

# AgUpdate

Timely information for a select group of farm owners and investors

## Effects of Russia – Ukraine conflict will continue into 2023 crop year

*Russia's invasion of Ukraine earlier this year ignited commodity markets and exploded fertilizer prices. But in terms of directly affecting the Midwest farmer, no immediate changes were made in planting intentions or fertilizer use. Inputs had been purchased; ground had been prepared. But that could change when farmers start formulating their needs for next year's crop early this fall.*

This spring, Midwest farmers profited from skyrocketing grain and oilseed prices. With corn prices setting records around \$8 per bushel this spring, farmers swept out their bins. At the end of April, "I sold more corn at \$8 per bushel this week than I have in my entire life," said Cal Dickson, chairman of Hertz's Grain Marketing Committee, who has been with Hertz as farm manager and real estate broker since 1984.

Even on new crop, prices have been through the roof. "We've been selling incrementally as the market has moved



higher. The new crop prices locked in this spring are the highest ever available at this time of year," added Kirk Weih who has been managing farms since 1979.

On the negative side, Russia's invasion has caused a spectacular rise in fertilizer prices which were already high compared to a year earlier. However, spring fertilizer costs and supplies have had less effect on the 2022 crop because most imported fertilizer was already in place at U.S. dealers before Russia invaded Ukraine on February 24.

However, farmers are starting to worry about input costs for next year's crops and what their profit picture might look like.

### What's Ahead

"Even if the conflict is solved tomorrow, there will still be long-term effects," noted Cortney Cowley, senior economist at the Kansas City Federal Reserve Bank. The World Bank estimates crop fertilizer prices to rise about 70% in 2022 before falling slightly in 2023 [from atmospheric levels].

***"Farmers are starting to worry about input costs for next year's crops and what their profit picture might look like."***

And many farmers had already purchased their fertilizer needs. "Fortunately, we locked in our fall fertilizer needs in August and were able to get 98% of it applied with good fall weather," Weih explained.

Russia is the world's leading nitrogen fertilizer exporter with 21% share of global trade. Sanctions reducing that source, as well as other bottlenecks such as the pandemic lockdown in China (another major nitrogen

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**2022 is not the same as 2013 when high commodity prices were short-lived.**

fertilizer producer) and logjams in global transportation has caused nitrogen fertilizer prices to explode. In addition, with the European Union eliminating natural gas imports from Russia, the E.U. will likely switch the main ingredient of nitrogen fertilizer over to heating homes, increasing its need to import fertilizer.

While the U.S. produces most of the nitrogen fertilizer it uses, we import 12% mostly from Trinidad and Tobago, and Canada. U.S. farmers will have to compete in the world market with farmers from countries such as Brazil which imports almost all of its nitrogen fertilizer needs. “We need nitrogen fertilizer every year to maintain high yields. It may be harder to get the form of nitrogen we want and prices will likely remain high for 2023,” advised Hertz farm manager Dickson.

The high cost of nitrogen could also switch some acres of corn next year to soybeans which fix nitrogen from the air and are cheaper to produce, but also have a lower return per acre.

Potash fertilizer supplies will feel a greater impact because Russia and Belarus produce more than a third of the global potash and account for 40% of global potash exports. With countries eliminating trade with Russia and Belarus via sanctions, that puts the squeeze on the remaining potash suppliers to meet demand. The U.S. imports 93% of its potash needs. The bulk of that (83%) from Canada and about 12% from Russia and Belarus.

While nitrogen must be applied every year, potash and phosphorus applications may be dialed back for the short term without impacting

yields. “Many of our managed farms have built up the level of potassium and phosphorus in our soils over the years; it may be time to draw on the benefit of these higher levels for a year or so until fertilizer availability and price settle down,” explained Dickson.

On the plus side, commodity prices are expected to stay strong as countries that relied on Ukraine and Russia for grain and oilseeds have to find new sources. The Middle East, north African and Southeast Asia will be searching to find new countries to import grain from, noted Kansas City Fed economist Cowley.

