State Bank & Trust Co.

Doane's Farming for Profit®

December 2017

The December through February weather outlook from the Climate Prediction Center (CPC) is "heavily influenced by ongoing La Niña conditions that are forecast to continue through late winter." CPC's extended outlook calls for warmer and drier-than-normal conditions across the southern U.S., while northern states are likely to see wetter-than-normal weather, with colder temps expected west of the Great Lakes. The warmer and drier-than-normal forecast for the southern Plains suggests pockets of dryness will expand across the region this winter. That would increase the need for timely rains next spring.

Top trade officials from the U.S., Canada and Mexico didn't participate in the mid-November round of NAFTA 2.0 negotiations in Mexico City. They agreed not to attend the fifth round "so negotiators can continue to make important progress on key chapters advanced in Round 4," the statement said. Ministers had already agreed at the close of the fourth round to allow more space between the negotiating round to "provide negotiators with enough time to analyze the proposals that all three countries have tabled so far and to conduct internal consultations." They were in constant communication with the negotiating teams.

White House economic adviser Gary Cohn said the Trump administration could begin discussions with lawmakers about an ambitious infrastructure package in the holiday season, but noted that the late-year Congressional schedule was already packed. That leaves a narrow window to pass a measure aimed at cutting tax rates and boosting the economy. Cohn stated that he thought it was very important to get the infrastructure package done, but, "We've got to get taxes done this year."

A key issue regarding Congressional tax reform efforts for the farm sector is the Section 199 manufacturing deduction that farm cooperatives pass on to their members. In a letter to House leaders, the American Farm Bureau Federation and several commodity groups joined co-ops in stressing that the proposed tax cuts in the bill won't make up for the lost deduction. "Farmer-owned cooperatives are not taxed like traditional corporations, so they cannot benefit from lower corporate rates like most other industries," the letter noted. The National Council of Farmer Cooperatives estimates that co-ops passed on about $2 billion in Section 199 deductions to their members in 2016.

Fertilizer prices trended generally lower in the third quarter. The Pro Farmer Inputs Monitor Nutrient Composite Index (NCI) fell 5.2% during the quarter, reaching a five-year low in late September. Anhydrous ammonia led the way lower, with nitrogen prices following closely. Had phosphates, including DAP and MAP, fallen in kind, the NCI would have fallen much further. Potash prices proved stable, also limiting pressure. The fertilizer weakness implies reduced farmer costs for 2018, especially for those who applied nutrients in the fall or locked in spring needs at the September low.

U.S. chicken consumption keeps surging, so Tyson Foods Inc. is looking to boost its overall production capacity by an additional 1.25 million birds per week. The proposed $320-million plant would include a slaughterhouse, a chicken hatchery and feed mill. It was planned for Tonganoxie, Kansas, but local residents are greatly concerned about the facility's environmental impact and other issues. This has delayed its planned autumn groundbreaking and has Tyson on the hunt for other sites.

Farm Manager Focus

Cash Rents and Land Values Likely to Keep Dropping in 2018

The 2017 USDA survey concerning U.S. farmland values and rental rates stated the national average price of cropland unchanged at $4,090 per acre. Cropland rental rates at $136 per acre were also stable, but still down $8.00 from 2015. U.S. pastureland rose $20 (1.5%) to $1,350 per acre in 2017 after having stalled at $1,330 per acre in 2016. In contrast, rental rates for pastureland declined 50 cents from 2016 to $12.50 per acre.

Persistent weakness in grain and soybean prices in recent years has weighed on cropland values and rates, whereas recent crop market stability suggests land values and rental rates could be firming. Rebounding cattle prices may also boost pastureland values. These shifts in ag product and land values and rents set the stage for the annual LandOwner/Pro Farmer survey of members concerning their expectations for 2018.

The survey found landowners expect sliding cash rental rates in 2018. The downtrend in land values is also expected to continue next year, although a rising number of survey respondents believe land values could stabilize. Some 53% of survey respondents say they expect cash rents to dip in 2018; that's down from 74% and 73% who expected a decline in the 2016 and 2015 surveys, respectively.

The survey suggests cash rental rates will fall 3% to 5% for 2018. That's compared to the 5% to 10% annual declines noted in previous years. But we don't expect cash rents to bottom until 2019 or later, unless grain production margins and net farm income unexpectedly rebound.

Nearly 48% of survey respondents say they expect farmland values to stabilize next year. Another 34% look for farmland values to decline, but by less than 10%. Only 9% of respondents expect farmland values to drop 10% or more in 2018. According to the survey, 36% of respondents say they plan to be in the market to buy farmland in 2018. The percentage of respondents indicating they will be in the market to sell farmland next year remains slightly elevated at 10%.

Doane's MARKETING MENTOR

CORN

On its Nov. Crop Production Report, USDA revised 2017 U.S. corn production up 298 million bushels from Oct. to 14.578 billion bushels. That smashed trade expectations by about 250 million bushels. The yield forecast jumped to a new record-high at 175.4 bushels per acre, up 3.6 bushels from Oct. and 0.8 bushels above the 2016 record. The big supply increase caused the USDA to boost its usage forecasts, but 2017/18 ending stocks are now projected to reach 2.487 billion bushels vs. 2.295 billion in 2016/17 and 2.340 billion last month. Prices reacted badly as a result, with nearby futures falling to fresh 2017 lows. Bin space for storing the last portion of the laggardly corn harvest was essentially exhausted by mid-Nov., which may signal persistent late-season weakness as that corn looks for a place to land. Global export competition, particularly from South America, remains stiff. A fresh source of short-term demand is unlikely to emerge, because the livestock, poultry, dairy and ethanol production sectors are already expanding at rapid rates. Thus, the short-term outlook is not promising. But some supportive factor will likely emerge.

