



STATE BANK & TRUST Co.

DOANE'S Farming for Profit®

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The March Prospective Plantings report had surprises. Corn prospective plantings of 92.2 million acres are up 4 million acres or 5 percent from a year ago and about 400,000 acres above trade expectations. Soybean planting intentions of 76.6 million are down 800,000 or 1 percent below last year and nearly 300,000 acres below trade expectations. Our view is that soybean plantings are insufficient to offset expected demand and new-crop futures will need to “buy” some additional acres between now and the end of planting season. All-wheat acreage intentions of 58.0 million would be up 8 percent from last year. Cotton acreage intentions of 12.6 million acres are up 15 percent or 1.6 million from 2010. (However, trade expectations were for cotton acres to be even higher, around 13.2 million.)

Strong meat export demand is supporting livestock markets. Live cattle and lean hog futures rallied to new all-time highs by April 1. Fed cattle cash prices surged to record high levels at \$120 to \$121 per cwt. U.S. meat shipments to Japan have continued following the earthquake and tsunami that devastated parts of Japan. As Japan deals with the aftermath, there could be increased U.S. meat imports in the near-term. Japan has reportedly been buying more chilled meat rather than frozen, which is an indication that the imports are being used to quickly supply meat to retail stores. Japan has been a leading buyer of U.S. meat, and in 2010 was the No. 1 export market for U.S. pork and No. 3 market for U.S. beef.

Budget stalemate is penny ante compared to the battle to come: The Dems and GOP risked a government shutdown over a few billion in differences over spending cuts for the rest of the current fiscal year. Imagine the battle now that Representative Paul Ryan (R-WI), Chairman of the House Budget Committee, has unveiled a long-term spending plan that he says would cut spending by \$6 *trillion* over the next decade. The big savings come from reforms to the Medicare and Medicaid programs, but the plan also would reduce spending on farm programs by \$30 billion over 10 years. The reductions in farm spending are not spelled out in detail, but they do show clearly which programs are being targeted. All that's up in the air is how the spending cuts will be allocated among targeted programs. (See Blue Chip Borrower column at right.)

The Obama administration has reached an agreement with the government of Colombia concerning labor rights. Opposition to the free trade agreement (FTA) between the U.S. and Colombia because of concerns about labor rights has kept Congress from approving the free trade agreement over the past four years. It appears that the free trade agreements with South Korea and Colombia will also be submitted to Congress in the next few weeks for approval. But there is no word yet on the fate of the free trade agreement with Panama. That's important because some members of Congress have indicated they will oppose FTAs unless all three are submitted at the same time.

Both houses of Congress passed legislation that repeals the 1099 business reporting requirement for small purchases. Under the health care reform passed last year, businesses would have been required to file 1099 tax forms for every vendor that sold them more than \$600 in goods each year. About 40 million businesses and non-profit entities would have faced the reporting requirement.

THE BLUE-CHIP BORROWER *The kind lenders compete for!*

With cotton, oilseed and grain prices quite strong the last few years, the farm program “safety net” has been little more than a footnote. Things like price support loans and target prices don't even come into play for most. (On the other hand, livestock producers who must buy much of their feed, of course, see the flip-side of high prices and increasingly resent major factors such as continued ethanol subsidies.)

But lenders expect farmers to remain aware and vigilant of coming changes in farm policy that may affect costs and price risk management. So be aware that page 36 of Wisconsin Representative Paul Ryan's “Path to Prosperity” budget proposal for the next decade does have four key paragraphs dealing with ag programs. Among the key points:

- 1) The proposal would cut \$30 billion out of farm spending, an average of \$3.3 billion per year over 9 years, beginning in 2013.
- 2) The new standing disaster program known as SURE does not have budget baseline standing and will likely be taken out of the new farm bill, accounting for \$1.6 billion of annual spending reductions.
- 3) The focus of remaining cuts will be direct payments and crop insurance subsidies by government. It's not yet clear how much of targeted spending cuts will be apportioned to each. But if the \$3.3 billion in spending cuts were ALL taken from direct payments alone, those payments would be cut by 66 percent, but not eliminated entirely.
- 4) Federal outlays for crop insurance subsidies run about \$6.7 billion per year. So if the entire \$3.3 billion in targeted savings came out of crop insurance the subsidy contributed by government would be cut by 50 percent. And since the subsidy represents about two-thirds of the “true cost” of crop insurance, with farmer premiums covering the final third, cost of crop insurance premiums to the farmer could rise as much as one-third.

So while headed for fierce debate, with the renewed focus on cutting federal spending, farmers will not be immune to cuts in farm spending. And now you stand forewarned where the focus will be.

Doane's **MARKETING MENTOR**

CORN

In the April supply and demand update USDA surprised the trade by cutting feed and residual use by 50 million bushels when the March 1 stocks report implied a 50 million bushel or higher increase. USDA left exports unchanged, but offset lower feed and residual with a 50 million bushel increase in corn for ethanol. As a result, ending stocks are unchanged from last month at 675 million bushels. (Trade expectations were for ending stocks to decline to just under 600 million bushels.)

