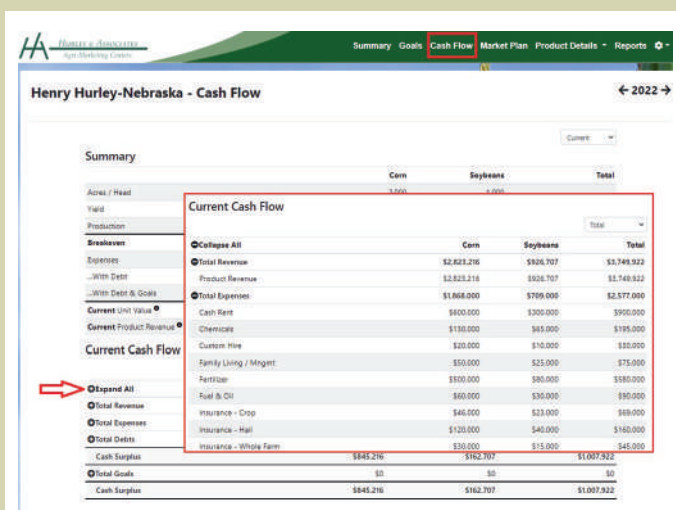
HA Portal Highlight

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 productions, thus 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. Scroll to the bottom of the page to e-mail or call your Hurley team.



Verifying the production information on your Executive Summary.



Updating any of your cash flow categories which include expenses, income, debt, and goals.

Agriculture for an honorable and high-minded man, is the best of all occupations or arts by which men procure the means of living.

– Xenophon



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