Prices still have upside potential if the war continues, said Dickson. Demand remains high. “When people are hungry, they’ve got to eat. There are no other substitutions,” Dickson explained. “However, if the Ukraine war ends, we could see corn prices drop \$1.50 per bushel and soybeans drop \$2 to \$3 per bushel.”

Ukraine is often called the breadbasket of the world. Farmers there are expected to get some cropland planted this spring. However, the FAO (Food and Agriculture

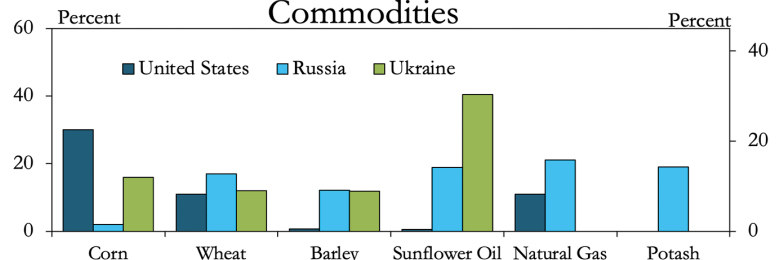
Organization of the United Nations) in April estimated that Ukraine agricultural production would be cut by one-third.

The saying “high prices cure high prices” has been true in the past but high prices may linger a little longer than the last commodity bull market. “2022 is not the same as 2013 when high commodity prices were short-lived,” said Cowley. “We out-produced ourselves after 2013 with four to five years of bumper crops and there were more substitutes around (wheat and barley for high-priced corn).” Today, the weather has not been that favorable, especially in the Plains states for bumper crops. “And we have other uses for corn and soybean oil -- for fuel,” Cowley added. “It’s hard to know how high commodity prices will go with demand so strong and supply so uncertain. In the U.S., the impact of Russia’s invasion of Ukraine will not affect our food security but it will affect prices.”

Long-term, though “I’d rather have three years of \$5 per bushel corn than one year of \$8 corn. Demand will be affected and around the world, farmers will produce more, and eventually prices will fall,” Dickson advised

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### Share of World Exports of Select Commodities



Sources: U.S. Department of Agriculture, Government of Canada, and U.S. Energy Information Administration.

Russia's invasion of Ukraine greatly disrupted global trade of grain, edible oils and fertilizer.



# Hertz Professionals Update

## New Members

*Hertz welcomes new members to the team:*



### **Terry Kestner, ARA, RPRA**

Terry Kestner, ARA, RPRA, joined Hertz Farm Management as the Director of Appraisal in May 2022. Terry was previously the Chief Appraiser for Rabo Agrifinance in Cedar Falls, IA, where he managed the appraisal requests for the

direct lending and wholesale divisions of Rabo-bank, along with a staff of 30 appraisers. Kestner comes with an impressive background of experience in appraising agricultural, recreational, urban influence, and large swine confinement properties.



### **Jason Zabka**

Jason joined Hertz Farm Management as a real estate salesperson in our Norfolk, NE office in March 2022.



### **Breanna Sterenberg**

Breanna joined Hertz Farm Management as a Sr. Staff Accountant in our Nevada, IA office in April 2022.



### **Tracy Spykerman**

Tracy joined Hertz Farm Management as an Accounting and Payroll specialist in our Nevada, IA office in February 2022.

