

Winter 2021

FIND OPPORTUNITIES IN VOLATILE TIMES



Sean Slowinski, CEO

We live in a volatile world. Markets and even the way we live can change day to day and even hour to hour. COVID related labor shortages

and shutdowns have affected ag input suppliers worldwide, as they have us.

Other factors also impact Legacy Cooperative and you, the member/owners. Recent harvest yields were far above what many of us expected in many areas. Canola and soybeans ended much higher than anticipated for most of our area. Unfortunately, growers in the western part of our trade area didn't fare as well. The grain team worked with those growers who were short on contracted bushels to come up with the best plan. The co-op's investment in the concrete pad and bunker walls a few years ago paid off in a big way as we temporarily stored more than a million bushels of soybeans on it.

Upgrades in storage at remote locations and Bisbee paid off as well, with more than 12 million bushels of grain dumped at harvest time. None was dumped on the ground.

In some cases, member/owners had to travel beyond their local elevator when we couldn't move grain out fast enough. We really appreciate their willingness to work with us. The reality is that it is hard to keep up with the extreme productivity

we see today. Combines harvest twice as fast, and grain comes into elevators twice as fast.

While production was up in much of the U.S., crop prices remained high because world stocks remain tight. High crop prices usually create demand for fertilizer, which normally drives fertilizer prices up. This year other factors have added fuel to the fire. Tight natural gas supplies in Europe have shuttered plants there. Meanwhile, stronger natural gas demand worldwide has increased the cost of production of urea and anhydrous ammonia.

China normally exports about 30 percent of the world's supply of urea, sulfate and phosphate. As supplies tightened and prices surged this fall, China began to curb exports to protect domestic food producers. This affects world supply, driving prices even higher.

China is also the world's largest producer of glyphosate, 80 percent of which is exported. Feedstocks needed to produce glyphosate began rising in 2020 and have continued climbing.

What does this mean for Legacy Cooperative and its member/owners? Will crop prices stay up? Will inputs continue to rise? Will shortages develop? Unfortunately, our crystal ball is as useful as yours.

It is important to remember that volatility is not all bad. We could have the same rising input costs without higher

grain prices.

What we can do is manage risk. Will grain prices stay high? While we don't know for sure, we do know that there is an opportunity now to lock in higher prices for next year and even the year after.

Will fertilizer prices stay high? Nearby prices on urea are trading at a premium at NOLA with a \$50 to \$75 price over early summer. That said, anyone in farming or fertilizer sales in 2008 recalls the collapse in fertilizer prices. So how do we manage that risk as a co-op and as a member/owner? One way many of you did was to apply fertilizer this past fall.

In the case of anhydrous, market volatility threw a wrench into expectations locally. Manufacturers had shutdowns this past year stemming from the Texas Freeze last year to planned plant turnarounds this year. That meant that they were short product going into the season. As natural gas feedstock prices increased significantly, resulting in some overseas plant shutdowns, the price began climbing. It didn't stop until it had doubled. Manufacturers have always retained the right to cancel contracts for any anhydrous not applied before the end of the year. With rising input prices and possible shortages ahead, our suppliers exercised their option.

Your co-op agronomists did what they could, getting the word out in late September that contracts would be cancelled December 31. Like it or not,

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the vast majority of you responded, applying contracted anhydrous ammonia this fall and in some cases in less-than-ideal conditions. Given market volatility, this was good risk management.

Many of you are also following a sound practice of selling grain (or locking in a futures contract) when booking fertilizer for spring application. It can help to look at the increased cost of fertilizer per acre, not the cost per ton, and consider how many bushels sold will cover it. This is another good risk management tool.

Your co-op is managing risk by purchasing fertilizer as we sell it. In less volatile times, we have filled our warehouses in expectation of normal spring sales. However, we can't buy a trainload of fertilizer at over \$800 per ton and simply hope to sell it when acres could shift from one crop to another and demand drops. This

would be poor management of your investment in the co-op, given the current situation.

We have taken in fertilizer from suppliers. They still own it and carry the risk. However, if we need it to meet your needs, we will be able to buy it at market price. This gives us the opportunity to have the supply we might need without excessive risk.

This is a changing world and part of our job is to stay in touch with the market, whether fertilizer, seed or chemicals. We are in the markets every day and trying to do right by our member/owners.

