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Full Service Ag Banking

DOANE'S Farming for Profit®

March 2019

It's obvious both U.S. President Donald Trump and Chinese leader Xi Jinping want to get a trade deal done in the near future. This is unlikely to happen by the end of the 90-day "trade truce" set for March 1, but in mid-February Trump indicated his willingness to be flexible on imposing new tariffs if negotiations were going well. Top officials from both countries were much more upbeat about progress on Valentine's Day than were lower-level staffers who note China is resisting U.S. demands for further structural economic reform. Treasury Secretary Steven Mnuchin said in a tweet that the meetings with China's Vice Premier Liu He were "productive." That week's biggest Beijing news came from Chinese Leader Xi Jinping who revealed there would be more talks in Washington the week following. Doane thinks a deal will get done this spring.

The White House is preparing for a potential fight to get its new U.S.-Mexico-Canada Agreement (USMCA) deal through Congress. The Democrats want the administration to add provisions to last year's pact with Canada and Mexico that will ensure Mexico enforces environmental protections and allows its workers to form unions freely. Meanwhile, Senate Finance Chairman Chuck Grassley (R-Iowa) is warning the Trump administration that it needs to lift steel and aluminum tariffs on Canada and Mexico if it wants the USMCA to be approved in any of the three North American countries.

JBS USA announced a $20 million expansion of its Plumrose USA prepared foods business in Ottumwa, IA. The expansion of its fresh pork and bacon facility will include the addition of bacon processing and slicing capacity, bacon equipment upgrades and state-of-the-art slicing equipment. This comes amid growing demand for high-quality bacon products. The facility produces more than 1 billion lbs. of fresh pork and bacon each year.

American Farm Bureau Federation President Zippy Duvall is calling on Congress to overhaul the H-2A visa program for foreign ag workers. In an op-ed in the *Los Angeles Times*, Duvall noted the Farm Bureau's support for a Democratic proposal offering a path to citizenship for certain farm laborers already working in the country.

In early February, the *Wall Street Journal* reported on a wave of bankruptcies sweeping the U.S. Farm Belt, with sources blaming trade disputes and persistently weak commodity prices of the past several years. Midwest U.S. farmers are reportedly filing for chapter 12 bankruptcy protection at rates not seen since the Great Recession. During 2018, bankruptcies in the three regions encompassing most major farm states reached the highest level in at least 10 years. The Seventh Circuit Court of Appeals, which includes Illinois, Indiana and Wisconsin, saw 2018 bankruptcies double those seen 10 years ago.

Acting EPA Administrator Andrew Wheeler and water chief David Ross unveiled a new policy on water quality trading aimed at dealing with the country's pollution woes without a regulatory hit. EPA favors such programs, which allow entities like farmers, to implement practices that reduce pollution run-off and receive credits that can be sold to downstream players like wastewater treatment plants in order to meet permit requirements. The new policy aims to remove some of the hurdles that such programs have faced, for instance by allowing credits to be banked for future use and programs to be operated on a watershed scale.

Farm Manager Focus

The Financial Market Outlook and Its Likely Impact on the Ag Markets

The January closure of the U.S. government, particularly the lack of reporting from the USDA, shifted the ag industry's focus to the financial and currency markets, especially when those were viewed within in the context of late-2018 events.

U.S. stock indexes have rebounded strongly from their late-December lows, and later signaled the broader market had bottomed. The big fourth-quarter breakdown amidst spiraling price volatility spooked traders and investors unprepared for changing conditions. The stock market clearly doesn't like volatility, which suggests investors will be seeking to buy other asset classes, including commodities, as investments.

Conversely, resurgent equities also imply much greater consumer/investor confidence about the economic outlook. The late-2018 breakdown obviously reflected growing worries about a Chinese-led global recession. China's problems persist, and concerns about its economy are warranted, particularly with a U.S.-China trade deal still unsigned. However, Doane likely has company in expecting a deal this spring, which bodes well for economic prospects. That would probably include resurgent Chinese buying of important U.S. commodities, especially soybeans, cotton and pork.

The late-December retreat of the U.S. dollar from a 2.5-year high also marked a bullish development for the ag markets, most of which, again, are priced internationally in U.S. dollars. Thus, dollar losses tend to cut the cost of U.S. goods to foreign buyers. The long-standing, trade-weighted U.S. dollar index hit a 2.5-month low in January after the recent shift in Federal Reserve rhetoric and actions. The U.S. central bank did boost interest rates in mid-December, but cut planned 2019 interest rate increases from four to one. They then shifted to talk of "patience" on rising rates in late January.

However, instead of extending its late-January decline as was expected, the U.S. dollar climbed steadily through early February and seemed set to challenge its November 2018 high. The advance apparently reflected concerns about economic prospects for the other major nations, especially those for the UK and EU if/when they go through a "hard Brexit" this spring. Still, easier monetary policy suggests 2019 dollar weakness and improved export demand for U.S. products.

Doane's MARKETING MENTOR

CORN

USDA's final 2018 corn crop estimate of 14.420 billion bushels (bu.) was cut 206 million bu. from November on a 2.5-bushel reduction to the national average corn yield of 176.4 bu. per acre and a 27,000-acre cut to harvested corn acres. The final corn yield actually came in a little less than the 2017 record. But downward revisions to demand estimates reduced the lower production figure's market impact. Corn futures remained rangebound through mid-February, with traders apparently worrying about demand strength and a surge in spring 2019 plantings. U.S. and global stocks are tightening, but not enough to inspire price optimism. Much depends upon U.S./China trade talks, although most observers expect a trade deal, possibly this spring. Corn futures seem likely to continue struggling in the short term, especially if a U.S.-China trade deal isn't reached by spring. Recent Brazilian weather has also seemed conducive to a large safrinha crop to be planted in the next few weeks.

