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Full Service Ag Banking

DOANE'S Farming for Profit®

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Expectations La Niña conditions will persist through winter continue to influence long-range forecasts from the National Weather Service (NWS). The 90-day forecast calls for above-normal temps and below-normal precipitation over most of the southern U.S., while the northern tier of states is expected to see below-normal temps and above-normal moisture. With nearly the entire southern Plains covered by some form of dryness/drought, the extended NWS forecast suggests drought in the region will worsen through March. That could increase the need for timely spring rains to support the HRW crop.

China reportedly produced 53.4 MMT of pork in 2017, a 0.8% gain from the year prior. But that compares to China's 2016 pork production at its lowest level in five years as financial losses encouraged farmers to curb herds. And while herds are recovering, rising 0.4% to 433 million head, the government's crackdown on farm pollution forced the closure of many small farms. That boosted slaughter rates. Also of note, Chinese beef production hit its highest level in 20 years of record-keeping at 7.26 MMT, up 1.3% from year-ago.

Members of the National Oilseed Processors Association crushed a record-high 166.382 million bu. of soybeans in December, topping expectations by nearly 1 million bushels. Soymeal exports climbed to 926,174 MT last month, the fourth month in a row they have climbed and the highest tally since March. But soyoil stocks still climbed to 1.538 billion lbs., up 212 million lbs. from the month prior, 104 million lbs. above year-ago levels and 157 million lbs. higher than traders anticipated.

Allowing sales of E15 (15% blended ethanol) year-round is "about the only real solution" for the Renewable Identification Numbers (RINs) problems, according to Senator Chuck Grassley (R-Iowa). There remains "some hope" the Environmental Protection Agency could make year-round E15 a reality via regulation, he said, though the agency in the past has said the law prevents it from granting a waiver that would allow sales of E15 throughout the year. One has to suspect such a move will be strongly opposed by oil-state Senators.

The U.S. exported an all-time record 535.4 million pounds of pork in November. Pork exports rose 40.8 million (8.2%) from October and 25.6 million (5.0%) from November 2016. Pork shipments through the first 11 months of 2017 increased 7.9% from the same period the previous year. U.S. beef exports totaled 260.7 million lbs., which was a record for November. Beef shipments during the first 11 months of last year rose 13.0% from the same period in 2016. Beef exports to number one importing country Japan remained quite large despite a big boost in Japanese tariffs on U.S. frozen beef last August. This suggests Japan demand remains very strong.

Farmland values in the western Corn Belt climbed slightly as a whole in 2017, according to the latest update by Omaha-based Farm Credit Services of America and eastern Kansas's Frontier Farm Credit. But while farmland values were up at benchmark farms in Iowa and Wyoming, values continue to decline in Kansas, Nebraska and South Dakota. Looking at farmland values on a five-year basis, the update notes Iowa farmland values are down 12.8%, Nebraska values are down 5.1%, South Dakota's values are up 15.6% and Wyoming's values are 38.5% higher. Cropland values, exclusively, are down 19.4% from their peak in 2013.

Farm Manager Focus

An Ag Policy Overview for 2018

In looking at ag industry outlook, some key topics deserve special attention. Completing the $81-billion disaster aid bill that includes a better safety net for cotton and dairy producers could make the writing of a new farm bill easier. President Trump's first major legislative victory via tax reform seems likely to make him more aggressive on U.S./China trade policy. China could retaliate for any U.S. sanctions and U.S. farm products could be high on its target list.

Energy policy changes are possible, including a push to extend lapsed tax incentives like the one for biodiesel. An omnibus spending bill that must be passed to fund the government in the short term might could include an extension of lapsed tax incentives, including the biodiesel credit. Senator Ted Cruz (R-Texas) is still pushing changes to the RFS.

The EPA will continue to update and enforce environmental regulations, including a new waters of the U.S. (WOTUS) rule around mid-2018. EPA Administrator Scott Pruitt also wants to repeal the Obama administration's Clean Power Plan. The key change Trump and his team are bringing to regulations is cost and benefit analysis.

President Trump reportedly thinks NAFTA 2.0 talks will eventually fail, but he's apparently concerned that a NAFTA collapse will offset any economic gains from the recent tax reform measure. A NAFTA 2.0 breakdown could devastate the ag markets. Focus is on the January 23-28 sixth round of NAFTA 2.0 talks in Montreal, Canada. Results from that confab could determine whether Trump gives a six-month notice to Canada and Mexico that he wants to bolt the agreement.

The House will move on the new farm bill early this year, with the Senate following, unless some Democrats want an issue, and not a bill. The latter could punt this to after the November elections or into 2019. Likely changes may affect the crop insurance program and payments for farm program benefits, the cotton and dairy safety nets, shifts in the ARC and PLC programs, conservation program funding, expansion of CRP acres and funding for Foot and Mouth (FMD) disease vaccines.

Doane's MARKETING MENTOR

CORN
In its 2017 Crop Production Annual Report, USDA stated final corn crop estimate of 14.604 billion bu. increased 26 million bu. from its November forecast and came in 25 million bu. above the average pre-report trade estimate. USDA added another 1.0 bushel to the national average corn yield, lifting it to 176.6 bu. per acre. Harvested corn acres were cut 416,000 from November, trimming the impact of the higher yield. Corn futures dove to fresh lows in response, but slipping South American conditions and rising soybean futures spurred a mid-January rebound. The delayed start to soybean harvest in Mato Grosso and low corn prices in Brazil gave rise to expectations for reduced safrinha corn acreage. Argentine also seems to be hurting that country's crop. Arctic U.S. weather is likely boosting feed demand and improved export sales suggest corn is a value on the global market. A big bullish move probably won't happen, but bulls can hope for a firmer spring outlook.