## 24 Hertz Employees Recognized as Part of RLI's APEX Producers Club

Hertz Farm Management is proud to announce that twenty four employees have been recognized as part of the 2021 APEX Producers Club by the Realtors® Land Institute as a part of the RLI APEX Production Awards Program, sponsored by The Land Report. The Hertz Employees recognized were:



**Brent Bidner, ALC**



**Cal Dickson, ALC**



**Rebecca Frantz**



**Kyle Hansen, ALC**



**Rick Hauge, ALC**



**Rachelle Heller, ALC**



**Scott Henrichsen**



**Darrell Hylen, ALC**



**Ryan Kay, ALC**



**Chad Kies**



**Adam Knewtson**



**Michael Krause, ALC**



**Stan Lierz, ALC**



**Troy Louwagie, ALC**



**Brian Massey**



**Geoff Mead, ALC**



**Elliott Siefert**



**Chris Smith, ALC**



**Spencer Smith**



**Matt Vegter, ALC**



**Kirk Weih, ALC**



**Eric Wilkinson**



**Charles Wingert, ALC**



**Brandon Yaklich**

*Hertz Farm Management continues to hire the best and the brightest, to serve the ever changing needs of our clients.*



## Grain Markets

David Krier,  
Farm Manager,  
Norfolk, NE

*Farmers and landowners across the Midwest sell their crops for market values determined by factors mostly out of their control.*

Grain marketing continues to be full of uncertainty as international conflicts, global logistics, energy and fertilizer supply, and weather concerns actively affect the markets. We are in a unique year with both historically high grain and fertilizer prices.

News headlines are largely driven by the conflict in Ukraine. As war rages on, we continue to understand the level of influence Eastern Europe has in the agricultural industry. 46% of the world's sunflowers come from Ukraine. Russia and Ukraine combine to produce slightly more than 1 out of every 4 bushels of wheat in the world. Looking at corn and wheat together, Ukraine is the world's second largest exporter. Russia is ranked 4th in this category. Countries in Africa, particularly Egypt, as well as the Middle East rely on Ukrainian agriculture. War has forced closures of ports in the Black Sea, limiting the ability to transport crops in and out

the region. Ukraine will likely harvest and export less corn and wheat in 2022 which will lead to increased exports for the United States.

Supply chain issues are further escalated as Chinese intermittent Covid lockdowns result in congestion and logjams of materials and goods around the world. U.S exports of corn and soybeans to China are potentially at risk when their ports are not operating at full capacity.

Energy is also a major concern. 40% of Europe's total demand for oil and natural gas flows from Russia through the Ukraine and Belarus. 60% of Russia's total oil production goes to Europe. The oil market is on an upward path and has now been disrupted with a major oil producer (Russia) needing to consume additional oil to energize their prolonged war efforts. Agricultural commodities tend to follow the crude oil market.

Changes in logistics, natural gas prices, and demand have sent fertilizer prices soaring to historic levels. From last spring to this year, prices for Anhydrous Ammonia, Potash, and Phosphorus have increased 116%, 103% and 54% respectively. Russia is the world's largest exporter of

fertilizers. Brazil, China, and the United States are their primary buyers. Despite our domestic production, U.S fertilizer prices are still subject to the globally connected fertilizer industry. Distrust and boycotts of Russia and its goods will likely survive the war. Even after the war is over, it will take time to rebuild the necessary infrastructure in the Black Sea region to manufacture and export goods.

Looking at the corn market, ending stocks have declined since 2016 to 1 billion bushels. We can expect volatility at these levels. Ethanol production has slowed, and livestock numbers are on the decline which reduces demand for corn. Only three times in history have corn prices reached the levels we see today. The December futures market reached a high of \$7.57 per bushel on April 29th. In most years, the market peaks during the growing season when yields are most uncertain. This may likely be true again in 2022. As a point of interest, the all-time high futures price for corn is \$8.44 per bushel.

