

## **What should farmers consider before deciding whether to purchase now or in 2019?**

Allocating expenses in 2018 vs 2019, or “prepaying” as we called it at the cooperative I spent a decade with, is partially a function of taxes and income, so those factors will drive some of the decisions. Another factor is the cost of money; are the early pay discounts enough to make it worth prepaying? They usually are, so the next questions revolve around supplier/market flexibility.

How easily can you change products with your retailer? Is there any penalty for locking in early, or for waiting? For example- take NH<sub>3</sub> vs urea vs UAN. We got little to no fall NH<sub>3</sub> on in many regions, which will put a lot of pressure on the entire system next spring. Moving that volume of tonnage can run into all sorts of challenges at both ends of the spectrum. On the production/transportation end, storage and transport will be issues, and if those go better than expected we still aren't out of the woods. If wholesalers can get enough NH<sub>3</sub> to retailers this spring, will retailers have the capacity to keep up? Are there enough applicators and nurse tanks to keep everything going? And what if tough spring weather compresses our spring NH<sub>3</sub> season? The trend in wet springs where it is hard to get NH<sub>3</sub> on is for a shift towards dry or liquid N.

So if you are planning on spring NH<sub>3</sub> and prepay for it, what happens if you want to switch some acres to dry or liquid? Do you get the same pricing and discounts that were available for dry and liquid at the time you paid for the NH<sub>3</sub>? If the fertilizer markets have moved up or down significantly, what happens with your prepay dollars if you switch? Is there a penalty for not taking any NH<sub>3</sub> tons you had locked in? These are a few of the questions that tend to come up, so the best bet is to have a conversation with your suppliers about fertilizer prepay.

With chemicals, there tends to be more flexibility, but it never hurts to ask if there are any issues with switching things up from the prepay plan. When it comes to seed, well, there's another good conversation to have. In addition to some of the same issues we discussed with potentially changing fertilizer plans, another concern with big changes in seed orders at springtime is availability of the best genetics.

What's the outlook for fertilizer (P, K, DAP, urea) and fuel prices do you see for 2019 planting?

The outlook got a little cloudier when Russia seized three Ukrainian naval ships and took their crews prisoner recently, prompting Ukraine to declare martial law in parts of their country. Global issues impact global markets, and fertilizer and fuel are definitely global markets.

Right now, it looks like the 5 or 6 year run of mostly declining and favorable fertilizer prices is done for a few years at least, with prices rising since last summer. With the pricing I've been given, compared to a year ago we are seeing phosphates up anywhere from \$50-80 a ton, potash is up 20-50, and NH<sub>3</sub> is up around \$80-120. These inputs will likely remain higher than last year whether we prepay or wait, so it becomes a question of what happens to pricing between now and spring, which is hard to answer. Typically phosphates and potash trend up a couple of percent towards spring. Nitrogen... harder to tell what will happen. Odds are higher that prices will rise towards spring, but things can get complicated with supply/demand/logistics issues among NH<sub>3</sub> vs dry vs liquid N in springs where there are big shifts among the nitrogen products.

So back to the Russian/Ukrainian tensions, or tensions we have with China over tariffs, or any number of other issues around the world that can impact our fuel or fertilizer markets. We don't really know what,

if any impact they may have, or if any escalation in these situations will occur. But a look back in time shows how much things can change in short order.

Right around 10 years ago the fertilizer markets were going crazy- phosphorus and potassium prices were hard to track as they were changing so quickly, but ballpark averages had P around \$1,000 to \$1,200 and K from \$800 to \$1,000 a ton. A few years prior to that, P was around \$300 and K just over \$200.

I don't know of any industry experts or global trends that would point to prices going that far up or down in the next few years; rather, it illustrates how volatile fertilizer markets can be.

Fuel can be fickle too, although right now things seem pretty quiet. A fair amount of farm fuel is already locked in, and since it is hard to see much downside risk vs upside risk, my guess is that more will be locked in over the next month or so during prepay season.

So it never hurts to get together with your supplier and talk through your spring plans, and if there aren't any significant penalties for switching products, it might not hurt to lock fertilizer and fuel pricing in sooner than later.

Seed costs?

Out of all of our inputs, seed pricing is probably the most complicated and convoluted. Brand new genetics or a year or two old? What traits do you want? Treated or non-treated? Which treatments? Financing it with the company? When are you paying? What volume discounts are you getting? Are you bundling with certain other seed or chemical products? There are other variables, but you get the idea, it is pretty hard to figure out what the price of a bag of seed is without pretty good spreadsheets. But in general from what I've seen and heard, seed is going to be flat to maybe down a little overall.

Gary Schnitkey, University of Illinois farm economist, recently said he expects fertilizer costs for corn to increase \$15 per acre in 2019 and for soybeans, \$5 higher – an increase in fertilizer prices ending a run of decreases that began in 2012. What are your thoughts are this?

Unfortunately, yes, fertilizers are up from the last few years and I don't see that trend changing in the near future. Rather than get into the global marketplace and how rising demand and shifts in production are impacting fertilizer prices, I've got a simpler way to illustrate where fertilizer prices are heading in the near to mid-term. Take a look at companies like Mosaic and CF Industries performance in the stock market over the last 6-12 months and read what investment/equity experts are saying about them. Wall Street indicates that fertilizer prices aren't going down anytime soon unfortunately.

What other factors do you think will play into farmers' 2019 input decisions?

We hear more farmers talking about waiting to make final planting decisions until closer to spring. With little to no NH<sub>3</sub> on, and not much dry fertilizer spread yet either, their options are open for either corn or beans. The type of spring we have will play a large role that decision, but commodity markets will as well. Depending on what happens with global politics and other market factors, we could see a shift of increased acres of corn on corn, or beans on beans. Right now it definitely looks like the shift will be to more corn, but most growers are able to move the other way if the market dictated. Of course input decisions will be driven by the crop planted.

Another couple of factors will play into chemical input decisions for 2019, maybe not on every product, but on some. The tariff situation with China will impact chemical prices, and another issue that isn't

making as much news will also play a role. The Chinese government began a crackdown on agrichemical producers last year, in an effort to clean up their environment. This meant taxes and penalties for many of the manufacturing facilities in China, and they are a significant global supplier of agrichemicals. So while this won't impact every crop chemical, industry sources say those it does could be up 4-10% in most cases. There may also be some spot shortages of some chemicals, so this all means another good opportunity to talk with your input supplier.