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CLARKSVILLE, IOWA 50619 • PHONE: (319) 278-4761 • FAX (319) 278-4685
KESLEY, IOWA 50649 • PHONE: (319) 347-6671 • FAX (319) 347-6229
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Full Service Ag Banking

DOANE'S Farming for Profit®

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The 2018 Farm Bill easily passed Congress on December 12-13 and was signed into law by President Trump in December. The USDA will take into 2019 to implement the new farm bill. Incoming House Ag Chairman Collin Peterson (D-Minn.) says he will watch the process closely to make sure the bill's provisions are implemented the way lawmakers intended. See the column to the right for a rundown of various details.

President Donald Trump and Chinese President Xi Jinping reached a trade "truce" during their December 1 summit at the G-20 summit. President Trump indicated China would "immediately" purchase large amounts of U.S. soybeans and energy products. China watchers signaled Beijing had given the green light for state-owned firms to buy 5 million metric tons of U.S. soybeans (perhaps some grains, too), though for which crop year was unknown. Chinese state-owned companies bought at least 500,000 MT of U.S. soybeans on December 12, according to U.S. trade sources. Those were the first of the "immediate" soybean buys China agreed to.

A replacement definition for the waters of the United States (WOTUS) rule under the Clean Water Act (CWA) was unveiled today by the Environmental Protection Agency (EPA) in conjunction with the US Army Corps of Engineers. The new definition will supplant the one put in place in 2015 by rulemaking completed during the Obama administration. Critics had asserted that the previous definition was overly broad, impinged on the rights of landowners, and exceeded EPA's authority under the CWA. Just as the old rule was challenged in court by landowners and property rights activists, the new rule will be challenged by environmentalists.

McDonald's has announced a policy to reduce the overall use of antibiotics important to human health, which applies across 85% of the company's global beef supply chain. The company will monitor antibiotic use in its top ten beef sourcing markets and set reduction targets for medically important antibiotic use by the end of 2020. This move was likely triggered by activists pushing for reduced antibiotic usage by the food production industry. Given McDonald's dominant status in the fast-food sector, this move is likely to force reductions in antibiotic use by the cattle industry.

Select grade beef will soon become a small niche product. That's the conclusion of a new White Paper "Phasing Out Select Grade Beef," published by the Red Angus Association of America. The authors noted that as recently as 2006-2007, Select grade beef accounted for 40% of carcasses, but was reduced to 17% to 18% by 2018. Extending the current downward trend into the future, the authors suggest Select beef tonnage would be reduced to 10% by 2022 and to 5% by 2025. "Select grade beef," the authors said, "is being intentionally phased out for the right reasons."

A federal judge approved a settlement of $1.51 billion for more than 650,000 corn growers in the U.S. who charged they were financially harmed when China halted importing U.S. corn through much of 2014. Syngenta was sued for selling a strain of corn seed called Viptera to U.S. farmers starting in 2011, before it was approved by China for corn imports. This resulted in U.S. corn farmers being effectively locked out of the Chinese market until the corn strain won approval.

Farm Manager Focus

A Summary of 2018 Farm Bill Details

The 2018 Farm Bill won easy passage in both the Senate (87-13) and House (369-47) and was signed by President Trump in December. USDA will implement the 807-page bill estimated to cost $867 billion, with 80% of the spending for nutrition programs.

Safety-net program features include higher marketing loan rates for soybeans, corn and wheat, while cotton and minor oilseeds are unchanged due to relatively high current rates. Farmers will have a one-time chance beginning with 2020 crops to update yields used to calculate Ag Risk Coverage (ARC) or Price Loss Coverage (PLC) programs. They can also select either program for 2019, and that decision holds for 2020; they can switch to either program annually for 2021, 2022 and 2023. Choices are on a farm and crop basis. They also get new options on PLC reference prices, ARC guarantee calculation and base acreage.

Conservation Reserve Program (CRP) maximum acres will slowly rise to 27 million, with 2 million acres reserved for grasslands. Payment rates would be capped at 85% of prevailing rates for general signups; 90% for continuous. The Conservation Stewardship Program (CSP) is cut $800 million per year to pay for more funding elsewhere. Environmental Quality Incentives Program (EQIP) is increased by $275 million.

The bill also has boosted dairy and livestock provisions. The renamed Dairy Margin Coverage (DMC) program offers new coverage levels for the first 5 million lbs. of production. It cuts premiums on catastrophic coverage levels for large producers and eliminates the restriction between the margin program (DMC) and Livestock Gross Margin (LGM) insurance. The animal disease and preparedness program gets $150 million.

In addition, permanent baselines are in place for all major trade promotion and facilitation programs, including MAP and FMD. The bill also requires governors to approve applications to USDA by state agencies for waivers from the existing work requirements for able-bodied recipients without dependents. It also includes payment limits and an AGI test, allowing cousins, nephews and nieces to qualify for commodity program payments. The Adjusted Gross Income (AGI) test remains at $900,000.