Prices for both corn and soybeans have reached the highest levels since 2012. In the past we have seen historical high prices hurt demand while world competition plants

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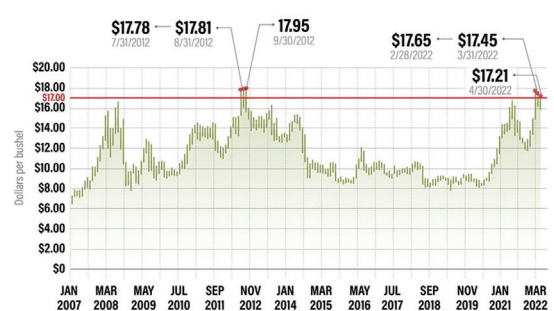
*Changes in logistics, natural gas prices, and demand have sent fertilizer prices soaring to historic levels.*

### Nearby Corn Futures



Source: Doane, ProFarmer

### Nearby Soybean Futures



Source: Doane, ProFarmer



## Farmland Value Update

Doug Hensley,  
President of Hertz Real Estate Services,  
Nevada, IA

*I've enjoyed the opportunity to work in the Midwestern farmland brokerage and auction business since the late 1990's.* As I was traveling to our Landowner Seminars in early 2022, I spent some time reflecting on the past 25 years, especially as it relates to the phenomenal strength in the land market of the more recent 12-18 months. In some respects, 2021 was a "Goldilocks" scenario, where all the major drivers of value – low interest rates, strong commodity prices/strong profitability, super deep buyer demand, and inadequate supply – aligned 'just right' to create incredible upward momentum rarely seen. No question, 2021 was the most exciting market period I've ever had the chance to serve clients in, and the results across the Corn Belt have been impressive.

### Iowa Land Values Jump 32% in 12 Months

Iowa farmland values took a massive jump over the last 12 months, increasing by a statewide average of 32.9%. The Land Trends and Values Survey from the Iowa Chapter of REALTORS® Land Institute, released in March 2022, shows an increase of 14.1% for the 6-month period of September 2021 to March 2022. This follows the 18.8% increase from March 2021 to September 2021.

### Illinois Farmland on the Rise

Class A (Excellent) farmland in Illinois saw an increase in value of 26% according to the annual survey conducted by the Illinois Society of

Professional Farm Managers and Rural Appraisers. Class B (Good) and Class C (Fair) quality farmland also showed significant year-over-year increases in value coming into 2022. When compared to the Iowa market, Illinois land values lagged increases seen in Iowa, likely tied to a more difficult 2021 Illinois growing season.

### Nebraska Land Values Jump Higher

Nebraska farmland values increased by 16% over the prior year, according to the early 2022 Nebraska Farm Real Estate Market Survey. This marks the largest jump in market value of agriculture land since 2014. Because of the wide differences in land type and quality, Nebraska values can vary significantly from region to region. For example, center-pivot irrigated land in eastern Nebraska can sell for well above \$10,000 per acre, while non-irrigated cropland in the North/Northwest Sand Hills region can sell for less than \$1,500 per acre.

### Minnesota Farmland Finishes Strong

Minnesota farmland values entered 2022 on a tear, appreciating 30% year-over-year, according to the latest survey of farm bankers within the Minneapolis Federal Reserve Bank region. While input costs and commodity prices remain volatile and concerning, most ag bankers in this region predict that land values in Minnesota will remain stable or increase in 2022.

### Future

After an incredible run like we had in 2021, the natural question is, "Can it continue?" For the answer to that question, I will point you back to the fundamental and underlying drivers of value, which I mentioned in the opening of this article. Interest rates, commodity prices/on-farm profitability, demand for land, and the available supply of farms for purchase, all individually and collectively influence farmland values. As is typical in a dynamic and constantly changing market like agriculture, we're beginning to see some shifts occur in the value-drivers.

Specifically, in the first half of 2022, interest rates have moved off the floor, with the U.S. Federal Reserve changing their easy-money posture. Mortgage interest rates have already moved higher. And there is an expectation that the Fed is going to keep rates moving up as they try to tap the brakes on the economy and get inflation under control. In addition, because of higher land prices, we do continue to see a little more land come to the market than in recent years. This stands to reason, because most prospective Sellers prefer to sell in a strong market versus a weak one. Thus far, neither of these factors have shifted enough to change the general direction of the strong market, but, at some point they might. For now, they can and should be viewed as light headwinds.