In the case of crop protection chemicals, demand doesn't fluctuate as it can with fertilizer. We began responding to the market price increases by filling our warehouses with available product in July and August. We made the investment to ensure you will have what you need when you need it.

Sometimes we must make business decisions that aren't popular, but we try to make them fair and equitable for all member/owners.

While volatile times such as these are filled with uncertainty, one thing we are certain of is the quality of our employees. Whether they are at the counter of a convenience store, hauling grain or pulling an anhydrous tank, nothing works without everyone's hard work. In a world of tight supplies and equally tight labor, they are delivering the products and services you need. We are working to do even better.

We sincerely thank you for your support and your business. This is your cooperative, and we strive to accomplish our mission of "providing quality and competitive products and services that create value for our patrons" each and every day.

Sean

VIEW FROM THE BOARD



The grain storage expansion at Rolla made life a lot easier for Tim Hudson and his farming partners,

brother Tyler and Tim's son Jakob. Like others around Rolla, they didn't have to worry that the elevator would be full or have to wait to dump.

"We ended up hauling in a fair amount of grain right off the combine," says Hudson. "The elevator was able to take more grain than in the past, and dumping was fast and easy."

As a member of the Legacy Cooperative Board of Directors, Tim has had a front row seat in reviewing patron investments. As a member/owner, he had anticipated the Rolla expansion since before he joined the board in 2018.

"It was something we needed," says Hudson. "I think everyone on the board was on the same page. When you have profits, you need to stick them back into the operation and make it better. We've had some good years as a co-op, and I feel we have done a good job putting resources where they are needed."

Hudson compares board decisions to his own operation. I like things to make sense," he says. "If you stick money into something, it needs to pay."

Sometimes the payback is direct as in the Rolla elevator expansion. Sometimes, he notes, it is indirect, as in the Rock Lake above ground fuel tanks and dispensers.

"You have to look at the big picture," says Hudson. "We are the only place in Rock Lake where you can fill up your tank. It really is an essential service we are providing. Continuing to provide that service keeps our member/owners happy and more likely to do business with

other aspects of the co-op."

Keeping the member/owners happy isn't always easy, admits Hudson. That is especially true in a time of volatility, with the potential shortage of inputs and prices likely to continue to increase.

"It is as challenging for the co-op as it is for us farmers," says Hudson. "As member/owners, we need to plan ahead for input needs and share them with the co-op. We really need to work together when there is so much volatility."

Hudson and his partners tend to stick with the same rotation from one year to the next. This makes it easier to plan ahead with confidence that needed inputs will be available.

"We know that if we make a last-minute change, we may not get what we need," says Hudson. "That is especially true this year. It is more important than ever for clear communication."

LOCK IN YOUR CROP INPUT NEEDS AND LOCK OUT UNCERTAINTY

Legacy Cooperative member/owners responded to rising fertilizer prices by applying 110 percent of the normal fall application of anhydrous ammonia and urea. Joe Kremer, Legacy Cooperative Agronomy Manager, reports that most of what was applied had been booked earlier in the fall.

He advises members to review their projected needs for spring fertilizer application and lock it in as they feel comfortable doing so. He notes that fertilizer remains a very volatile market, with NOLA prices rising and falling from day to day.

"Our prices move up and down as the market goes up and down," says Kremer. "The only way to be sure of a price is to lock it in."

Price volatility reflects concerns over available supplies and grower intentions. A great many factors play into volatility and trying to guess what the market will do is risky. Kremer recalls 2008 when many co-ops and other retailers took that risk and lost millions of dollars. They had to sell at a loss when market prices dropped.

"We aren't going to risk Legacy Cooperative's member investment in these volatile times. We will only buy fertilizer as our members are willing to buy it."

Buying fertilizer at today's price and seeing it fall later might look like a risk to a grower, admits Kremer. However, there may be bigger risks if you don't.

"You should buy the fertilizer you need before April," says Kremer. "We will be able to get it until then. It may be difficult to come in May 1st and expect us to have it. We may be able to find it, but likely only at a premium."

Crop production inputs are a different story. No downtrends in price are expected, making stocking up at current prices less risky for the co-op.