SORGHUM

USDA's analysis of the area and production of the 2018 sorghum crop was little changed from 2017. The annual report, which also incorporated the department's long-term revisions to historical information, estimated 2018 planting at 5.69 million acres, up 1.1% from 2017 plantings of 5.629 million acres. The average national yield edged up from 71.7 bushels to 72.1 bu. per acre. Demand is lagging. USDA cut domestic use by 25 million bushels to 235 million, reflecting reduced feed and residual usage. The USDA sees 2018/19 ending stocks rising 26.3 million to 64.8 million bu., which, if realized, would be the largest since 2005/06. Sorghum demand might be greatly increased by a resolution of the U.S./China trade war, which has reduced sorghum exports by over 50% from last year. Spring 2019 sorghum plantings could rise substantially if/when the trade conflict ends and Chinese buying resumes.

SOYBEANS

USDA's "final" 2018 soybean crop estimate of 4.544 billion bu. fell 56 million bu. below the November estimate, as USDA cut a half bushel from the national average bean yield at 51.6 bu. per acre and sliced 233,000 acres from harvested acreage. But record large U.S. and global carry-out forecasts continued weighing on prices. Futures slid to three-week lows on weak export sales in mid-February. In fact, the mid-January trade results indicated a net decline of 612,000 tonnes of soybeans, with the Chinese purchase total dropping 807,700 tonnes. The export pace is far behind average and current USDA forecasts as a result of the U.S. and Chinese trade conflict, but ongoing negotiations are maintaining hopes for a spring trade deal and a return to more normal conditions. Still, with the South American harvest getting underway, prospects for a sustained U.S. price recovery are low.

WHEAT

As usual, the final U.S. wheat production numbers published in early February deviated very little from those published last fall. However, weak demand caused projected 2018/19 carryout to rise 36 million to 1.010 billion bu. The markets did react somewhat to the winter wheat seedings total at 31.290 million acres, the lowest since 1909; but persistently slow export demand for U.S. wheat, despite the competitive levels reached in early 2019, as well as the predicted rise in the carry-out, limited the market response. For example, U.S. wheat was shut out of a 600,000 tonne Algerian tender just before President's Day. Spring wheat futures made a modest mid-February push to the upside, in an apparent bid for spring planted acres, but they also tumbled in the days following. The mid-February downturn likely reflected concurrent Russian price weakness, as well as forecasts for another large grain harvest in that country next summer.

FEEDER CATTLE

Early-2019 weather over the Great Plains were divided, with warm, dry conditions in the southern Plains contrasting rather starkly with the cold, snowy weather that dominated the northern Plains and western Corn Belt. That has seemingly created a two-tiered market for feeder cattle, since feedlot conditions in the two regions diverged. That is, feedlots in the Panhandle regions are likely pursuing replacement yearlings rather aggressively, whereas those dealing with snow and mud in northern areas are taking a more measured approach. Things will almost surely change as spring looms, especially with large numbers of stockers exiting winter wheat fields and heading for feedlots. Ultimately, the price performance of the fed cattle market will be the biggest driver of yearling values.

CATTLE

Although southern Plains weather was generally favorable in early 2019, poor feedlot conditions in northern feedlots seemingly exaggerated the usual first quarter rally in live cattle prices. Cattle futures made runs at January highs in mid-February, with forecasts for sustained wintry conditions through February seeming likely to power cash prices up toward the \$130/cwt. level. After peaking in late January, wholesale beef prices have been trending sideways to lower in early February, but were exhibiting fresh strength around President's Day. Slow movement seemed to cap buying interest from packers and slow futures gains. Steer weights well below the five-year average indicate tight market-ready supplies as slaughter totals likely approach their annual lows in late winter. The short-term price outlook still looks favorable.

DAIRY

The U.S. government shutdown delayed the release of December 2018 U.S. Milk Production Report, so the latest data is from last November. At that time, the U.S. dairy cow population had dipped to 9.360 million head, which was the smallest domestic total since February 2017. But the upward trend in production per cow pushed the November milk output total to 17.37 billion pounds (up 0.6% annually) in November. Still, herd culling seems likely to pull at least some monthly 2019 totals below year-ago levels for the first time since 2013. The global dairy situation has apparently tightened in recent weeks, thereby diminishing downward pressure upon U.S. milk and product values. Thus, U.S. prices have risen from late-2018 lows, but the gains are likely too small to encourage producers.

HOGS

Wholesale pork prices fell to the lowest level since late 2009 in mid-February, adding pressure to both cash and futures. Pork sales have been sluggish since the start of the year. As one would expect, cash and futures prices for hogs sank as well. Export demand remains somewhat hampered by the U.S.-China trade conflict, but early-2019 hog slaughter that averaged about 5% over comparable 2018 levels also weighed heavily upon the complex. An apparently false rumor of African swine fever in Canadian hog feed added to the selling. The market seemed overly depressed at that point, especially if the USDA's implicit forecast of spring hog supplies just 1% above year-ago levels proved correct, and/or a U.S.-China trade deal is soon reached. Depressed pork prices in late winter and spring also tend to exaggerate consumer demand during grilling season.