



# STATE BANK & TRUST Co.

## DOANE'S Farming for Profit®

April 2018

**Surprisingly high January numbers for the U.S.** Consumer Price Index (CPI) and core CPI (excluding food and energy) sparked concerns about rising inflationary pressures. That focused attention on the February CPI number, which came in up 0.2% on a monthly basis, and up 2.2%, annually. Those numbers matched expectations. The "core" CPI number also rose 0.2% from January and up 1.8%, year-on-year. Inflation readings from the world's major economies have been creeping up recently, creating growing concern. However, with most data being reported near or just above a 2.0% annual rise recently, no alarm bells are ringing yet. Most major central banks of the world actually want to see an annual inflation rate around 2.0%.

**Justice Department antitrust officials** believe Bayer and Monsanto's proposed deal could hurt competition in the agriculture input markets, and don't think Bayer's proposal to sell off assets does enough to counter that problem, according to Bloomberg News. DOJ's review of the \$66 billion merger is expected to last several more months.

**U.S. has reached a regionalization** agreement with South Korea on bird flu. The agreement would set in place a regionalization system that would allow trade restrictions at the state level should the U.S. detect HPAI in the future. That would temper the trade impacts in the event of another U.S. HPAI find.

**House Agriculture Chairman Mike Conaway (R-Texas)** did not release the draft of the new farm bill in mid-March as planned. Reason: Conaway is still trying to negotiate changes to the Supplemental Nutrition Assistance Program (SNAP) provisions that will garner Democratic support. Conaway said he was upbeat after what he described as a "great meeting" earlier in the day with the committee's ranking member, Rep. Collin Peterson (D-Minn.). Peterson is opposed to the GOP's new work requirements for SNAP beneficiaries, and his support will be needed to garner Democratic votes.

**The Army Corps of Engineers' operation of dams and other structures** along the Missouri River has caused major flooding across four Midwestern states for the past decade, the U.S. Court of Federal Claims ruled Tuesday. The Army Corps' management of the river to benefit endangered species led to floods in 5 of the 8 years between 2007 and 2014, the court said in a 259-page ruling. That decision could make the federal government liable for more than \$300 million in damages for "taking" property under the Fifth Amendment, according to lawyers for some 400 farmers who say they were harmed by floods.

**The pending omnibus spending package** to be released in early spring will include a fix for a provision in last year's tax reform law that created inequities among agricultural businesses. Democratic leaders appear to be at odds regarding including 199A language in the omnibus plan. Senate Minority Leader Chuck Schumer (D-N.Y.) earlier this week said he doesn't want the inclusion until Republicans agree to include some additional tax reform measures favored by his party. But House Minority Leader Nancy Pelosi (D-Calif.) signaled willingness to work to remedy the grain glitch.

**The Canadian National Railway Co.,** caught off-guard by an oil-sector rebound, is suffering severe delays in delivering grain and other goods from Wisconsin to the Canadian West Coast. Western Canada's grain shippers are being hit especially hard, saying a train shortage is effectively blocking them from reaching export markets.

### Farm Manager Focus USDA's Outlook for 2018/19 Major Crop Production

USDA held its annual Agricultural Outlook Forum on February 22-23. As part of that forum, USDA produces preliminary supply and demand projections for the agricultural markets, which include updated forecasts for 2018/19 plantings and production. USDA forecasts total plantings for the four major crops – corn, soybeans, wheat and cotton – at 239.8 million acres, up from 238.9 million in 2017.

USDA forecasts 2018 corn plantings at 90.0 million acres, down 0.2 million from 2017. Corn production is projected at 14,390 million bushels, 1% percent below last year. It would be the third largest crop on record. Harvested acreage is projected at 82.7 million, unchanged from 2017, while the yield forecast at 174.0 bu./ac. would be down from last year's record high at 176.6 bushels.

USDA sees 2018 soybean plantings at 90.0 million, down 0.1 million from last year, whereas historical data favor a slightly larger result. Harvested acreage is stated at 89.1 million acres. The national average soybean yield of 48.5 bushels per acre is 0.6 bushel below last year and 3.5 bushels below the 2016 record. This assumes a normal growing season. Soybean production is projected at 4,320 million bushels, down 2% annually.

USDA predicts 2018/19 wheat production up 98 million bushels from last year at 1,839 million bushels. This reflects expanded all-wheat plantings. At 46.5 million, area seeded to wheat is up almost 500,000 acres from the previous year despite a dip in forecast winter wheat seedings. The all-wheat yield is seen slightly exceeding 2017/18 at 47.4 bushels per acre. Drought over the southern Plains may boost abandonment, whereas it's too early to cut yields below trend levels.

USDA forecasts 2018 cotton plantings at 13.3 million acres, up from 12.612 million in 2017. But abandonment at 2.0 million acres is well above normal, due to sustained southern Plains drought. The harvested acreage figure at 11.30 million acres would fall 50,000 acres below 2017. Trend yield is 828 pounds per acre. U.S. cotton production for 2018/19 is projected at 19.50 million bales, down 1.76 million bales from year-ago.

# Doane's **MARKETING MENTOR**

## **CORN**

Surging export demand was exemplified by USDA's March 8 reports. Weekly export sales data stated the total for the week ended March 1 at 1.857 million metric tons (MMT), crushing market expectations. The monthly Supply & Demand (WASDE) Report then followed, in which USDA boosted its 2017-18 U.S. corn export forecast 175 million bu. to 2.225 billion bu. to reflect the surge in export business since January. Projected 2017/18 carryout was slashed 225 million to 2.127 billion bushels. Further cuts to South American production forecasts added to the bullish atmosphere. But the global market remains well supplied, as indicated by the global stocks-to-use percentage at 19.1% despite a 3.92-MMT cut in projected global ending stocks. The market's attention will soon focus on spring plantings, with the USDA Prospective Plantings Report coming March 29. U.S. corn plantings are expected to decline modestly from those posted in 2017.

