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Full Service Ag Banking

DOANE'S Farming for Profit®

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Although President Donald Trump said he was willing to negotiate with Democrats on U.S. border security and U.S. problems stemming from immigration, with the only non-negotiable point being $5.7 billion for a border wall, in mid-January, Democrats were showing no willingness to reach a deal and end the partial government shutdown begun just before Christmas. At that point the government shutdown was impacting the Trump administration's regulatory activities, including the waters of the U.S. (WOTUS) rule. The EPA and the U.S. Army Corps of Engineers had set Jan. 23 for a public hearing on the new proposed WOTUS definition, but that has been postponed. It also delayed plans to revise the Renewable Fuel Standard (RFS). In addition to postponing the release of its big January 11 crop and supply/demand reports, USDA extended the deadline for farmers to sign up for Market Facilitation Program (tariff aid) payments. The original signup deadline was Jan. 15, but it will be extended by the length of the shutdown.

Three days of U.S./Chinese trade talks ended in early January after strong progress toward a trade deal and an end to the trade dispute. USDA Under Secretary for Trade and Foreign Agricultural Affairs Ted McKinney called the meetings a "good few days." China's Vice Premier Liu He was to meet with his U.S. counterparts, including U.S. Trade Representative Bob Lighthizer and Treasury Secretary Steven Mnuchin, for negotiations on Jan. 30-31 in hopes of moving closer to an improved trade agreement. However, doubts about the potential for a deal weighed on the crop markets.

On January 8, China approved five genetically modified (GMO) crop varieties for import, the first in about 18 months, in what is seen as a goodwill gesture to advance trade talks. China's ag ministry says it now will allow the import of BASF's RF3 canola, Monsanto's glyphosate-tolerant MON 88302 canola, DowDuPont's DP4114 corn and DAS-44406-6 soybeans, as well as the SYHT0H2 soybean developed by Bayer CropScience and Syngenta, but now held by BASF. The two canola varieties had been pending approval for six years. However, five other products that have been awaiting approval have yet to be cleared. China also announced the extension of import approvals for 26 other GM crops by another three years.

China's government warned its pork industry that covering up cases of African swine fever (ASF) is a crime after a dead pig was found on a beach in Taiwan. China's animal husbandry and veterinary affairs bureau is stepping up investigation and punishment of illegal activity in the hog industry. Failing to report deaths and privately slaughtering and selling sick or dead pigs will be punished. It says payments of 1,200 yuan ($175) for each pig culled was sufficient incentive for farmers to report the disease.

Brazilian soybean and corn yield risks are on the rise after dry weather set in during December, thereby reducing yield potential. Scattered rains provided beneficial amounts to about 25% of the growing region, leaving dryness to build for the remaining areas. Some areas are "very stressed" by dry weather and excess heat, according to one respected meteorologist. Brazil's mid-January temperatures were expected to top normal levels by as much as 5 degrees Fahrenheit. The situation isn't terrible across Brazil's center-west and central grain growing regions, but it's abnormally dry.

Farm Manager Focus

The U.S. Livestock Outlook for 2019

U.S. hog and pork production will likely keep growing in 2019. The pork packing industry continued its strong expansion of the past few years in the fourth quarter, implying more demand growth. Those increases spurred hog industry expansion, with the USDA's preliminary 2018 U.S. pork production total stated at 26.310 billion pounds (up 2.8% annually) in December. The December 20 USDA Hogs & Pigs Report implied output will slow this year, so Doane projects 2019 pork production up about 3% at 27.1 billion pounds.

The 2019 hog outlook is quite cloudy given the U.S-China trade situation and that country's African swine fever (ASF) outbreak. China's massive swine industry is highly vulnerable; we expect Chinese import demand for all types of meat to surge as the ASF outbreak worsens. The USDA apparently agreed in December, jumping its 2019 U.S. pork export forecast to 6.450 billion pounds.

USDA raised the range of their 2019 U.S. price forecast one cent to the 41-44 cent area, which looks rather low. Ultimately, the outlook depends heavily upon the severity of China's ASF outbreak and its impact upon global protein markets. Again, Doane believes it will be "the tide that lifts all boats."

U.S. beef production has been rising cyclically since 2015. Prices have held up well in the face of surging supplies. In December, the USDA estimated 2018 U.S. beef production at 26.938 billion pounds, a 2.9% annual rise. 2019 U.S. beef production is seen at 27.785 billion pounds, up 3.1% annually.

The 2019 beef trade situation is expected to improve, with export growth exceeding import gains. Exports are expected to top the preliminary 2018 record at 3.190 billion pounds and reach 3.265 billion in 2019. But we at Doane are more optimistic, thinking a big Chinese meat shortage will spur global beef imports. USDA analysts are projecting an average U.S. price for fed steers in the 114.00 to 122.00 cent/pound range for 2019. In normal conditions that would seem too high, but Doane thinks an ASF-driven export surge will justify the implied firmness.

Doane's MARKETING MENTOR

CORN

The partial government shutdown extending through mid-January caused the USDA to postpone the release of its big January 11 reports (Crop Production, Grain Stocks, WASDE and Winter Wheat Seedings). When combined with the absence of numerous daily and weekly reports, particularly those concerning U.S. ag product exports, this lack of fundamental data greatly handicapped the crop and livestock markets in early 2019. Corn lacked enough speculative enthusiasm to spark sustained buying to start the year. Futures rallies on tightening global supplies and firming prices were met by increased farmer selling. The market was supported by spreading heat and dryness over Brazil's main production areas, thereby offering support for prices. Heavy rains in Argentina were confined to its northern belt. While U.S./China trade dialogue is improving, the lack of confirmation of rumored Chinese corn buying left the market trending sideways. Prospects for spring-summer corn strength may be limited by widespread expectations for increased plantings. Doane's preliminary forecast for spring 2019 U.S. corn plantings is 93.0 million acres, up 3.9 million from 2018.