"We've been told Roundup and Liberty will be in very short supply, and we are doing all we can to mitigate the shortage," says Kremer. "We got our allocations, which were at their bare minimum."



Legacy Cooperative crop protection chemical warehouses are well stocked at 10 times their normal levels, in anticipation of shortages this coming spring.

The co-op had Roundup this past summer and Liberty this past spring. Kremer is confident the co-op will have what member/owners need, if they communicate that need.

"If you buy Liberty seed from us before April, we will do everything possible to see to it you receive the Liberty herbicide to apply over the top," says Kremer. "If you want a specific brand of Roundup out of the ten we carry, you should come in and get it."

Trait related weed control alone is not enough. "Kochia seed in our soybean pile was a problem, which means it is a problem in area fields as well," he says. "Controlling kochia and other weeds that thrived this past growing season requires

Know What You Are Getting When Buying Crop Protection Products

Getting a deal is always tempting, and that goes double for crop inputs. Unfortunately, a deal is not always what it appears.

"When you buy online or from a cut-rate supplier, is it 2 years old or 10?" asks Joe Kremer, Legacy Cooperative Agronomy Manager. "Who made it? How and where was it stored?"

The answers, he notes, can affect how well the product works. "If it doesn't do the job, does saving a few dollars on cost matter?" he asks.

Legacy Cooperative brings in new product every year. All crop protection products are stored in heated warehouses, and products are secured from reputable manufacturers and suppliers who will stand behind them.

"When you buy your crop protection products from Legacy Cooperative, you can have confidence in what you are getting," says Kremer. "Get a deal or get the job done with quality products, service and support."

a pre-emerge program on every acre. This is something you should plan for to ensure the kochia problem does not get worse and get harder to control in the future. If you find that you do not have time to apply your pre-emerge, give us a call. Whatever you do, do not skip the pre-emerge kochia control in your soybeans."

VOLATILE GRAIN MARKET OFFERS PROFIT-MAKING OPPORTUNITIES

Brooks Larson, Legacy Cooperative Grain Merchandiser, expects that members have sold around 70 percent of the 2021 crop. He notes that as much as 60 percent were cash sales at harvest with prices around \$9 for Spring Wheat at the time. However, profit-making opportunities still exist.

Larson points to Wall Street traders pushing prices up or down with trading ranges often exceeding 30 cents a day. When news of the new COVID variant hit, wheat dropped 25¢, and corn and soybeans dropped as well. This was only the latest in what continues to be a volatile, post-harvest market.

Placing a simple order to sell is one way to take advantage of fluctuations. "You can always place an order to sell at a target price," says Larson. "If you would have placed an order to sell wheat at \$10 or soybeans at \$12.50 at the beginning of November, you would have gotten it."

Freight was another factor affecting local markets this fall, this time in a positive way. Better than expected crops could have been a problem. Shuttle trains had been ordered with light crop expectations.

"October shuttles had been trading \$700 - \$1200 over the standard tariff rate for 10 months prior and suddenly dropped back down to tariff for a couple of weeks in October," says Larson. "We were able to capitalize on that and get a couple extra shuttles loaded out in order to start picking up our Soybean pile."

Given the high prices for fertilizer and other inputs, Larson expects to see more member/owners locking in new crop futures for 2022. In late November, September 2022 Spring Wheat futures were around \$9.40, while November Soybean futures were around \$12.50 per bushel.

"If members don't want to worry about setting basis later on, they can lock in a flat price contract," says Larson. "In late November, the new crop cash price for soybeans was \$11.65 per bushel, spring wheat was \$8.70 per bushel and Canola was \$26.60 per hundred weight."

The price outlook for wheat is mixed. Canada, Russia and the U.S. all had a short crop this year, which is supporting the high wheat prices. Australian wheat producers are getting pounded by rains.

| US 2020/21 Ending Stocks | | Stocks/Use Ratio | |
|--|--|------------------|--|
| • Corn: 1.24 Bil. Bu. (Unchanged) | | 8.3% | |
| • Soybeans: 256 Mil. Bu. (Unchanged) | | 5.7% | |
| • Wheat: 845 Mil. Bu. (Unchanged) | | 40% | |
| US 2021/22 Ending Stocks | | Stocks/Use Ratio | |
| • Corn: 1.49 Bil. Bu. (-7 Mil. Bu.) | | 10.1% | |
| • Soybeans: 340 Mil. Bu. (+20 Mil. Bu.) | | 7.8% | |
| • Trade Expected 360 Mil. Bu. | | | |
| • Wheat: 583 Million Bu. (+3 Mil. Bu.) | | 28.5% | |
| • Spring Wheat: 127 Million Bu. (+14 Mil. Bu.) | | 27.6% | |

Actual production, stocks and use ratios, South American production estimates and more all play a role in current market volatility. Legacy Cooperative Grain can help reduce risk and find marketing opportunities.

