



Midwest Cooperatives
TOMORROW'S ANSWERS TODAY

MARCH
2014

Building a Stronger Cooperative System



» *By Milt Handcock, General Manager*

Strong organizations stay that way not by resting on their successes, but by continuing to build for the future. That's one reason behind the changes you may have noticed in the way your patronage was paid this year. For the first time in its history, CHS is issuing non-qualified patronage based on the company's 2013 earnings.

CHS is in the planning stages of a major expansion in a plant food production facility, upgrades to our refinery systems and ongoing future upgrades in the country to increase speed and space. In order to strengthen the balance sheet in anticipation of those projects, CHS retained 14% of your equity. I want to emphasize that this equity is still held in each patron's name and may be redeemed at the board's discretion. There are no tax implications for patrons until such time as the board decides to pay out this non-qualified patronage.

In making this decision, the CHS board balanced three important goals: First, investing in the future to ensure that you, the owners, have products, facilities and services to help you grow. Second, preserving balance sheet strength so the company stays relevant for years to come and, finally, returning cash to the patron/owners. These are basically the same factors we weigh when making decisions for Midwest Cooperatives.

In addition to issuing non-qualified patronage, CHS also increased the amount of cash it returns to individual producers from 35% to 40%—the same cash return that was previously paid to member cooperatives.

The cooperative difference

It's the building of equity and return of cash to those who do business with, and own, the cooperative that sets this business apart from privately-held companies. We have the opportunity to share in the successes of CHS, a leading agricultural business that earned \$992.4 million in 2013, and returned \$433 million in cash to its owners. We also have a role to play in helping to fund future expansion.

I want to remind everyone that your qualified equity account is redeemable at age 70, and to encourage you to redeem your equity at age 70 even if you are a member of a corporation, partnership, LLC or other legal entity.

I'd like to close by reminding everyone about our Harvest for Hunger campaign. You can donate grain, funds or food items at any Midwest Cooperatives location. All donations will ultimately be delivered to food banks and food shelves in our area. It's a great cause and a good fit for those of us who work every day to feed a hungry world. ■



CHS Regional Manager Ed Mallet gives the year in review report.

THIS ISSUE

Read about fertilizer logistics for spring planting on page 2.

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Spring Seldom Short on Challenges



» *By Russ Daly, Assistant General Manager/Agronomy Department Manager*

As we rapidly approach another spring, it's clear that one thing never changes—there are always issues to deal with to ensure a smooth

planting season. This year, the issue is getting the fertilizer you need here in time for spring planting.

To give you an idea of the timeframe involved, it takes roughly two months for fertilizer to reach us from the day we order it. That's how long it takes to travel upriver on barges, make the transfer to rail and reach our plants.

The problem this year is ice on the river. At last report, the ice was still 37 inches thick. The barges can't break through it until it reaches 18 inches. That normally occurs around April 8, but reports I'm hearing indicate it could be as late as the end of April this year. That's one part of the problem.

The other issue is that in past years, we have used truck-delivered urea when needed to fill in gaps in rail delivery. Most of that product comes from Canada, and they're not selling fertilizer for shipment to the U.S. at this time. They're being very cautious until they ensure they have enough to meet their needs. Hopefully, that market will open up in the near future.

Supplies of MAP are also becoming short, and I would guess that as we get

closer to spring, UAN (28%) and 10-34-0 will also be pressured because of the issues with the dry products.

Because of this supply situation, it's very important that we continue to communicate with each other about your fertilizer needs and when you will need these products. We will do our best to have product on hand for you when you need it.

If we do run into shortages with some products, we have options. One of those is to apply nitrogen with our RoGator® equipped with a dry fertilizer air system. Please talk to a member of our sales staff if you have questions about this type of application.



Ready to roll...or fly

Since I'm on the topic of application, I would like to remind everyone that we have a large fleet of application equipment. Whether you need liquid or dry product, we have floaters, row machines, strip-till bars and aerial application capabilities.