SORGHUM

A December survey taken by Pro Farmer/Doane concerning fall 2018 wheat seedings indicated a significant drop. Poor weather kept farmers from reaching planting targets, which in turn suggests spring planting of alternative crops, particularly sorghum, could climb. Rising corn prices could also lead to increased sorghum acreage. Higher feed demand to accommodate rising U.S. cattle and hog populations also implies rising demand for sorghum as feed. USDA last forecast sorghum feed demand to be up 35% in 2018/19. Meanwhile, a U.S.-China trade agreement that allows the resumption of the big exports to China holds the promise of stronger demand and higher prices down the road.

SOYBEANS

Early January trade talks between the U.S. and China went well, but the lack of details about early-winter Chinese soybean buying disappointed market bull. No clear sign that China will unilaterally cut its 25% import tariff on U.S. soybeans to get closer to a final trade deal also weighed on sentiment. The resulting setback found buying interest with more trade talks already planned for later in the month. Hot, dry weather hit Brazil's soybean crop hard and is threatening further yield cuts. Still, global supplies are more than adequate, as indicated by clear prospects for record 2018/19 carry-out for both the U.S. and global levels, which will likely cap early-2019 rallies. Economic growth is improving in emerging markets, signaling stronger animal feed and vegetable oil demand, implying stout underlying support. Unfortunately, projected records for ending stocks may also limit the upside potential further down the road. For example, Doane expects spring U.S. soybean plantings to fall 4.1 million acres to 85.0 million and almost surely has a great deal of company on that point. The inability of the deferred contracts to build more substantial premiums over the old-crop contracts reflects the general lack of optimism.

WHEAT

The sideways trend of the past four months continues to build a base of support for wheat prices with the U.S. seemingly in a position to boost exports and market share. Supplies in exporting nations are tighter, and U.S. wheat is competitively priced. An aggressive Russian sale in mid-January further reduced its exportable surplus, as indicated by the subsequent jump in Russian domestic prices. U.S. spring wheat prices are some of the cheapest in the world. Global buyers needing high-quality wheat were already turning to U.S. supplies, and a weaker dollar will likely improve sales. Relatively high U.S. transportation costs to Eurasian and African markets have come to represent a big handicap for export efforts. Better economic growth in emerging markets is bullish for U.S. wheat demand, as would be for sustained U.S. dollar weakness.

FEEDER CATTLE

The fed cattle market has derived considerable support from persistent winter storms hitting Great Plains feedlots since feedlot performance suffers under such conditions. Unfortunately for the calf and yearling markets, feedyard managers are understandably reluctant to actively buy replacements in such conditions, which rather clearly undercuts demand and prices. Historically, these situations have tended to improve as the weather has warmed, but that does not bode particularly well for the yearling market, since fed cattle prices tend to decline as conditions improve. Thus, the feeder outlook remains less than promising, especially given the ongoing cyclical supply increase.

CATTLE

Wintry weather has routinely swept across the Great Plains since Thanksgiving 2018, thereby stressing feedlot cattle, reducing market-ready supplies and consistently boosting cash prices. Post-holiday beef demand actually seemed to improve from late 2018, pushing cattle futures to new highs. Lower wholesale beef prices attracted strong buying during the seasonally slow period. Packer estimated margins tightened sharply but remained positive, which may cause them to slow operations in an effort to rebuild profitability. Strong wholesale activity in early January seemingly signaled beef demand will remain robust through early 2019, especially with U.S. unemployment at a 50-year low and wages on the rise. The weather pattern seemingly points to more wintry weather and higher prices in the short term, but historical gains driven by such conditions have tended to post mid-to-late-winter highs.

DAIRY

As indicated in previous reports, surging New Zealand production and exports have tended to weigh upon global dairy markets, which in turn has translated into downward pressure upon U.S. milk and dairy product values. And despite the pressure created by the domestic industry's shift toward robotic systems to maintain full herd capacity to meet the fixed costs of those systems, the U.S. dairy industry significantly trimmed the domestic milking herd in late 2018. The USDA stated the U.S. dairy cow population at 9.360 million head in November, which was down 8,000 from October and 48,000 from the January 2018 total. Domestic production reached 17.37 billion pounds (up 0.6% annually) in November, but the late 2018 herd reductions, and the price weakness that caused it, is likely to translate into declining U.S. milk output in early 2019.

HOGS

The December USDA Hogs & Pigs Report stated the December 1, 2018 U.S. hog population at 74.550 million head (up 1.9% annually) and the fall pig crop at 33.978 million (up 2%). The implied 2% increase in first-half 2019 hog supplies fell well short of industry expectations, but provided only modest support for futures already trading at sizable premiums to depressed cash quotes. Producer farrowing intentions for winter and spring also averaged about 2% over year-ago levels, but given the USDA's recent habit of revising its quarterly numbers downward, as well as the apparent slowing of the long-term upward trend in litter sizes, Doane is inclined to think second-half 2019 production will also tend to run below previous expectations. But the U.S.-China trade situation and that country's African swine fever outbreak are key to the price outlook.