They did have a big crop coming, but uncertainty about it has turned the winter wheat crop bullish and given support to the spring wheat market as well.

On the downside, the higher prices are cutting into demand, which eventually will cut into prices. At the same time, U.S. exporters are losing business to Canada and Russia due to the higher value of the US dollar and the cheaper freight costs of our competitors to certain destinations, says Larson. Mills are also opting to blend more winter wheat into their flour to avoid the higher priced Spring Wheat.

The soybean market remains volatile also.

The South American crop is off to a great start, again with more acres and no major weather problems. Shifting export demand may add to volatility.

"By February, China will shift its soybean purchases back to South America, likely lowering basis at that time," reports Larson. "U.S. soybean exports to China are a little above the 5-year average, but

nothing like last year. Political tensions between the U.S. and China also appear to be ratcheting up."

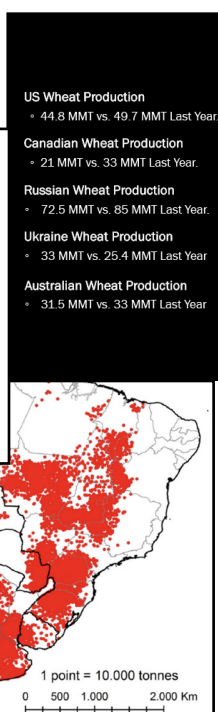
High corn input costs are expected to push more acres to soybeans in

some areas of the Corn Belt. "I don't expect to see much of a shift to soybean acres in our area," he says. "With \$9 spring wheat, will input prices matter? Spring wheat may provide just as high

of a return as soybeans, even with the high fertilizer costs."

With so many factors, both known and unknown, Larson is encouraging members to consider utilizing new crop futures.

"The one thing we do know is that markets go in cycles," says Larson. "Eventually prices will go back down. However, while they are up, it is a good opportunity to get as much sold as comfortable, even going two years out. New crop 23 soybeans were trading at \$11.62 in late November. That's a lot better than the \$8 to \$9 per bushel we saw a year and a half ago."



LEGACY COOPERATIVE UPGRADES PAID THEIR WAY AT HARVEST

Legacy Cooperative member/owners went from potential of a very small crop to a decent crop in most of the trade area, with much of it going direct to the elevator. Thanks to member investments in upgrades and expansions, facilities were ready.

"We went into harvest with almost 11 million bushels of available storage to all of it plugged full by the end of harvest," says David Berginski, Legacy Cooperative Operations Manager. "That included more than a million bushels of soybeans piled on the pad at Bisbee."

Grain went out almost as fast as it came in, notes Berginski. Four trains moved out about two million bushels a month, making room for new crop as it came in. While trains carried away wheat and soybeans, trucks carried away canola.

The challenge of keeping everything moving is a mix of labor, transport and timing. It is also extremely important that all locations remain in constant contact to maximize space.

Trains carried away wheat and soybeans in October. November trains were dedicated to soybeans, and December's were planned for wheat. By the first week of December, the pad was empty. Berginski notes that it took twice as long to clear out only 600,000 bushels from the pad a year earlier. This in part was due to colder weather and train

scheduling.

Some locations did sit full for a bit during harvest while waiting for another train to arrive, he notes. Upgraded dumping pits have effectively eliminated lines at the elevators; however, they reappeared briefly with a couple of minor breakdowns.

"In one case a motor went out at a receiving pit, but by 4 p.m. we had a

independent truckers.

"We couldn't get grain moved fast enough with our usual equipment," says Berginski. "Normally, we haven't had a problem finding trucks, but we are looking for more drivers."