SORGHUM
In its January 12 crop reports, USDA analysts essentially left their harvested acreage estimate unchanged at 5.045 million acres. But the average U.S. yield estimate for 2017 was boosted 1.7 bushels per acre, with the net change being an 8 million bushel upward revision, to 365 million bushels, to last year's harvest total. Modest shifts in the various supply and usage figures netted out to a 3-million-bushel increase from December in projected 2017/18 ending stocks to 24 million bushels. Thus, despite the big annual cut to 2017 sorghum plantings, the latest carryout forecast is just 9 million bushels below the comparable 2016/17 result. USDA's mean crop price projection is now at $3.25/bushel, up $0.46 from the year-ago quote. This favors a small rise in spring plantings.

SOYBEANS
USDA cut 0.4 bushels from the national average soybean yield, dropping it to 49.1 bu. per acre. The final production estimate for soybeans, at 4.392 billion bu. fell 33 million from November and 35 million below pre-report estimates. The yield decline was partially offset by a 51,000-acre increase in harvested bean acres. Soybean futures rallied in response to the data, then posted a strong mid-January follow-through amid ongoing concerns about dryness in Argentina. Meal was the upside leader in the soy complex, while soyoil values sagged. Given the sizable short positions held by the futures funds, fund short-covering could amplify a short-term rally. The strong NOPA crush result posted Jan. 16 also encouraged bulls. The latest soybean 2017-18 export sales figure, for the week ended Jan. 11, reached 1.240 million tonnes and topped expectations. But the bookings pace remains far behind USDA's forecast rate, so the price outlook is problematic.

WHEAT
The USDA stated 2018 winter wheat seedings at 32.608 million acres, just 88,000 acres below the year-ago total. That crushed pre-report forecasts averaging 1.3 million acres lower. When combined with the surprisingly large December wheat stocks total (up 25 million bushels from industry forecasts) and the 2017/18 carry-out forecast 30 million bushels over expectations, these data triggered a sharp negative reaction by wheat futures. History shows that such a negative market response often presages more of the same through winter and early spring. Bulls have to hope for some supportive event to occur, especially when they consider the negative global wheat situation. One potentially supportive factor is the persistent dryness dominating the southern and central Plains, since droughty conditions could reduce the winter wheat harvest significantly.

HOGS
Hog supplies routinely decline from a pre-Christmas peak to annual lows during early summer, which largely explains the seasonal tendency for hog prices to rise during the first half of the year. The pattern of strength during the first six weeks of the year is pretty reliable. That was certainly the case in early 2018, since the CME Lean Hog Index has improved by nearly $11.00/cwt from its late-2017 low. Hog futures had traded at sizable premiums to the index (which they cash-settle against) in early Jan., but sagged around mid-month. The February contract actually fell to a discount, implying widespread pessimism about short-term prospects. That pessimism likely reflected concerns about the wholesale market, which had clearly underperformed hog values. It's likely too early to give up on anticipated February strength, especially given the strong packer competition occurring in the wake of 2017 packing industry expansion.

FEEDER CATTLE
The feeder cattle market seemed to get hit from several sides during early winter. Wintry weather over much of the U.S. likely discouraged feedyard managers from aggressively buying replacement yearlings. That reluctance was probably reinforced in early January, when nearby live cattle futures led the cattle and beef complex lower. The discounts then built into the Chicago market probably made feedlot buyers more cautious when it came to buying replacement yearlings. In addition, the January USDA Winter Wheat Seedings Report stated acreage planted to winter wheat 1.3 million acres above expectations. That suggests a surprisingly large number of stockers were placed on wheat pastures last fall, which implies increased number exiting those fields this spring. Moreover, given the dryness that has dominated the southern Plains this winter, farmers may be quick to send those yearlings to market in the coming weeks. Still, the usual spring fed cattle rally could provide robust support.

CATTLE
Surprisingly weak early-2018 cash prices triggered a sharp drop in cattle futures, pushing the latter to significant discounts to the former. That wasn't necessarily a bad thing, since the implicit bearish forecasts should cause producers to keep marketings current. As long as market-ready fed cattle supplies are limited, the large feedlot population shouldn't be burdensome. A technically fueled recovery in mid-Jan. improved cash prospects with nearby live cattle futures leading the way higher. Slipping steer weights indicated the supply situation remained under control, but the narrowing choice-select beef price spread was somewhat worrisome. The strong tendency for feedlot marketings to decline to a late-winter low suggests the traditional first-quarter cattle rally will occur once again.

DAIRY
The December USDA Milk Production Report stated November 2017 U.S. milk production at 17.279 billion pounds, which represented a 1.0% annual increase and continued the years-long upward trend in domestic dairy output. It also pegged the U.S. dairy cow herd averaged 9.397 million head during November, unchanged from October, but up 53,000 head (0.6%) from late 2016. Given the general trends in the dairy sector (e.g., increased productivity per cow, declining prices), those results weren't terribly surprising. Recent losses might have spurred active herd culling, but another major shift is mitigating that pressure. That is, many dairymen have converted to robotic milking systems and undertaken huge debts in the process. This implies prices will have to fall much lower to trigger a big industry cutback.