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Soybean futures were held back by recent reports that China has been studying the possible impacts of enacting trade measures against U.S. soybeans, possibly including anti-dumping and anti-subsidy investigations. Wire service sources say the country has been considering such measures since January. The country launched a similar move against U.S. sorghum shipments in early February in apparent retaliation after the Trump administration hit its solar panels and washing machines with tariffs. Its probe of U.S. distillers' dried grains shipments (DDG) has basically choked off U.S. shipments of the byproduct. While China remains the U.S.'s top export market, it has boosted imports of Brazilian soybeans. But Brazil is usually a less reliable supplier than the United States. Any decision to restrict trade could hammer the soybean outlook.

On February 9, Congress reached an agreement that includes a continuing resolution (CR) that funds the government at current levels through March 23, 2018, in order for the appropriations committees to negotiate detailed appropriations and deliver full funding for the remainder of fiscal year (FY) 2018 and begin the process for FY 2019. The 652-page budget deal being added to a stopgap spending bill that cleared the House Tuesday included important ag-related provisions. The move made cotton eligible for farm program safety nets (PLC and ARC). It made Margin Protection Program (MPP) and insurance program changes for dairy and retroactively revived the biodiesel tax incentive for 2017.

U.S. Trade Representative Robert Lighthizer recently indicated that while Mexico has agreed on some U.S.-pushed North American Free Trade Agreement (NAFTA 2.0) initiatives, Canada has become entrenched in its no-give strategy. Now, trade tensions between the U.S. and Canadian federal governments are spilling over to the state level. Ontario is restricting firms from New York from bidding on its government contracts in retaliation for the so-called Buy American measures approved by Albany. Championed by Democratic Governor Andrew Cuomo, the provisions compel government-funded infrastructure projects of more than \$1 million to use U.S.-made materials and construction supplies.

The Trump administration unveiled its infrastructure plan on February 12, the same day the administration presented its fiscal 2019 budget plan. The infrastructure principles outlined a plan "that will generate at least \$1.5 trillion of investment, cut the burdensome regulatory process from 10 years to 2, and provide funding for projects in rural America," a White House official said in a statement. The principles would outline regulatory changes to hasten construction on infrastructure projects and direct spending in rural areas.

Democratic attorney generals for 10 states plus the District of Columbia have sued the Trump administration for delaying for two years the enforcement of the Waters of the United States (WOTUS) rule. The lawsuit was filed in Manhattan by New York Attorney General Eric Schneiderman and his counterparts in California, Connecticut, Maryland, Massachusetts, New Jersey, Oregon, Rhode Island, Vermont, Washington and the District of Columbia.

The Environmental Protection Agency hopes to determine "soon" whether it has the legal authority to issue a national waiver allowing sales of motor fuel containing 15% ethanol year round, Administrator Scott Pruitt said yesterday at an oversight hearing before the Senate environment panel. This is now restricted during the summer months.

Farm Manager Focus U.S. Cattle Herd Expansion is Slowing

The U.S. cattle herd as of January 1, 2018 totaled 94.399 million head, up 0.7% from last year but about 400,000 fewer than expected, marking the slowest growth rate since herds began expanding in late 2013. The January beef cow inventory at 31.723 million head rose 509,800 (1.6%) from last year. While the herd is still expanding, having the number of beef replacement heifers drop 237,000 head (-3.7%) to 6.131 million ended a six-year run of increased heifer retention.

The numbers of steers weighing over 500 lbs. and calves under 500 lbs. were both near year-earlier levels and around 2.0% short of expectations, despite the climbing cattle population and a 2.0% increase in the 2017 U.S. calf crop to 35.808 million head. That likely reflects torrid 2017 feedlot placements and cattle slaughter. Those animals are probably incorporated in the feedlot population.

Given the 1.4% increase in the total U.S. cow population to 41.123 million head and the reduction in the number of heifers slated to join the domestic cow herd, Doane projected the 2018 U.S. calf crop at 36.250 million head, up 1.2% from last year. When combined with gains in cattle slaughter expected this year, we see the Jan. 1, 2019 U.S. cattle population rising to 94.8 million head, up 0.4%. However, reduced replacement heifers suggest next year's January total will mark the peak for the current expansion. But robust beef and firm cattle and beef prices might extend the expansion into 2020.

The indicated 0.6% rise in dairy heifer retention was surprising, since the big milk and product price losses suffered through late 2017 implied a drop of about 1% from the comparable 2017 total. Indeed, the number of dairy heifers expected to calve sagged 1.1%. Although industry talk points to dairy industry contraction, we suspect the dairy industry's broad adaptation of robotic milking systems is playing a role in continued growth. The huge fixed costs and debt service undertaken when those systems are installed gives producers a strong incentive to operate them at capacity.

CORN

The USDA boosted its estimate of 2017/18 U.S. corn exports 125 million bushels to 2.05 billion, with projected carry-out falling commensurately to 2.352 billion bushels. That news added to bullish developments reflecting tough South American conditions in early February. Argentina's corn crop is suffering from heat and dryness. USDA trimmed its Argentine crop forecast 3.0 million metric tons (MMT) on Feb. 8. Brazil cut its corn crop estimate by 4.34 MMT amid expectations for a smaller safrinha crop. Given the South American crop concerns, export demand for U.S. corn has picked up, as exemplified by nine USDA daily system sales announcements during the Jan. 24 to Feb. 7 period. While the short-term price trend is pointing higher, the upside may be capped by farmer selling given hefty supplies stored on farm. Conversely, expectations of another U.S. cut in spring plantings, as well as concerns about sustained spring dryness, seem supportive of the new crop outlook.