While he hopes to add more full-time drivers, Berginski is also encouraging current employees to get their commercial driving license (CDL).

"We are making a big push to add drivers," he says. "There is always other work to do when they don't have to be behind the wheel."

One problem that wasn't anticipated was beans spoiling in the pile due to a concentration of kochia seeds heating. This was a very small amount of beans fortunately. It was quickly discovered when the pile was being



Investments in trucks, trains and a place to pile soybeans all came together to make the harvests move smoothly.



new one in place and everything up and running," says Berginski. "For the most part, it was a smooth harvest."

Truckers played a big role in keeping the harvest smooth. Transporting canola to processing facilities, as well as shuttling grain from remote locations to Bisbee, was done with a combination of co-op trucks and a group of

brought in and dealt with accordingly to minimize loss.

"It was hard to justify spraying fields that didn't look like they would make a crop," acknowledged Berginski. "However, uncontrolled kochia created a problem with facilities and equipment as well as the problem in the pile. It could also create problems in fields in the future."

SUPPLY AND DEMAND DRIVE ENERGY PRICING

The recently finished harvest required less than normal propane for crop drying throughout the Midwest. Yet prices remain high and may get higher if the region sees extreme cold temperatures this winter, advises John Lovcik, Legacy Cooperative Energy Manager.

"Demand for propane is high internationally, and exports have increased as a result," says Lovcik. "A lot of propane is moving overseas. Our overall inventory levels are lower going into winter than most years. This leaves us short on the domestic side."

As a result, contract prices are running higher than in recent years. What could be had for \$1.30 to \$1.40 is over \$2.00. A cold snap, he adds, would be a volatility driver, although the current spot market has been volatile enough.

"We have seen 15¢ swings in a single day on the spot market," he says.

He points out that it can be good or bad, depending on the day. In late November, the spot market was less than contracted prices.

"If you are going to need propane, we can supply you," he says. "Keep an eye on the weather. If it looks like a cold weather trend, prices can change in a hurry."

Suppliers of gas and diesel have experienced outages in recent months. So far, this has not affected Legacy Cooperative member/owners.

"We've been able to source other terminals and get the product we've needed however supplies are tight," says Lovcik. "It was more of a challenge during harvest but is better now."

Prices are higher nationally but have fluctuated between an improving economy and renewed fears of COVID. "Prices depend on what news has come out most recently," says Lovcik. "News that vaccines

are working on new variant's drives prices up. If the economy appears to be slowing, prices fall."

As with propane, Lovcik advises watching the market. If prices are down, it could be a good time to contract for the remainder of the season.

"We have a fair number of members/owners who forward contract their fuel needs," says Lovcik. "However, simply filling your tanks today may be a good hedge against higher prices."

Lovcik emphasizes the stability of Cenex fuels. "Any fuel purchased now with plans for spring use will not be an issue," he says. "Fuel to be used this winter should be winter grade. We've switched pumps at our locations to winter grade."

When buying fuel or other products at Legacy Cooperative retail outlets, Lovcik encourages member/owners to use their Legacy Cooperative card. Most of the outlets have switched over to the new point-of-sale (POS) system. The new system was required to comply with changes to the payment card industry's rules on POS (point of sale) transactions.

"To ensure accuracy when charging to your Legacy Cooperative account, the best practice is to use your Legacy Cooperative card," he says. "This will eliminate the potential for a salesperson to miss-key and apply charges to a wrong account, and more importantly it will

eliminate the ability of an unauthorized person to charge to your Legacy Cooperative account."

Most of the retail locations have switched over to the new system, and staff have been trained to use it. "Please be patient with our staff as they become accustomed to the new system," he says. "We hope you will understand if service isn't what we all would like it to be. Staffing continues to be an everyday challenge. As a result, employees are working

extra hours to ensure you get the service you need."

Drive-offs, where a customer fills their tank and leaves without paying, are also on the increase. As a result, evening gas purchases will increasingly be pre-pay at the pump.

"Drive-offs tend to occur at busy times

in the evening," says Lovcik. "Switching to pre-pay is the only way to protect your investment in the co-op."

Keeping shelves stocked is another challenge for Legacy Cooperative's retail side. Lovcik notes that everyday seems to bring another product in short supply to his attention.