The transition from old- to new-crop will be a tight squeeze this year. Timely planting and early harvest in the southern U.S. will aid the effort, along with possible wheat feeding this summer and delayed export shipments into 2011/12. USDA's forecast this month is counting on these factors to make the transition from old to new-crop corn. With record cattle and hog prices and rising ethanol prices, the corn market must still work to slow consumption.

SORGHUM

In its April Supply/Demand update, USDA trimmed its export forecast by 10 million bushels, but increased estimated feed use by 10 million and food/seed/industrial use by 15 million for a net 5 million bushels decline in projected ending stocks. As for 2011 crop prospects, producers indicate they are planning to increase sorghum acreage in 2011 to 5.645 million acres, up 4.5 percent from 2010's record low. But with the poor condition of the winter crop in the Plains, sorghum acreage could increase from planting intentions if there's higher-than-normal abandonment of wheat.

March 1 sorghum stocks came in about as expected at 171 million bushels, down 5 million bushels from a year ago. Even so, sorghum ending stocks are expected to be relatively tight and sorghum prices should be well supported on any setbacks through spring planting.

SOYBEANS

March 1 supplies of soybeans were much lower than expected. It implied that the market would need to rally to ration remaining supplies of beans until the next harvest. The planting intentions forecast for soybean acres to be down 800,000 from 2010 will be evaluated for the first time by USDA in May.

In its April update, USDA still put ending stocks on September 1 at 140 million bushels, unchanged from March. The shortfall in the quarterly stocks report suggested that the 2010-crop was overestimated, but once the "final" crop

production report comes out in January, USDA makes no changes to the previous year's crop estimate until September. Until then, USDA simply adjusts its estimate of the "residual" use, and that was increased to 36 million from 19 million in the April update, allowing them to leave ending stocks unchanged despite trimming their export forecast by 10 million bushels and crush by 5 million.

WHEAT

In its April supply/demand update, USDA issued mixed results, price-wise. In the U.S. balance sheet, they lowered 2010/11 ending stocks by 4 million bushels compared to pre-report trade expectations averaging a 14 million bushels increase. The 4 million bushels decline was due to a hike in estimated seed use.

But globally, the adjustments were net negative for prices. USDA raised projected ending stocks by 800,000 tonnes, compared to pre-report trade estimates averaging just a 100,000 tonne increase. And it could be even more next month because Russian officials this week reported Russian grain stocks 8 mmt higher than they had previously reported. Of course, the HRW states are still hurting badly and it's still likely to be a late spring with delayed planting for HRS in the northern Plains.

One important fact to keep in mind is that despite serious problems with the HRW crop in the southern Plains states; other winter wheat is doing fine and we have large stocks from last year; both U.S. and world-wide. There is real no need to "price ration" old-crop wheat this late in the season. All depends on the 2011/12 outlook.

FEEDER CATTLE

Feeder cattle values have surged higher along with continued strength in the deferred cattle futures. Feedlot placements through the late winter have been larger than expected. Indications are that placements were up in March. The dry conditions in the southern Plains and rising feeder cattle prices have likely accelerated feeder cattle movement to feedlots. But based on beginning year inventories, this pace cannot be sustained. While this is supportive to the market, prices should be nearing a seasonal peak. Also, rising corn prices will ultimately become a limiting factor in the ability of feedlots to bid as aggressively as they have been. At current corn prices and the expected fed cattle price for late summer, feedlots cannot pencil in profits. This implies significant downside risk to feeders from current prices, not to mention additional risk of further increases in feed costs.

CATTLE

At this writing (early April) the threat of a government shutdown looms. The administration has indicated meat inspectors will be exempt from a government shutdown as they were in 1995. Without meat inspectors, packers would be forced to halt operations. On the positive side, market-ready cattle supplies are moderate. Feedlots are very current. Weights are up from a year ago, but only modestly. Beef demand also gets a seasonal boost over the next month or so and exports are strong. However, retail prices are at record highs and larger fed cattle supplies are expected well into the summer. We anticipate a peak in prices before the end of April.

HOGS

Early April was a confusing time for hog markets. Cash hog prices rose to a new record high above the \$90 per cwt mark, while futures prices generally declined. The June lean hog futures contract closed at an all-time high of \$103.88 on the last day of March. But lean hog futures declined from there, with the selling related to profit-taking and general concern about the demand side of the market. Processing margins are near the lows for the year. There are signs that some processors are cutting or planning to cut back on slaughter rates to boost profitability.

The breakeven price for hogs will rise over the next few months as the rising costs of feed are factored in. If cash prices can rise to levels implied by the futures market, hog producers will make money through the summer and into fall. However, the profit prospects have narrowed over the past week.

MILK

Farm levels milk prices were strong in March. USDA's all-milk price of \$20.40 per cwt was up \$1.30 from February. The estimated income-over-feed cost of \$11.04 per cwt for March was the highest level since 2008. Strong export demand has helped push prices higher, although prices are expected to pullback over the next couple of months. Block cheese prices peaked mid-month at just over \$2 per pound, but have declined to around \$1.65. March Class III futures are trading in around \$19.50, while the April contract is about \$3 lower. Large stocks of cheese, the spring flush of milk and flat domestic fluid milk sales are bearish factors going forward. Highs are at hand or already behind us.

