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Full Service Ag Banking


# DOANE'S Farming for Profit®

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**In mid-March, U.S. Trade Representative Bob** Lighthizer said he hopes that U.S. and Chinese negotiators are just weeks away from an agreement, but he noted there are still some major issues left to be resolved. He added that if those issues are not resolved in the U.S.'s favor, there will not be a deal. Lighthizer indicated Chinese officials are focused on the removal of U.S. tariffs on Chinese products, whereas U.S. officials are addressing structural intellectual property issues "with precision." Negotiators also hope to address sanitary-phytosanitary issues with China in the trade talks, and Lighthizer again said a deal with China would open up a lot of ag sales for farmers. Currency issues are reportedly close to being resolved. President Trump won't agree to a deal with China unless its enforceable, Lighthizer reiterated, adding that any enforcement mechanism would need to allow the U.S. to act unilaterally to force Chinese compliance.

**U.S. beef exports to South Korea will likely climb** in 2019, despite a rise in domestic production and the resulting drop in prices, forecasts the USDA attaché in the country. "This is largely due to the U.S. meat industry's efforts to increase consumers' confidence level in U.S. beef and competitive U.S product pricing coupled with a shortage of Australian beef supplies," the post explains. The U.S. was also South Korea's largest supplier of pork imports in 2018, shipping the country 202,419 MT of the meat. The attaché notes that the country's pork imports soared last year, despite a rise in domestic production, adding that some meat processors took advantage of favorable international pricing to scoop up a year's worth of inventory. That implies reduced demand in 2019.

**The Environmental Protection Agency (EPA) released** its proposed rule, ending the summertime ban on E-15 gasoline in mid-March. It also released its proposed reforms to the biofuel credit market. Those include: preventing certain parties from being able to purchase Renewable Identification Numbers (RINs); requiring public disclosure of RIN holdings above specific thresholds; limiting how long a non-obligated party can hold RINs; and increasing disclosure requirements from annual to quarterly reporting. EPA plans to hold a public hearing on the proposals on March 29. EPA Administrator Andrew Wheeler said EPA is working to be "consistent with President Trump's direction" and have the rules finalized "by the summer driving season." Meanwhile, the oil industry has pledged to challenge the higher ethanol blends in court.

**USDA's NASS to drop Aug. 1 objective yield work** for corn and soybeans but still release crop estimates. USDA's National Ag Statistics Service (NASS) on Tuesday announced it will discontinue the objective yield component of its Aug. 1 Crop Production Report for corn, cotton (except Texas) and soybeans. But the agency will still publish an estimate for corn, cotton and soybeans in August.

**African Swine Fever (ASF) remains a major problem** for China, number 1 global producer and consumer of hogs and pork. That was confirmed by a report indicating a 15% annual drop in its January sow herd. But ASF has also spread to Vietnam, which is the number 5 pork producing. country. Pork accounts for around 75% of total meat consumption in that country. In addition, Romania's National Sanitary Veterinary and Food Safety Authority has confirmed more than 1,100 cases of ASF.

## Farm Manager Focus

### U.S. Farm Sector Income Is Seen Rising 10% in 2019

Net U.S. farm income, a broad measure of profits, is forecast to increase $6.3 billion (10.0%) from 2018 levels to $69.4 billion in 2019, according to a just-released study issued by the U.S. Agriculture Department's Economic Research Service (ERS). This latest forecast follows a $12.0 billion (16.0%) decline estimate for 2018. In inflation-adjusted 2019 dollars, net farm income is predicted to climb $5.2 billion (8.1%) from 2018 after the forecast decrease of $13.9 billion (17.8 percent) in 2018. If realized, inflation-adjusted net U.S. farm income in 2019 would be 49.0% below its highest level of $136.1 billion in 2013 and below its historical average across 2000-17 ($90.0 billion). Doane's preliminary 2020 projections suggest rising incomes and costs.

The ERS projects net cash farm income will rise $4.3 billion (4.7%) to $95.7 billion. Inflation-adjusted net cash farm income is expected to increase $2.7 billion (2.9%) from 2018, but that would be the second-lowest real-dollar level since 2009. Net farm income is the more comprehensive measure of the two, in that it incorporates non-cash items, including changes in inventories, economic depreciation, and gross imputed rental income of operator dwellings.

Cash receipts for all commodities are projected to surge $8.6 billion (2.3%) to $381.5 billion in 2019 in nominal terms. Direct government farm payments are forecast to drop $2.3 billion (16.8%) to $11.5 billion in 2019, with most of the decline due to lower anticipated payments for Agriculture Risk Coverage, Price Loss Coverage and miscellaneous programs. Total U.S. farm production expenses (including operator dwelling expenses) are seen as being largely unchanged from 2018 levels, at $372.0 billion in 2019, with rising costs for hired labor, feed and interest mostly offset by dropping energy prices. Direct government farm payments are forecast to decrease $2.3 billion (16.8%) to $11.5 billion in 2019.

Median farm household income (which is both on-farm and off-farm income) is forecast by ERS to reach $78,987 in 2019. In nominal terms, that income level represents an increase of 3.6% from its 2018 level. In inflation-adjusted terms, that's a 1.9% increase.

