



IOWA STATE BANK



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®

October 2018

On September 17, the U.S. announced 10% tariffs on another \$200 billion in Chinese goods, with the percentage going to 25% if an agreement is not reached by late 2018. The latest tariffs take effect Sept. 24 and come on top of the \$50 billion worth already taxed. President Trump has already threatened China with another \$267 billion in tariffs if China retaliates. China has pledged to retaliate with \$60 billion in new tariffs or increased levels for existing rates on U.S. products. Other retaliatory measures are likely to include delays in licensing and project approvals and possibly harassing multinational companies in the country. Trump indicated he was willing to end the trade war — if China agreed to his demands. Administration officials say China must allow American companies greater access to its markets and drop its requirement that American companies give up valuable technologies to the Chinese.

There is a 50% to 55% chance an El Niño weather pattern will develop during fall 2018 (defined as September through November), according to the Climate Prediction Center (CPC). It elaborates that most models continue to predict the onset of El Niño sometime this fall and continuing through winter. Last month, the weather watcher said there was a 60% chance of an El Niño weather pattern developing during fall. The government weather forecaster gives 65% to 75% odds of an El Niño pattern during winter 2018-19. Also of note, CPC says most forecasters “are leaning toward the more conservative model guidance that indicates a weak El Niño event.”

How will USDA purchase up to \$1.2 billion worth of farm products as part of Trump’s plan to offset the ag industry negative impacts from his trade tariffs? Pork heads the list, with USDA intending purchases of nearly \$559 million worth of the commodity, besides the \$290 million in direct payments hog farmers (\$8/head) are earmarked to receive under the direct payment portion of the aid package.

USDA plans to issue the final rule for labeling bioengineered foods by early December, according to Greg Ibach, the undersecretary for marketing and regulatory programs. The rule was sent to the White House budget office on Aug. 31 for review. Ibach informed members of the National Farmers Union that USDA will sync the new disclosure requirements with the changes in nutrition labeling that FDA mandated earlier. He said USDA will rely on state veterinarians and state agriculture agencies to find the best ways of meeting requirements for timely tracking of animals in disease outbreaks.

Little progress was made at the first session to work out the differences between the House and Senate approaches on the proposed farm bill. House Ag Chairman Mike Conaway (R-Texas) proposed a compromise bill in early September and was awaiting a more specific response from the Senate negotiators. No details are available regarding the compromise language that he described as “significant compromises” on the Supplemental Nutrition Assistance Program (SNAP/food stamps). Congress was working against a Sept. 30 deadline. Conaway expressed confidence it could be done.

On September 12, a federal judge in Texas froze the Obama administration’s waters of the U.S. (WOTUS) rule in the state, as well as in Louisiana and Mississippi. This reinforces the stay for 17 states issued by the Sixth Circuit Court of Appeals in 2015.

Farm Manager Focus

China’s Hog Disease Outbreak Could Power a Global Price Surge

China clearly owns the world’s largest swine population. The early-2018 Chinese figure at 433.25 million head is roughly six times as large as the U.S. herd. The latest estimate puts the global swine population at approximately 772.5 million head, which means China’s herd is larger than the rest of the world combined.

However, the Chinese swine herd could be decimated by the recent outbreak of African swine fever (ASF). This disease is highly contagious and devastating to the health of infected pigs. It only affects swine, the ASF virus is tough, being able to remain viable for long periods in uncooked pork. Unfortunately, there is no cure and no vaccine.

China’s first case of ASF was found August 3 and was followed over the next six weeks by 20 more appearances despite increasingly tight restrictions on the hog and pork industry being imposed by the government. The number of Chinese pigs affected at this point is relatively small, but given the extreme dispersion of that nation’s hog population, as well as their poor sanitation and non-existent bio-safety practices, the danger of a major ASF outbreak is very high.

ASF has also broken out in Eastern Europe. Romanian officials reportedly counted 900 outbreaks in mid-September. Numerous cases have also been found in Ukraine and Russia. Apparently ASF has already devastated the swine industry in the former Soviet Republic of Georgia and is now endemic to southern Siberia. This raises the risk of an outbreak in Western Europe.

Cash hog prices have rallied and deferred futures have led the nearby contracts higher in response. Nobody has a good handle on what next year will bring. Limited damage from the ASF outbreaks would likely keep U.S. prices low. But surging 2019 futures values clearly reflect the belief that the global situation is going to be greatly affected by the ASF outbreak. Ultimately, the outlook could hold major opportunities and risks for those on all sides of the hog and pork complex. All involved should be aware of the situation and prepare accordingly.

CORN

In its September 12 Crop Production and Supply/Demand (WASDE) reports, the USDA boosted its estimate of 2018 U.S. corn yields to a record-smashing 181.3 bushels per acre. That surprised traders and spurred aggressive selling. Still, despite the second-largest U.S. crop on record, both U.S. and world inventories are headed lower for a second year. Stockpiles of all feed grains (including corn) as a percent of use will fall to the lowest in 45 years. Demand for U.S. corn will stay robust, supporting firming prices into the summer of 2019 once harvest has peaked. U.S. export sales for the 2018-19 season are already 44% ahead of a year ago. Warm, dry weather has accelerated harvest rates, with traders focusing on actual yields to confirm the huge forecasts. Look for firmer futures spreads and better basis to indicate a developing market low.