## **SORGHUM**

USDA cut its U.S. sorghum export forecast in the March WASDE. Those are seen dropping 15 million bushels from February to 245 million bushels due to reduced Chinese buying. China became a big buyer in 2013/14, when purchases leapt to 4.2 MMT. Their imports reached 8.3 MMT and 7.0 MMT in 2014 and 2015, respectively. But China then cut back, with 2016 crop year buying falling to 4.8 MMT. U.S. exports to China since last September are down about 500,000 MT from last year. China has also focused upon U.S. sorghum for potential retaliation over trade frictions between the two countries. Corn prices may provide some support. Early indications suggest farmers will increase plantings in 2018.

## **SOYBEANS**

Daily and weekly reports indicated strong soybean export activity in early March. USDA's daily system revealed 508,000 metric tons (MT) were sold to China and unknown destinations, with the weekly report indicating sales surged to 2.509 MMT. The pickup in export activity signals global end-users fear more crop losses in Argentina and/or higher prices. But the WASDE report revealed a third straight monthly cut to USDA's soybean export forecast, 35 million bu. this time. That triggered a big selloff, which suggested a short-term top. Conversely, the March 15 NOPA Crush Report topped expectations, thereby signaling robust domestic

activity. Furthermore, recent soybean exports have improved considerably. Doane now suspects USDA's latest crush and export forecasts are too low. Although the industry expects soybean plantings to rise this spring, prices may still advance on strong demand news.

## **WHEAT**

State data indicated drought conditions further eroded hard red winter (HRW) crop conditions in the southern Plains through mid-winter. As of late February, the Kansas crop was rated just 12% "good" to "excellent" (down two points for the month) and 39% "poor" to "very poor" (up five points) — the worst end-of-February rating back to 1996. HRW crops in Colorado, Nebraska, South Dakota and Montana also deteriorated from January. SRW wheat in Illinois saw some improvement, but remained relatively low. The Oklahoma and Texas crops also showed modest rating gains, but were still quite low by historical standards as well. Favorable spring weather could boost the HRW crop, but it won't fully recover from winter dryness. The industry is anticipating a significant increase in spring wheat plantings due to the poor winter wheat prospects. Unfortunately, export demand for U.S. wheat remains quite poor, especially with the global market being glutted. Wheat price prospects are not terribly promising.

## **HOGS**

Hog slaughter in late February and early March averaged about 4.5% over comparable year-ago levels, then slipped a bit. This might mean the industry was getting caught up on swine sales after those had lagged during the first six weeks of the year. That would be good news since reducing market-ready supplies at this point could amplify the usual spring price rally as hog supplies decline toward annual lows in June and July. However, hog weights remained elevated through mid-March. Annual gains of over 4.0 pounds per head showed sales were still lagging, which further suggested spring supplies may top expectations for 3% annual increases. Still, vigorous consumer demand should amplify the gains expected this spring, especially if weak March-April pork prices persuade grocers to feature the various grilling cuts and bacon aggressively during the following months.

## **FEEDER CATTLE**

Despite the January USDA Cattle Report's indication that the supply of steers and calves available for entry in to feedlots was well below expectations, feeder cattle prices

suffered sizable losses through much of the first quarter. That largely reflects pessimism about the fed cattle outlook, as well as the surprising strength exhibited by the corn and soybean markets lately. Argentina's drought-stricken crops are set to fall far short of 2017 levels, which has apparently spurred export demand for U.S. corn and meal. That's reduced domestic feed supplies and boosted costs. The industry may get some relief from the wheat situation, since many wheat farmers may elect to extend graze-out of stockers on wheat pastures, thereby slowing the usual flow of animals to feedlots. Yearling values often rally from spring into late summer, but the questionable summer fed cattle outlook makes that seem less likely.

## **CATTLE**

After having fallen from around \$130/cwt in mid-February to the \$126.00 area later in the month, country cattle prices turned modestly higher in early March. Such strength is to be expected at this time of year, since annual lows in fed cattle supplies are routinely met by rising grocery demand as retailers gear up for the spring grilling season. However, laggardly slaughter rates from January through mid-March suggest feedlots are losing marketing currentness, which has caused traders to turn increasingly pessimistic about the late spring and summer outlook. Having steer weights losing ground to the rapid reductions seen through early 2017 also suggests this could be a problem. Conversely, aggressive grocer competition and strong consumer demand may limit the expected seasonal drop. Still, the anticipated seasonal decline will almost surely prove larger than was seen last year.

## **DAIRY**

The February USDA Milk Production Report held a major surprise in that it stated the January U.S. dairy cow herd at 9.405 million head. That extended the growth seen in late 2017 and marked the largest U.S. dairy cow population (topping peak 2017 numbers by 1,000) to their highest level of the new millennium. When combined with a 1.3% annual increase in milking efficiency, these numbers put January U.S. milk production at 18.45 billion pounds. That's a record for the month, although it's well below last May's all-time record at 18.952 billion. The international dairy situation has apparently improved since last fall, with prices recovering from lows seen at that time. Look for continued slow growth in the dairy industry, especially if recent futures gains presage similar cash strength.