"Whether it is tires or something else, if we can't get it, we find a comparable product," he says. "If you are going to need tires, buying them sooner, rather than later, is a good idea, especially if you want a specific brand or tread design. It will give us time to track them down."



Use your Legacy Cooperative card to speed purchases at retail outlets.



Keeping tire racks stocked is a challenge. Plan ahead for tire needs.

SEED SALES PROGRAMS ARE UNDERWAY

You can still save five percent on everything but wheat and InVigor Canola, notes Brandt Lemer, Legacy Cooperative Seed Manager. However, time is running out and so are 'prepay' programs.

The InVigor Canola program has already ended, as has the December 22nd eight percent discount on prepays on anything but wheat and InVigor Canola,

"Most of our member/owners took advantage of the eight percent discount this year," says Lemer. "That leaves the five percent discount, which will be in place until January 28th."

Lemer notes that seed sales started a little slower than usual this fall. He credits the high fertilizer prices with playing a role as member/owners reevaluated crop plans and input costs.

Lemer reports that the past summer's drought didn't have as big an effect on seed availability as expected. Of all the



Legacy Cooperative member/owners investment in seed bins at Rolla in 2018 has paid off well over the years. This year, they are even more important with trucks and truckers in short supply. Having seed on hand could be key to getting it in the ground come spring.

crops, soybeans were most effected.

"Overall, we are sitting with a pretty decent supply," says Lemer. "However, restocking remains a concern logistically."

He notes the same problems reported in other industries applies to agriculture, including seed. Trucks and truckers are in short supply.

"All our seed moves by truck, and scheduling is terrible," says Lemer. "We put in a request to get some soybean seed delivered in early November, and by the first of December we were still waiting."

While crops turned out better than

expected this past year, yields varied considerably due to the weather. As a result, Lemer notes it is hard to recommend one variety over another.

"We saw an 8 to 10-bushel difference in yield in soybeans from the same variety within a two-mile stretch," he says. "Yields simply varied all over the board."



Seed warehouses at Legacy Cooperative are filling up as member/owners place orders. While seed availability is generally good, Brandt Lemer, Legacy Cooperative Seed Manager, encourages locking in expected needs. This is especially important if weed control is a concern. Dry weather and an expected poor crop this past year caused some spray programs to be cancelled or reduced. If certain herbicide traits are needed, locking in herbicide and trait seeds is a good idea.

He does recommend making any trait related seed choices sooner rather than later. "Some herbicides are going to be in short supply," says Lemer. "Now is a good time to lock in seed and herbicide combinations if you want to guarantee herbicide availability."

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PRIORITIZE SAFETY ON THE FARM AND BE SAFER

In a world of input and market volatility, it can seem like everything is out of control. However, we can control how we approach things, suggests Val Christensen, Legacy Cooperative Safety Director.

"A good example is farm safety," he says. "Agriculture ranks among the most hazardous industries. Farmers are at high risk for fatal and nonfatal injuries, and farming is one of the few industries where family members working and living on site are also at risk."

Risks include everything from injuries and fatalities from machinery and livestock to dust-related lung disease, noise-induced hearing loss, skin diseases and certain cancers associated with chemical use and/or sun exposure. However, these risks can be reduced.

"We can provide a more stable and safer environment for ourselves, our families and others to work and live in," says Christensen. "It takes focus and stable repetition to improve our own safety behavior, attitude and culture."

He compares it to becoming more physically fit. You don't train for a marathon by running once a month.

"Weight loss, increased energy and better sleep are all benefits of a good exercise program, but they aren't evident overnight," says Christensen. "Even in a simple exercise program, it is muscle memory that separates good from great. The only way to mold muscle memory is compulsive consistency and repetition. The same holds true for safety."

Christensen identifies three behaviors, the muscle memory of safety, that can

create a safer environment around the farm.

- Prioritize safety and make safe behavior constant and stable.

- Train employees and family how to avoid risks with machinery, livestock, chemicals and fertilizers.

- Promote safety by following up on near misses to eliminate the hazards or actions that caused them.

Also, like fitness, safety comes less from words and more from deeds. "Family members and others decide how important safety is by watching others," he says. "We can all be safer by creating a safer, more stable working environment and consistently prioritizing safe behavior."