IOWA STATE BANK

A FULL SERVICE BANK · FDIC MEMBER FEDERAL DEPOSIT INSURANCE CORPORATION

CLARKSVILLE, IOWA 50619 • PHONE: (319) 278-4761 • FAX (319) 278-4685
KESLEY, IOWA 50649 • PHONE: (319) 347-6671 • FAX (319) 347-6229
PARKERSBURG, IOWA 50665 • PHONE: (319) 346-1226 • FAX (319) 346-1243

Full Service Ag Banking

DOANE'S Farming for Profit®

August 2018

After the U.S. and China traded tit-for-tat tariff announcements on July 6, the next week the U.S. unveiled a list of Chinese imports worth $200 billion that could face higher duties. That reportedly caused China's Vice Minister of Commerce Wang Shouwen to say, "when we have a trade problem, we should talk about it." Some Trump administration officials have indicated they are willing to talk if China obliges. A White House spokeswoman later indicated U.S. officials have had high-level talks with Chinese officials on "multiple occasions in the past few months" and have made clear U.S. concerns about the country's trade practices.

Senate Agriculture Chairman Pat Roberts (R-Kan.) says some staff-to-staff contacts have occurred on how USDA might eventually help farmers impacted by President Trump's tariff actions on key importers of U.S. farm products, but there's been no comprehensive plan presented to him yet. "This is getting out of hand," he told reporters at the Capitol on Wednesday.

Mexican President-elect Andrés Manuel López Obrador will meet three more top White House officials Friday: Treasury Secretary Steven Mnuchin, Homeland Security Secretary Kirstjen Nielsen and White House senior adviser Jared Kushner. Those are in addition to Secretary of State Mike Pompeo, who was already set to meet López Obrador and his team in Mexico City to discuss a bilateral relationship. The officials are expected to discuss the renegotiation of the North American Free Trade Agreement, economic development projects and migration.

Beginning Aug. 1, reports issued by the USDA's National Ag Statistics Service and World Agricultural Outlook Board will no longer be given to accredited media 90 minutes ahead of the release time. The department has found "evidence to suggest that there is significant trading activity worth millions of dollars that occurs in the one to two second period immediately following" the report releases, saying that "private agents are paying the news agencies for faster data transmission to get a jump on the market," Depending upon the results of this change, other agencies of the U.S. government may take similar action when economic reports are released.

"The Southern Plains' 2018 HRW crop will have the highest protein average in the past 20 years for around 85% of the output," according to a U.S. wheat crop consultant. The source said the blending of old-crop inventory with marginal protein "will be a layup" and allow for more milling quality bushels to come available.

After some last-minute infighting, the Senate easily cleared its farm bill, 86-11 in late June, with conference negotiations to begin after the July 4 recess. The final vote came after senators voted to table an amendment by Senators John Kennedy (R-La.), Ted Cruz (R-Texas) and Mike Lee (R-Utah) to reduce food stamp benefits for able-bodied adults, a vote that Senate ag panel leaders will note in coming conference talks with the House. Rectifying major differences in food stamps will be the biggest conference challenge. Major provisions of the Senate bill are similar to provisions in the 2014 Farm Bill. The Senate debate avoided any amendment votes on crop insurance and sugar programs. The Senate bill provisions would legalize industrial hemp production, encourage exports to Cuba, extend the flood insurance program to Jan. 31, 2019, and allow some grazing on CRP land, as well as boost maximum acres in the program.

Farm Manager Focus

The Results of the June USDA Acreage Report

On June 29, the USDA released its annual acreage report, which details U.S. farmer plantings as of June 1. Both corn and soybeans plantings highlighted the release, since both topped spring intentions, by 1.102 million to 89.128 million and 575,000 to 89.557 million acres, respectively.