As for grain prices and on-farm profitability, if we assume we will grow an average crop in 2022, this year holds significant profit potential. But with the ongoing war in Ukraine and other supply-chain issues, input prices going into the 2023 crop year

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*I do not recall a time when demand for land has been as strong and widespread as it has been in recent months.*



# Answering Your Burning Questions About CRP Burns



Clint Kaller  
Farm Manager,  
Nevada, IA

***Burning CRP lands has lots of great advantages and can help improve your land by meeting some of your land management goals.***

*For thousands of years, fire has been a natural and effective method for improving wildlife habitats.* Today, we still use fire to meet some of our land management goals, but instead of letting a fire happen from a lightning strike, we use different strategies and tools to start and control fires so we can purposefully burn a certain area or patch of land. This practice is referred to as a controlled burn.

One type of controlled burn is what we call a CRP burn. CRP is a land conservation program administered by the Farm Service Agency (FSA). In exchange for a yearly rental payment, landowners enrolled in the program agree to remove environmentally sensitive land from agricultural production and plant species that will improve environmental health and quality.

So why would you want to burn CRP? When can you burn it? What's a burn plan? Let's dive in and answer some of these questions.

## What Are the Benefits of Burning CRP?

Burning CRP land has lots of great advantages and can help improve your land by meeting some of your land management goals. Some benefits of burning CRP include:

- Reducing or eliminating volunteer tree pressure
- Set back competition from

unwanted species such as cool season grasses that tend to encroach on native prairie

- Remove dead vegetation allowing new growth to come in easier
- Warms up the soils by allowing for more direct sunlight
- Gives the native prairie a jumpstart to the growing season

## Why Does a Burn Plan Matter?

If burning your CRP land makes sense for you as a landowner and matches your goals, you're ready to take the next step and put together a burn plan.

Typically, if you work with a company or local business to conduct your burn, they will help put together what we refer to as a 'burn plan'. A burn plan will include items like, where fire breaks should be installed, timing of the burn which can differ depending on landowner goals, ignition plan, and where team members need to be stationed so they can monitor the fire and make sure it does not move beyond the fire breaks.

In addition, a burn plan will also include notifying people within the local communities that a burn is taking place. Some people to call include the following: the local fire department (if they are not already involved in the burn), neighboring landowners, county officials, and other emergency numbers that could be called.

## When Can You Burn CRP?

Spring and Fall are typically when CRP burns take place, depending on your goals as a landowner. There are date restrictions from the Farm Service Agency (FSA) that require landowners to not conduct burns between May 15, and August 1, because it is the primary nesting season for birds. With safety and control being a top priority for most controlled burn businesses, the weather needs to be just right before they will conduct a burn. Wind speed, wind direction, temperature, dew point, moisture levels, all these environmental factors play a huge role in whether a CRP burn can happen. ...continued on pg. 7...