SORGHUM

USDA made no changes to the key sorghum supply/demand components in its February update. The total supply forecast of 399 million bushels is down 120 million from 519 million in 2016/17. That looks quite large, but was well anticipated given the 16% reduction in plantings. USDA's use forecast of 375 million bushels was steady with last month but down 110 million from last year. The net result of those shifts is an approximate 10-million-bushel cut to the carryout forecast at 24 million bushels. While seemingly tight, it stands only 3 million below the 5-year average. Of course, corn prices play a big role in pricing sorghum. USDA forecasts the average cash price at \$3.15/bu, which is a typical 15 cents under the average corn price forecast of \$3.30 per bushel.

SOYBEANS

USDA cut its U.S. soybean export forecast 60 million bushels on its February Supply/Demand (WASDE) report, which weighed on prices. Summer heat is reducing prospects for Argentina's soybean harvest, whereas Brazilian weather has been favorable for its bean crop, with observers saying each metric ton lost in Argentina is being replaced by one in Brazil. However, the poor Argentine crop will likely chop its large soybean meal and oil exports. That news sent soybean meal prices soaring in mid-February, as indicated by nearby futures at contract highs; traders

clearly think U.S. soybean meal will make up the difference. That strength also spilled over into the soybean market, while soybean oil being produced as a by-product depressed that market. The industry also harbors concerns about the spring-summer weather outlook with La Niña potentially extending winter dryness into the Corn Belt.

WHEAT

The combination of arctic temperatures and persistent dryness this winter damaged production prospects for this year's hard red winter wheat crop. Moreover, such poor conditions often lead to elevated abandonment in the Southern Plains. Illinois soft red winter wheat conditions at the end of January essentially matched the poor readings from the southern Plains. That enabled SRW prices to firm along with HRW despite persistently mediocre export sales. Prospects for a stunted harvest could keep upside potential open. Spring wheat prices kept losing ground to winter wheat through early February since the potential for a reduced winter wheat harvest boosts the chances of an increase in spring wheat plantings. Short winter wheat crops also tend to produce high-protein grain. Wheat futures rallied in response to those events, but history shows moves sparked by winter crop scares often lose upward momentum rather quickly.

HOGS

After generally matching year-ago levels in mid-January, hog slaughter surged during the week ended Feb. 3. The preliminary weekly total reached 2.438 million head, up 4.8% over year-ago. The December Hogs & Pigs Report implied that figure was exaggerated since it indicated winter supplies would run 2% over those of early 2017. Persistently high hog weights averaging around 285.1 pounds per head through early winter add to worries about excessive supplies. That is, weights routinely topped early 2017 levels by 2-4 pounds per head, suggesting marketings are lagging. Cash prices also tend to sag in late winter. But January-February futures losses seemed overdone, especially when viewed in light of surging packing industry expansion and competition. The addition of a second-shift at a major new plant this spring could exaggerate the usual spring rally in hog and pork prices.

FEEDER CATTLE

The biannual USDA Cattle Report stated by the January 1 herd of steers weighing over 500 pounds and the calves weighing under 500 pounds essentially unchanged from early

2017. When combined with "other" heifers destined for feedlots, the total at 40.11 million head, which largely represented the supply of feeder cattle available for feedlot placement in 2018, rose just 0.8% from last year despite the ongoing cattle industry expansion. This looks quite supportive of yearling values in the weeks and months ahead. Early spring supplies may fluctuate a bit differently from recent years since poor condition ratings for winter wheat fields in the southern Plains suggest elevated abandonment rates. Thus, farmers may keep stockers on those fields much longer than normal.

CATTLE

Steer weights fell 11 lbs. during the first three weeks of January, indicating producer marketings remained quite current, which suggests the usual late winter-early spring rally will occur again this year since fed cattle supplies routinely hit annual lows at that time. Kills surged to a fresh 2018 high during the week ended Feb. 3. The January 31 Cattle Report stated the overall U.S. cattle population at 94.399 million head, about 400,000 below forecasts. The 1.4% rise in the cow population to 41.123 million implies continued, albeit slower, herd expansion this year. The Jan. 1 U.S. total feedlot population rose 7.2% annually, which means similarly large fed cattle supplies through winter and early spring. Slow mid-winter slaughter rates added to worries about large feedlot supplies, although summer futures remained relatively high versus those seen in late summer and early fall 2017. The market is relying on persistently robust demand.

DAIRY

Contrary to widespread ideas that late-2017 declines in milk and product prices would spur dairy herd liquidation, the January 2017 USDA Milk Production Report indicated the national herd had edged upward from 9.397 million head in October to 9.401 million in December. That was only 3,000 below the August 2017 peak of 9.404 million head, which was also the largest U.S. dairy herd figure on records extending back to 1999. As one would expect given the long-term upward trend in milk production per cow, which rose 0.6% annually in December, milk production in the last month of 2017 reached 18.043 billion pounds, up 1.1% annually. The December all-milk price came in at \$17.20/cwt, which easily topped spring lows and far exceeded the spring 2016 low at \$14.50. This partially explains the lack of contraction in the dairy industry.