# Doane's MARKETING MENTOR

## CORN
In its March Supply/Demand (WASDE) Report, the USDA raised its U.S. corn ending stocks projection for 2018/19 by100 million bushels from February to 1.835 billion bushels. As expected, USDA cut projected ethanol use, by 25 million, to 5.550 billion bushels. Projected exports were chopped by 75 million bushels, to 2.375 billion, due to reduced U.S. price competitiveness and an anticipated export surge from South America. USDA now projects the national average on-farm cash corn price for 2018/19 at $3.35 to $3.75, steady on the bottom end of the range and down a dime on the top end of the range from February. Corn futures have obviously struggled in early 2019 despite the tightening U.S. and global situation. Reduced ethanol usage and increasing feed competition from falling wheat prices, as well as expectations for a spring 2019 planting surge, are weighing on prices.

## SORGHUM
In its March WASDE Report, USDA's 2018 production estimate stayed at 365 million bushels. USDA boosted its domestic use forecast by 15 million bushels to 250 million, which offset a reduction in exports to 85 million bushels due to surprisingly slow trade. The latter figure would be the lowest sales total since 2012/13. Also, sorghum use for ethanol was reduced 5 million to 103 million bushels. Food, seed, and industrial use was reduced by 5 million bushels from 110 million to 105 million bushels. However, those cuts were offset by a 20 million bushel increase in feed and residual use, to 145 million bushels. Ending 2018/19 stocks at 65 million bushels represent a 30 million bushel annual increase. USDA lowered its season average cash price forecast by 5 cents from last month to an average of $3.30 per bushel.

## SOYBEANS
In the March WASDE, USDA lowered its U.S. soybean ending stocks projection 10 million bushels from February to 900 million bushels. USDA analysts lifted the crush forecast another 10 million to 2,100 million, but left the export forecast unchanged at 1,875 million bushels. Record U.S. and global stockpiles, as well as projections for another major export push from South America, remain obstacles to sustained price strength. The fact that Argentina will likely reemerge as a major competitor in the international soy product arena also looks bearish. And yet, the soybean market held up well in early 2019. Recent suspicions that a wet spring will exacerbate spring flooding and delay corn plantings and cause a big shift toward soybeans have seemingly added to the downward pressure. The relatively low cost of soybean plantings versus those for corn may also favor a late acreage shift.

## WHEAT
USDA tweaked its U.S. all-wheat balance sheets somewhat, inching projected imports up 5 million bushels, while trimming exports by 35 million to 965 million bushels on stronger export competition. USDA also pared food usage by 5 million bushels to 965 million, following low flour crushing for December. The net of USDA's changes raised projected ending stocks 45 million to 1,055 million bushels. Ultimately, persistent U.S. price weakness has failed to spur international buying, which seemed to cause the industry to drive prices downward to levels competitive with corn for livestock feeding purposes. Spring wheat futures held up better than did winter wheat, likely due to ideas high-protein product will be needed down the road. Current snow cover and cold temperature forecasts into late March suggest delayed plantings. With crop insurance prices down more than 50¢ from a year ago, there is little incentive to plant spring wheat late in the season.

## FEEDER CATTLE
The Cattle Report indicated the 2018 calf crop was revised down 93,000 head from the preliminary July figure to 36.403 million, thereby confirming the ongoing cyclical rise, which in turn implies larger calf and yearling numbers available to the industry this year. The sum of "other" heifers and steers over 500 pounds represents the likely supply of feeder cattle for the next six to eight months, with the total then being supplemented by surging calf numbers in late summer and autumn. The sum of the numbers on the ground as of January 1 (40.751 million head), minus the January 1 U.S. feedlot population (14.371 million), puts the 2019 stocker and yearling supply available to feedlots, now at 26.38 million, 1.0% above the comparable year-ago figure.

## CATTLE
The USDA's Cattle Report issued February 28 indicated a 0.5% annual increase in the January 1 U.S. cattle population, now at 97.76 million head. The larger cow population at 41.119 million head (up 0.54%) suggests a commensurate increase in the 2019 calf crop, but a sizable decline in the number of heifers expected to calve pulled the female breeding population slightly lower. The latter result suggests the 2019 calf crop might fall slightly below the year-ago figure. Price action in the coming weeks and months may determine whether the latest population total represents a cyclical peak. A big summer breakdown would likely spur cow culling and reduce 2020 numbers. Cattle futures remained quite strong into early March as vigorous beef demand and rain, snow and cold temperatures continued crimping market-ready supplies. A seasonal reversal will almost surely occur in early spring, but conditions point to a limited mid-2019 price decline.

## DAIRY
The belatedly released USDA Milk Production Report for January stated U.S. milk output during the first month of the year at 18.60 billion pounds, up 0.9% from January 2018. That reflected a strong 1.8% annual increase in milking efficiency, which easily offset the 83,000-head (0.9%) year-to-year drop in the domestic dairy herd. The latter stood at 9.355 million head, which actually represented a 2,000-head monthly rise from December. The good news for the industry is a significant tightening of global supplies as New Zealand suffers through a droughty summer. That triggered a sizable rebound in milk and product prices in mid-February. However, the outlook remains clouded, especially if improved autumn New Zealand weather spurs production and exports from that country one again.

## HOGS
Early-2019 hog slaughter totals averaged over 4% above comparable year-ago levels, whereas the December USDA Hog Report implied a 2%-3% rise. This suggests spring kills will easily exceed the implied 1% increase. However, early-March wholesale carcass prices climbed to their highest levels since mid-February, with bellies leading the way higher. Hog prices seemingly posted a contra-seasonal low in early March. Depressed hog and pork prices in late winter may have done the groundwork for a big spring rally by encouraging grocers to commit to strong pork features during grilling season. The usual advance may also be greatly exaggerated by the ongoing spread of African swine fever in Asia. The disease has spread to Vietnam, the world's fifth largest swine producer, and seems likely to keep spreading. Thus, a global pork shortage may emerge by summer.