U.S. corn plantings came in 566,000 acres above the pre-report forecast, but fell 1.039 million acres from the final 2017 estimate. USDA estimated harvested acres at 81.770 million. Using the USDA trendline yield estimate at 174 bushels puts 2018 U.S. production at 14.227 billion bushels. The 2017 crop totaled 14.604 billion.

Soybean plantings were stated 134,000 below the average forecast, and fell 585,000 below year-ago. Compared to March intentions, soybean plantings rose 575,000 acres. USDA stated likely harvested acreage at 88.862 million. If one uses USDA's trendline yield at 48.5 bushels, 2018 production would reach 4.310 billion bushels versus 4.392 billion last year.

All-wheat plantings at 47.8 million acres came in 719,000 above the average pre-report estimate and topped the March intentions figure by 482,000 acres. Spring wheat seedings were stated at 13.202 million, up 2.193 million acres from 2017. Harvested acres at 39.571 million are seen topping the June figure at 38.9 million. Given USDA's yield forecast at 46.9 bushels, that would mark a production increase of about 30 million bushels.

Cotton plantings at 13.518 million acres fell 263,000 acres below the average pre-report trade estimate, but topped the USDA's stated March intentions figure at 13.469 million by 49,000 acres. Moreover, this latest result exceeded the 2017 plantings figure by 906,000 acres.

Relatively firm rice prices in recent months apparently spurred plantings. Planting intentions climbed to 2.69 million acres in late March, but the June report stated U.S. rice plantings at 2.84 million acres, up 15.3% annually. The USDA reported that farmers boosted sorghum acreage to 6.040 million acres, up 7.4% from last year. Barley acreage reached 2.549 million acres (up 2.7% from 2017), oat plantings touched 2.889 million (up 11.6%), and sunflower plantings rose 4.1% over year-ago to 1.461 million acres.

Doane's MARKETING MENTOR

CORN

Surging corn exports partially caused the USDA to slice 75 million bushels from its 2017/18 carry-out forecast, to 2.027 billion bushels, in its July Supply/Demand (WASDE) report. USDA analysts used the June 29 upward revision to the corn planted acreage forecast (from 88.0 million to 89.1 million acres), and predicted harvested acreage at 81.8 million. When combined with the yield forecast at 174.0 bushels per acre (despite outstanding early-summer conditions), that put the 2018 corn production forecast at 14.230 billion bushels, up 190 million from the June figure, but down 374 million bushels from last year's record. But overwhelming pessimism about the soybean export forecast and the massive breakdown in bean prices dragged corn quotes down as well. Given the strong downward trend in U.S. and global corn carryout forecasts, the price drop seems overdone.

SORGHUM

USDA upped its sorghum planted acreage estimate slightly, to 6.04 million acres, which topped the 2017 total by 7%. Increased plantings caused USDA to boost its WASDE production forecast by 13 million bushels to 356 million. Projected 2018/19 supply reached 390.3 million bushels, topping the June figure 18 million. Total new crop usage was revised upward by 10 million bushels, with the most important driver of the revision being the trade/tariff situation with China. The current policy implies exports will decline 40 million bushels, reshuffling the trading partners and reducing anticipated exports to China. That 40 million accounts for a majority of the 50-million-bushel upward revision in sorghum-based ethanol production to 98 million. USDA forecasts 2018/19 ending stocks at 35 million and cash prices to range from $3.10-$4.10 per bushel.

SOYBEANS

The USDA made major revisions to its soybean outlook based upon the US/China trade conflict, assuming it will continue indefinitely. This implied the US will be poorer for demand and with price forecasts sharply lower as a result. USDA cut 40 million bushels from the June 2017/18 carryover estimate, now at 465 million. Department analysts boosted its 2018 production forecast to 4.31 billion bushels, up 30 million from last month on added acreage, whereas the yield was unchanged at 48.5 bu/acre. When combined with its 250-million-bushel cut to estimated exports, which fell to 2.040 billion bushels, the changes put projected 2018/19 carryover up 195 million bushels from June, to 580 million. The USDA chopped its new-crop price forecast to the $8.00-$10.50 area, but the mean is still well above levels implied by soybean futures. A rebound is likely coming, but the timing and size are unknowable.