Doane's MARKETING MENTOR

CORN

The USDA's December Supply/Demand (WASDE) Report revised its 2018/19 corn carryover projection up 45 million bushels to 1.781 billion, with the main driver of that shift being a 50 million bushel cut to forecast usage in ethanol production. Corn prices seemed set to firm into year-end. Exports are robust but are offset by slowing ethanol use. Domestic animal numbers are growing and support strong feed use. Reports suggesting China may buy 3 million metric tons (MMT) of U.S. corn spurred buying. Timing of the purchases is uncertain with a 25% tariff in place. Amounts may hinge on the success that Chinese soybean purchases create for pushing U.S. trade negotiations toward a deal. Growing global demand in the current situation of tightening global stockpiles and relatively low stocks-to-use ratios requires another big crop in 2019 to rebuild inventories.

SORGHUM

USDA kept its 2018/19 supply forecast unchanged in December. During December, USDA surveys farmers and commercials about the harvest results and quantities in storage. Those findings will be reported on January 11. USDA forecasts total supply of 399 million bushels, coincidentally identical to actual supply in 2017/18. There were significant changes on the distribution of use, but total use for 2018/19 was unchanged at 360 million bushels. However, there is an estimated 15-million-bushel increase in feed and residual. This reflects a 15-million bushel cut in use for ethanol production. The export forecast at 100 million is down 51% from last year. How improved trade relations between the U.S and China affects sorghum is open to question. Hopefully, the next month brings more insights. The season-average price forecast was unchanged at $3.40, which would be the highest price observed since 2014/15.

SOYBEANS

The components of the USDA domestic soybean balance sheet were unchanged in December. The bottom-line ending-stocks forecast at a record 955 million bushels, unchanged from November, remains daunting for bulls, especially after the USDA boosted its global carry-out figure for 2018/19 by 3.25 million tonnes to 115.3 million. The soybean market sagged after bouncing in the wake of the December 1 trade "truce." Actual sales fell short of early-December market chatter. USDA confirmed two sets of sales in mid-December, which provided support. More sales announcements will be needed to produce a run back above the early December high. Slower economic growth in China increases odds for progress on trade talks, although that country's problems with African swine fever may curb its soy usage in 2019.

WHEAT

Wheat markets surged in mid-December, with soft red winter futures popping to their highest level in eight weeks on support from stronger U.S. export sales, rising global prices and news the Russian government scheduled a meeting with exporters to discuss supplies. That encouraged talk Russia is closer to restricting exports. Hard red winter prices gained on SRW futures, an important sign of improving demand. USDA said weekly export sales rose to the highest level in more than four months. Rallies will need to be fed a regular diet of new sales to continue. Estimates of HRW wheat plantings are declining after not all intended acres were seeded, which will focus attention on USDA's January estimate. Spring wheat futures are following winter varieties higher despite a larger Canadian crop providing more competition. Some northern Plains farmers may shift away from corn and soybeans to plant more spring wheat.

FEEDER CATTLE

The sustained late autumn rally in fed cattle prices did not translate well to the feeder market. That divergence probably reflected several factors, the first being the growing tightness of U.S. and global corn supplies and the growing firmness of that market. That is, rising corn prices mean higher feed costs, which in turn tends to curb feedlot demand for yearlings. Also, the supply of market-ready fed cattle has remained tight throughout much of 2018, thereby supporting fed cattle values. In contrast, the cyclical expansion of the U.S. cattle population is boosting the supply of yearlings. Finally, the series of winter storms that hit the Great Plains stressed feedlot cattle and created poor feedlot conditions. That discourages buying of replacements.

CATTLE

Active producer sales have persistently limited the supply of fed cattle immediately available to beef packers, thereby supporting prices through much of 2018. The situation seemed to tighten even further during November, when a series of winter storms stressed feedlot cattle. That powered a sustained cash market advance through late autumn. Live cattle futures ground higher as packer and consumer demand remained robust. Slaughter in the first week of December reached 667,000 head, the second highest of 2018. Packers would not be scheduling large Saturday kills if the beef wasn't moving to grocers and restaurants. Demand also remains good for filling export shipments, which have been running about 10% above a year ago the past several weeks. Sales for 2019 probably need to improve to support the rally that saw April futures rise to new contract highs in mid-December, but beef gains during the week before Christmas were encouraging.

DAIRY

Rising global milk production is weighing upon both international and domestic prices. New Zealand is the main culprit behind the supply surge, as indicated by the 6.5% annual increase in that country's October production and a 6% rise during the first 10 months of 2018. U.S. milk prices have reflected the supply growth, as indicated by CME Class III milk futures, with the continuation chart showing a dive from a late-September high of $16.54/cwt to an early-December low at $13.62. The relative price weakness largely explains the cutbacks undertaken by U.S. dairies since early summer. The USDA had previously indicated a cut in the national herd to 9.367 million head in September; it confirmed that figure in November when it further trimmed the October milking cow population to 9.365 million head, down 0.3% annually. Given the sustained milk price weakness, more cutbacks are likely.

HOGS

After rallying to a secondary high at $69.36 in early October, cash hog prices slipped lower through the balance of autumn, although early December losses were minimal. Pork demand seemed quite variable, with pork belly prices performing very well, whereas the ham market's response to vigorous seasonal demand disappointed the industry. Doane believes packers are competing fiercely on the wholesale markets, which in turn has kept pork prices low and seemed to undercut hog values as well. Still, with packers adding fresh capacity this fall and winter, hog prices are unlikely to perform all that poorly in the coming weeks and month. But the key to the 2019 outlook may be China's African swine fever outbreak. If uncontrolled, it could devastate that country's hog/pork industry, with meat demand from the most populous country on earth potentially boosting prices across the board.