SORGHUM

USDA cut U.S. sorghum yield and production forecast in the Nov. crop report. Sorghum production is estimated at 356 million bushels, down 2% from Oct., 26% below 2016. National yield is estimated at 70.4 bushels per acre, down 7.5 bushels from the 2016 record. USDA made no revisions to the demand outlook. Sorghum use is unchanged at 370 million bushels; the cut to production went to ending stocks now projected at only 19 million bushels (from 34 million last season). With sorghum supplies tightening, USDA raised the season average price forecast by 20 cents per bushel to $3.10. The sorghum harvest is progressing normally; weather forecasts look favorable for timely completing harvest.

SOYBEANS

Soybean futures rallied through early autumn, but poor weather over the most productive South American crop regions improved greatly, which triggered a sharp decline. The stage for the drop was likely set by the Nov. crop reports, since the department's 2017 U.S soybean production forecast was trimmed less than anticipated. Global demand remains very robust, but after having proved quite vigorous in early autumn, U.S. exports have lagged recently. They are running well behind the fall 2016 pace and far below the aggressive USDA 2017/18 projection. The likelihood of a downward revision on the USDA's Dec. reports seems low, but shipments need to surge if that's to be avoided in early 2018. Seasonal factors suggest improved soybean prices late in the calendar year, especially with South America's harvest still months away.

WHEAT

The global wheat glut, as well as the recent corn breakdown, continued weighing on wheat prices through mid-November. The resurrection of the ergot fungus import issue in Egypt doesn't help the situation, since it may cause Black Sea sellers to seek other buyers and further undercut global values. USDA's weekly Crop Progress Reports indicated normal winter wheat conditions this fall, but winter/spring weather is much more important to those crops. The National Weather Service's winter forecasts for La Niña-related dryness across the southern Plains could help to limit pressure on HRW futures. Still, 2017 wheat prices have generally run above year-ago levels, so increased plantings are expected. Meanwhile, demand for high-protein wheat remains strong, which is reflected by improvements in the spring wheat basis. Thus, downside risk in hard red spring wheat futures should remain limited.

HOGS

Persistently high weights for pigs marketed in the Iowa-Southern Minnesota region imply laggardly producer marketings, but industry sources and the surprisingly low slaughter total for the week before Thanksgiving suggest otherwise.
As we suspected, the ham and pork belly markets performed quite well during mid-autumn, which translated into considerable wholesale strength despite elevated pork production. The sharp futures breakdown suffered through early Nov. clearly anticipated persistent cash market weakness into mid-Dec. We remain optimistic, thinking sustained demand strength from all sections of the marketing chain will support prices. The fact that late-Oct. and early-Nov. slaughter totals fell slightly below year-ago totals also suggests the USDA overestimated late-2017 hog supplies. That possibility, as well as robust red meat demand and elevated cattle and beef prices, may presage contra-seasonal strength through early winter. Firming cash prices could also boost futures.

FEEDER CATTLE

The feeder cattle market jumped in concert with fed cattle values in late Oct. That clearly reflected strong feedlot sector demand for replacement calves and yearlings. The advance was impressive when one realizes that the supply of calves routinely surges during fall, as indicated by the fact that October placements routinely mark the annual high, with the Sept. and Nov. totals also being quite large in nominal terms. Given the apparent strength of the fed cattle outlook, as projected by the premiums built into Feb. and April live cattle futures, the feeder outlook seems quite promising as well. Thus, feeder futures trading at discounts to the CME index look undervalued.

CATTLE

After falling to $190.40 in mid-September, choice cutout values climbed to $213.85 on Nov. 10. The concurrent move from a few ticks below select cutout values to a $19.34 premium was more impressive.
In addition to the big rally in cash cattle prices experienced since late August, that implies the supply of well-finished cattle and beef is very tight. The near-term tightness should provide persistent support for fed cattle prices. Wholesale prices turned lower just before Thanksgiving, with grocers likely focusing on turkeys and hams for the holiday. With Christmas looming, they'll likely be looking at those products again in early December, but the relatively early arrival of Thanksgiving opens the door to active beef features over the first weekend in December. Large summer placements and active cattle and beef sales should keep the market well supplied in the short run, which may exert price pressure. But underlying conditions and seasonally declining supplies still suggest sustained strength through winter.

DAIRY

As indicated in our previous issue, the U.S. dairy cow herd, production per cow and total U.S. milk production continue climbing routinely. Indeed, with the exception of February in years following leap years (when the extra workday exaggerates the monthly production total), U.S. milk production has consistently set new monthly records since fall 2013. Thus, it isn't terribly surprising to see milk and product prices disappointing producers this autumn. This raises concerns about the potential for excessive supplies in early 2018, with a sharp price drop possibly resulting. Conversely, milk prices remain far above their lows from early 2016. This means the market will almost surely have to fall much more substantially before producers cut output.