WHEAT

For 2018/19 wheat, USDA analysts raised estimated carryover to 985 million, up 39 million bushels from June. USDA boosted total supplies by 74 million to 3.117 billion bushels, but the rise was partially offset by a 10-million bushel increase in feed & residual use (to 130 million) and a 25-million-bushel gain in the 2018/19 wheat export forecast (to 975 million bushels). USDA cut foreign 2018/19 wheat supplies by 9.3 million tonnes, primarily on lower production, which is the smallest in three years. The reductions were led by a 4.4-million-tonne drop for the EU. Australia, Russia, and Ukraine were lowered 2.0 million, 1.5 million, and 1.0 million tonnes, respectively. All reflect persistent dryness in those regions. World ending stocks were reduced from June by 5.3 million tonnes to 260.9 million. Thus, wheat price prospects have improved, but futures also struggled to escape the trade-related bearishness depressing the soybean and corn market.

FEEDER CATTLE

The strong tendency for beef calves to be born during spring causes seasonal shifts in calf and yearlings supplies in the months and years that follow. Many calves born in the spring go to market as stockers or as 'calf-feds' into feedlots about 18 months later. Others are held until they're older and enter feedlots as yearlings. The supply of animals in the latter category tightens considerably in late summer, which partially explains the feeder cattle market's tendency to rally into late summer and/or early fall despite concurrent seasonal weakness in fed cattle values. Ranchers are likely facing reduced feeder prices in late 2018 as cyclically expanding supplies reach marketable age, although the big corn and soybean meal losses suffered in the second quarter imply reduced feed costs and improved feedyard demand.

CATTLE

Feedyard managers have done an excellent job of marketing their cattle this year. By actively selling their animals through late winter and spring, they caused steer and heifer weights to decline sharply, which in turn limited beef production per head. Moreover, it improved their bargaining position when dealing with packers eager to supply the spring grilling season. The combination of seasonally increasing fed cattle supplies, as well as weaker demand during the 'summer doldrums' seemed destined to exaggerate the usual mid-year price decline. But grocers have featured beef rather aggressively this year, which in turn has maintained robust consumer demand. As a result, the fall-winter cattle outlook looks promising, as indicated by the recent shift of the fourth-quarter contracts from sizeable discounts to premiums over cash prices.

DAIRY

Diminished EU dairy production has tended to reduce downward pressure upon U.S. and global milk prices, which in turn seemed to enable U.S. product prices to rally through spring in the face of the traditional spring production surge, as well as the sustained growth in domestic output. Summer heat is now taking a toll on cow productivity, with some areas suffering worse than others. The spring breakdown in corn and soybean meal futures has rather clearly lowered feed costs for many dairies, but unfavorable spring grass conditions (i.e. a wet, cold April followed by heat and dryness in May and June) reduced hay yields in many areas. The fall outlook now looks troubling in the wake of the contra-seasonal July breakdown.

HOGS

The June 28 USDA Hogs & Pigs report indicated ongoing domestic growth in hog supplies is likely to accelerate in the coming months. The June 1 U.S. hog population at 73.451 million head represented a 3.4% annual increase and set a fresh modern record for June. The spring 2018 pig crop topped the year-prior figure by 4.3%, due largely to a 3.6% annual increase in spring farrowings. The numbers indicate hog supplies will run about 3.5% over year-ago levels through late summer and early fall, then climb toward 4% in the fourth quarter. The biggest surprise on the report was the 3.45% yearly surge in the breeding herd, which suggests 2019 hog supplies could average 4%-5% over current levels. This marks a response to generally firm 2017 prices and the rapid expansion of the pork packing industry. But hog futures have struggled this summer as traders worry about the bearish impact of Mexican and Chinese tariffs on U.S. pork. Doane views the weakness as being overdone.