SORGHUM

The USDA's 2018 sorghum production forecast was boosted 1.05 million bushels to 376.4 million in September. Beginning stocks were increased by 5 million bushels to 49.3 million due to trimmed 2017/18 exports. These changes resulted in an anticipated total supply of 425.7 million in 2018/19, marking a 6.1 million bushel from August. USDA's forecasts for total use and exports were unchanged at 380 million and 175 million respectively. As a result, ending stocks for 2018/19 were revised up by 6.1 million from 39.6 million to 45.7 million bushels. The forecast average for 2018/19 sorghum prices was reduced by 10 cents on the top and bottom ends of the anticipated price range from August, with the projected maximum price being \$3.80 per bushel and a minimum price of \$2.80, with the midpoint coming in at \$3.30 per bushel.

SOYBEANS

USDA also projected U.S. soybean yields and production at record levels of 52.8 bushels per acre and 4.693 billion bushels, respectively. Futures drifted to new lows on record projected U.S. and global supplies, then paused after the Chinese accepted the White House offer for trade talks. But prices resumed their decline after the two nations exchanged another round of tit-for-tat tariffs. But there is optimism that some trade progress can be achieved. Demand for U.S. soybeans, soymeal and soyoil remains quite robust from both domestic and foreign buyers other than China. Nevertheless, having a cargo of U.S. beans inspected for export to China, signaled that the

cost of U.S. beans, including tariffs, are competitive with Brazil. Brazil's exportable supplies are dwindling so China will need to substitute other sources or oilseeds soon. U.S. harvest results and South American planting weather will be the focus this fall.

WHEAT

As usual for September, the USDA minimally adjusted its domestic wheat supply/demand estimates. The real surprise was a sizable upward revision to 2018 Russian wheat acreage, which then caused a significant rise in the Russian supply forecast. Prices fell to two-month lows on signs that Russia may continue to be an aggressive exporter longer than expected earlier this summer. Additional reductions in projected Canadian, European and Australian wheat export supplies are expected, and U.S. exports should benefit. But late-summer exports remained anemic, despite global buyers stepping up to increase long-term coverage. In contrast to mid-September corn, soybean and winter wheat weakness, hard red spring wheat futures turned decisively higher, potentially signaling a wheat complex low.

FEEDER CATTLE

The feeder cattle outlook didn't seem particularly promising in the wake of the USDA's July Cattle Report, since it suggested the ongoing U.S. cattle herd expansion might prove larger and last longer than previously thought. The corn and soybean meal markets also finished July rather strongly, thereby implying firming feed costs. Estimates for the calf/yearling supply haven't declined in the interim, but nearby corn and soybean meal futures dipped to fresh contract lows in mid-September, which implies declining feed costs. That will likely support feeder prices, but, as usual, the main driver will almost surely be shifting fed cattle prices. Whether fed cattle supplies dip in late 2018 will be a big factor in pricing, as will be the strength of consumer beef demand. Big summer hog and pork losses seemingly caused grocers to shift focus from active beef features, thereby potentially hurting cattle and feeder value.

CATTLE

Cattle futures rallied in mid-September, led by new contract highs in the February, April and June contracts. The market is focused on strong demand and seasonally tighter cattle supplies the next several months. USDA raised both its 2018 and 2019 beef export forecasts by 40 million lbs., which still look a bit light after considering the surprising strength of sales seen during the January-August

period. Grocers continue featuring beef to increase store traffic. Rising employment and more meals eaten at home are increasing U.S. consumers' willingness to buy higher-priced beef relative to pork or chicken. However, the huge summer breakdown in hog and pork prices sparked a big hog futures surge despite seasonally increasing hog and pork supplies. This suggests grocers will feature more pork this fall, thereby potentially undercutting cattle and beef demand.

DAIRY

In its September WASDE Report, USDA raised its 2019 milk production forecast and 2019 milk price estimates. The 2018 output forecast was trimmed on lower milk cow numbers and a slower rate of growth in milk per cow, but projected herd growth, caused a boost in the 2019 milk production forecast. The report also reflected the dairy markets' vulnerability to the global trade/tariff situation. USDA projects cheese and whey prices to be higher for the remainder 2018, but butter price forecasts were revised lower. USDA boosted 2018 Class III milk price forecasts on improved cheese and whey prices. They also raised Class IV price forecasts as they expect non-fat dry milk price gains to more than offset lower butter prices. The all-milk price was raised to \$16.30 to \$16.50 per cwt for 2018 and \$16.75 to \$17.75 per cwt for 2019.

HOGS

After having posted late August lows over \$40 dollars below their June peak at \$86.20, cash hog prices rebounded along with pork values and CME Lean Hog futures. Renewed optimism about fall demand strength almost surely played a big role in the move. Having mid-September pork values up more than \$10 from their August low exemplified the burgeoning optimism. USDA provided another lift when it cut its 2018 pork production forecast 35 million pounds and lifted its projections for 2018 and 2019 exports by 20 million lbs. each. U.S. pork is competitively-priced on the world market and better sales are expected. However, as discussed on page 1, the recent outbreak of African swine fever in China and Eastern Europe raised the possibility of a major reduction in global supplies and a big commensurate price surge. Big late-summer gains in 2019 futures reflected that possibility.