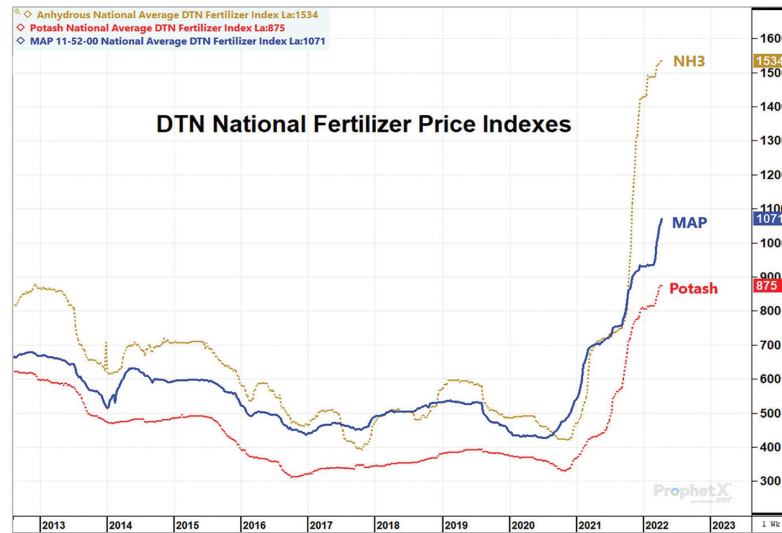


# Effects of Russia – Ukraine conflict will continue into 2023 crop year

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## Caution Moving Forward

“From talking with farmers, there is a sense of caution out there now. With rising input costs, one farmer told me he needs to double his working capital,” Dickson reported. “There is a little more uncertainty and uneasiness,” said Dickson. A farmer who typically would trade for a new planter is waiting. The war in Ukraine is another uncertainty added on to rising interest rates, a stronger dollar, inflation and supply chain issues that is making farmers a little more cautious. 🌱



Source: Brock Associates

Fertilizer prices increased throughout 2021 and then exploded when Russia invaded Ukraine.

*The base fundamentals of the land market have started to shift.*

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Fire can be unpredictable and it's important to have a team of professionals that know what they are doing and can conduct a safe controlled burn. With limited businesses/companies that conduct these types of burns, availability of burn teams can be tricky. In some cases, you can work with your local fire department to conduct a burn, but that will depend on the area and if they have experience with controlled burns.

*At Hertz, we are very experienced in CRP burns and would love to help you decide if this is a smart investment for your property sometime in the future. Please feel free to reach out to us via phone or our website if you have questions or comments about your properties. 🌱*

## Grain Markets

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additional corn, soybean, and wheat acres. With historically high input costs led by fertilizer, profit margins will be squeezed tight for those who have not locked in the higher grain prices. The prospect of good crops, a war's end, and a decline in U.S crop exports to China all contribute to uncertainty in the market. 🌱

## Farmland Value Update

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are likely to eat into that profit, so margins may see some compression. As for demand to buy additional farms, I do not recall a time when

demand for land has been as strong and widespread as it has been in recent months. And, that demand has come from both farmers and farmland investors. Farmers always want more land to expand their businesses, but will investors stick with farmland? It depends on their motive for entering the market.

Make no mistake, we still have a strong market. As we look forward for the rest of the year, however, it is becoming clearer to me that 2022 is not the “Goldilocks” situation of 2021. The base fundamentals of the land market have started to shift. As it happens, we will keep our finger on the pulse of it and will continue to share our perspective of what that means for the longer term. 🌱

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## Landowner Educational Seminars Summer 2022 Schedule

**All landowners are invited to attend one of a series of Summer seminars.**

Our seminar topics will include Grain Markets, Farm Lease Trends/Leasing Alternatives, Land Trends and more!

If you are planning for the next generation, you're encouraged to invite your children to attend with you.

**Registration Available Online!**  
[www.Hertz.ag/seminars](http://www.Hertz.ag/seminars)



**Early/Online**

**Registration Price:**  
\$25 per person, \$40 per couple

**Walk-in/Pay at the Door**

**Registration Price:**  
\$40 per person, \$75 per couple

**Registration includes:**

Lunch, break refreshments and handouts of the presentations.

**For your convenience, you can register one of three ways:**

- For your discount, register Online at [www.Hertz.ag/seminars](http://www.Hertz.ag/seminars)
- Call 515.382.1500 Ask for Seminar Registration
- Email: [Seminars@Hertz.ag](mailto:Seminars@Hertz.ag)

## Dates & Locations



*All seminars will be from 8:30 a.m. – 3:15 p.m.*

<b>July 26</b>	Cedar Rapids, IA
<b>July 27</b>	Rock Island, IL
<b>July 28</b>	Ames, IA
<b>July 28</b>	Kankakee, IL

<b>August 2</b>	Mason City, IA
<b>August 4</b>	West Des Moines, IA
<b>August 5</b>	La Vista, NE
<b>August 5</b>	Okoboji, IA
<b>August 10</b>	Mankato, MN