Our applicators have many hours of training and experience behind the wheel of our equipment. Over time, these machines have become increasingly sophisticated, and our operators receive ongoing training on both the new machine technology and the products they're applying. They are well equipped to accurately cover your fields.

Crop protection prices have moved up a little with glyphosate leading the way. We do have a very good supply of glyphosate on hand, so if you need to purchase it for spring, just contact us and we will take care of you.

As always, some of the crop protection products will be in short supply. If you have a good idea what products you'll need, now is the time to get them ordered and in the shed before they become unavailable.

I'll end with a final note on seed. We have a good selection of seed available for spring—corn, sunflowers, soybeans, milo and wheat seed. If you still need to purchase additional seed or make some changes, give us a call, and we'll help you select the right variety for your farm.

Thank you for your past business. We look forward to working with you this coming year, and encourage you to take the time to operate safely this spring. ■



Propane Pain

» *By Chris Carter, Energy Sales*

The big issue in the energy world has been, and still is, propane.

We've seen prices decline some from their peak, but I don't expect us to see any real relief until average temperatures start to rise. Our strategy is to keep your tanks full enough to prevent outages and get through the winter without putting any more expensive propane in there than we absolutely have to.

With this experience fresh in our minds, it seems like the right time to consider contracting some propane for next year. That's the best way to avoid the kind of price spike we've seen this winter.

Moving to refined fuels, we're currently sitting below the five-year averages for inventory. That could be an issue coming into spring fieldwork. The reports I've read are also telling us that quite a few of the Midwest refineries will be

doing more maintenance than usual in the coming months, which could add to potential supply problems.

So, if your diesel tanks aren't filled to capacity, you might want to consider topping them off. This could also be the year to look into our tank program and upgrade to a larger tank as insurance against spot supply issues. Don't forget about our interest-free tank financing program. ■

New Rules or the Same Game?



» *By Jeremy Frost, Grain Marketing Manager*

Is it the same game, different year for our grain markets or are we playing with some new rules? I ask the question because projections

coming from the recent USDA Outlook Conference called for corn yields of 165 with a 2.1 billion bushel carryout. So what do these projections for the 2014-2015 corn crop really mean since we don't yet have a kernel in the ground?

How many times the past few years has the USDA kicked off the season projecting corn yields of 155-166 bushels? Without looking back, I would guess

USDA has us with a trend line corn yield in that range. It may be hard to determine where the USDA began their projections, but it is easy to see what corn yields have been: 164.7, 152.8, 147.2, 123.4 and 158.8 last year.

So is this a new game or the same game? For the past few years, the USDA has started with a yield number that most producers would say is unrealistic—especially when you consider the big increase in acres and where those acres are coming from. In 2009/10, we had a yield of 164.7, but only on 86 million acres planted. The past few years we have planted 92-95 million acres, and next year the USDA is projecting 92 million. Those extra 6-9 million acres are not on prime ground, but in areas like western South Dakota where 100-bushel corn is considered a good crop.

The question we have to ask—can we get back to trend line or above yields?

If so, how ugly could prices get, and how ugly could that game be for those playing? What if we hit last year's yields, or even 150 bushels, the average of the past eight? If demand is unchanged, that takes our carryout to below 1 billion bushels in a hurry.

Hedging your bets

The reality is, yield and weather could create huge price extremes this year. I believe that if we average 150 bushels or less we will have \$5-6—or maybe even \$7—corn. But if we hit 165-170 or higher, I think we might buy some corn at \$3.50 or less.

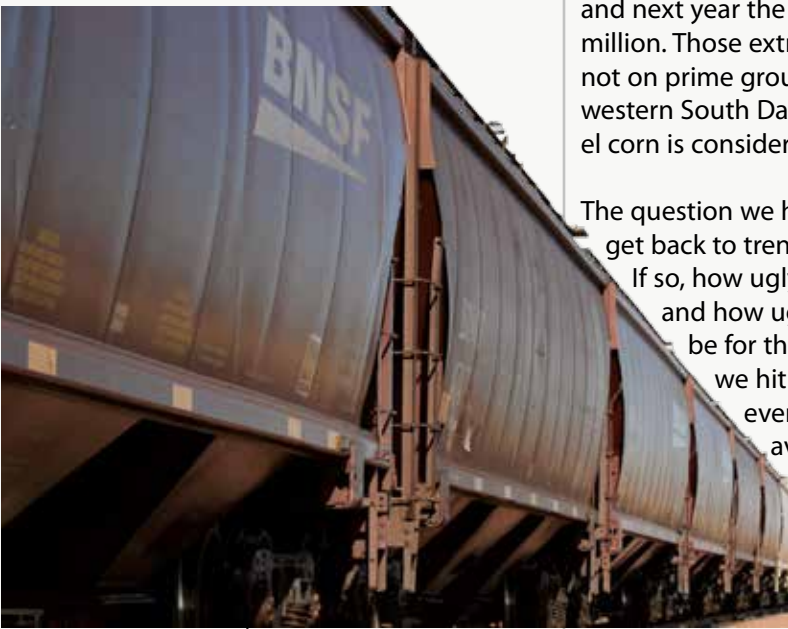
How do you determine if this is a new game or the same old story? You don't, so don't bet the farm in one direction or another. Use good risk management. Find a way to be comfortable with the fact that weather has been extreme for several years now, and more extreme weather this year could easily mean extreme prices, good or bad.

So, market grain in a way that makes you comfortable. Use some of the marketing programs out there. Consider using puts and calls, and think about using programs like our Price Builder Bonus program. The bottom line is, do something—don't get complacent in marketing, and don't think you can outguess these markets. Find a way to take out the highs and lows. If you need help, please feel free to give me or one of the other members of the grain marketing team a call.

Rail dilemma

Another issue to mention is the railroad situation. Getting trains has been a major challenge, and it appears this will lead to a big backup of grain movement later in the year. You might consider being proactive in marketing some of that grain that you will want to move before wheat harvest, because things look a bit ugly right now.

Finally, don't forget to sign up for the information that we offer. We have a daily voice midday update that goes to your cell phone, as well as daily bids, a daily commentary and text messages with market information. Our website also has a daily market recap recording and a link to get our grain trading App for your phone. Please give us a call to sign up or if you need help getting any of this useful information. ■



Why Pay More for Credit?



» *By Rich Henderson, Finance Manager*

With grain prices and input costs where they are, cash flow is going to be a significant concern this year. Saving some money on interest

costs can make a big difference, and one of the best ways to do that is to take advantage of our 0% financing program. One addition for 2014 is our grain bin financing program. We'll be offering very attractive rates—and a

simple application process—on Sukup and Brock® bins.

Continue to watch for the information on our financing programs, as this is a program you don't want to pass up. Also, one of the convenient features of our new website is the ability to get any of our credit applications or our patronage form online. It doesn't get much easier. If you have questions or are ready to go, call me and we'll get the ball rolling. ■

*Our success is
defined by yours.*

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To receive text and email messages regarding markets, meetings and cooperative news, just sign up on our website.

midwestcooperatives.com



Getting Ready for Green Grass



» *By Justin Parker, Feed Department Manager*

The grass certainly isn't green yet, but it soon will be, and with that fresh growth comes the threat of grass tetany. We have several products that can provide supplemental magnesium, including bagged mineral and SmartLic® tubs. We can also add it to range cubes and carry straight magnesium oxide if you want to blend it yourself.

Following right behind spring grasses are flies, and we also have tubs with IGR for fly control. Watch for upcoming promotions on both magnesium and IGR tubs.

See us for all your calving needs, including milk replacers and calf starters. There has been plenty of research indicating that creep feeding pays, even in recent years when creep prices have been higher. With cattle prices remaining high and creep prices projected to be lower than last year, it's a great way to add economical pounds to your calves.

We expect to have our price on creep feed locked in by the end of this month, so talk to your Midwest feed salesperson to order your creep feed. ■

