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DOANE'S Farming for Profit®

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As was widely expected, the Federal Reserve's Federal Open Market Committee (FOMC) raised U.S. interest rates ¼ basis point Wednesday afternoon. The markets initially reacted rather modestly, but then appeared to respond to the FOMC statement of plans to boost rates three times in 2017, versus twice as previously planned. Equity traders took the news as signaling more vigorous economic growth (thereby necessitating some letting off of steam) and pushed stock indexes to fresh records. Meanwhile, the contrast to other central bank actions sent the U.S. dollar surging to its highest level since December 2002. Stock gains suggest stronger domestic demand for ag products, but the elevated dollar may bode ill for ag exports and prices.

The bull market in bond and note values that began in 1981 may have finally ended last summer. Treasury yields seemingly bottomed at 1.336% in July, then turned decidedly higher, especially after the November 8 election of Donald Trump as U.S. President. Yields had climbed to 2.492% before setting back earlier this month, but surged to fresh 2016 highs in response to the Fed rate hike. Again, this reflects increased optimism about the economic outlook, with some investors and traders possibly thinking the move will combine with the ocean of liquidity in the global financial system to bring inflation back to life.

The latest USDA report on farm income indicated government payments are rising. Direct government farm program payments are forecast to rise $2.1 billion in 2016, up 19.1%, and hit $12.9 billion. Price Loss Coverage (PLC) and Agriculture Risk Coverage (ARC) programs are expected to account for 64.4% of all program payments. About 69% of 2016 ARC-CO payments will go to producers with corn base acres, 18.5% to soybean farmers and another 10.8% to producers with wheat base acres. The farm sector is still far healthier than it was in the early-1980s, but struggles will continue on the downturn in farm income.

U.S. ethanol production surged to a record 1.04 million barrels per day (bpd) during the week ended Dec. 9, topping the previous high set in mid-August by 11,000 bpd. Ethanol prices have been rising and ethanol production margins are improving, which is driving the production increase. While ethanol stocks rose 546,000 barrels amid the record weekly output, they are down 6.1% from year-ago. Demand for ethanol is strong and inventories are not an issue.

At midnight, December 14, the USDA's Grain Inspection, Packers and Stockyards Administration (GIPSA) announced an update in regulations that "protects the rights of farmers," according to the agency. The Farmer Fair Practices Rules falls under the Packers and Stockyards Act and seeks to level the playing field for farmers who have run afoul of meat packers. The new rule consists of an interim final rule and two proposed rules GIPSA sent to be published in the Federal Register. Some smaller farm groups favored the changes, but mainline organizations and members of Congress called the changed rules extremely dangerous for livestock producers and the industry.

Farm Manager Focus

USDA Long-Term Baseline Forecasts for 2017/18

USDA produces long-term (ten-year) baseline projections for crops and livestock each year. The latest forecast was released on Tuesday, November 29. In this article, we summarize the 2017/18 forecasts for the three major crops.

Corn acreage for 2017 is forecast down 4.5 million acres (4.8%) from a year ago to 90.0 million acres. A return to normal or average planting weather in 2017 is likely to result in higher prevented plantings and lower corn acreage. Harvested acreage next year is pegged at 82.3 million or 91.4% of planted acres. Corn demand is forecast down nearly 400 million bushels from 2016/17 to 14.215 billion bushels, with U.S. exports likely to suffer from resurgent sales from larger South American harvests. Corn ending stocks are projected at 2.3 billion bushels, down only about 100 million bushels from this year. The season average price is steady with 2016/17 at $3.30 per bushel.

USDA expects 2017 soybean acreage to rise 1.8 million acres to a record at 85.5 million. The trend yield is 47.9 bushels, down from 2016's record 52.5 bushels, lowering production by 7.1 percent to 4.050 billion despite more acres. However, larger beginning stocks boost total supply to 4.560 billion bushels, a minor 28-million-bushel decrease from 2016/17. Demand is led by a 50-million-bushel increase in exports, whereas the crush rises just 5 million bushels. Soybean ending stocks decline by 84 million bushels from this year to 396 million. The season average price rises by 15 cents to $9.35 per bushel, thereby making November 2017 futures trading over $10.00/bushel look overpriced.

The wheat outlook for 2016/17 is a bit bullish. USDA projects 2017 wheat acreage down 1.7 million acres to 48.5 million, which would be the lowest in at least a century. The trend yield is 47.1 bushels, down from 2016's record 52.6 bushels, lowering production by 16.2 percent to 1.936 billion. Supplies project to 3.199 billion bushels, down 211 million bushels. USDA expects exports to retain the 975-million-bushel level, with ending stocks falling to 993 million bushels. The season average price rises by 30 cents to $4.00 per bushel.

Doane's MARKETING MENTOR

CORN

The December 9 USDA Crop Production and Supply/Demand (WASDE) reports held few changes for the U.S. corn market, which is now essentially caught between competing supply and demand forces. Domestic and global supplies are expected to be record large this year, which limits upside potential. Forecasts for short-term rains over dry Argentine production areas imply increased international competition down the road (although those crops clearly aren't made and hot temps remain in the forecast). Conversely, demand is proving quite vigorous, as reflected by export sales the week ended Dec. 8, which topped lofty expectations by reaching 1.516 million metric tons (MMT) for 2016-17. But traders are concerned the latest surge in the U.S. dollar index to a 14-year high will slow demand, thinking importers sought to increase sales ahead of the Federal Reserve's widely anticipated rate hike on Dec. 14.

SORGHUM

After a slow start in September and October, sorghum export sales improved during November. Even so, export commitments for 2016/17 as of December 1 were down 43% from a year ago. This compares to USDA's marketing year export forecast at 250 million bushels, down 26% from last year. Export sales must average 4 million bushels per week through the rest of 2016/17 (August 31, 2017) to reach the forecast. In this month's supply and demand update, USDA raised sorghum for ethanol by 5 million bushels to 125 million and lowered ending stocks accordingly to 35 million bushels. Due to low cash prices so far, USDA lowered the 2016/17 season average price forecast by 5 cents to $3.05 per bushel.

SOYBEANS

As with corn, USDA made no changes to its supply/demand estimates on the Dec. 9 reports, although it did boost the range of it average 2016/17 price forecast 25 cents, with the mean result coming in at $9.45/bushel. The rapid pace of U.S. soybean sales and exports persists, which limited price pressure from profit-taking last week. Current marketing year export sales reached 2.008 million tonnes the week ended Dec. 8, while 2017-18 product sales rose to 396,500 tonnes. The good export news was amplified by the weekly shipments total at 1.890 MT, as well as sales of 593,600 MT through USDA's daily reporting system during the week ended Dec. 16. The market clearly faces issues in the form of resurgent Brazilian production in early 2017 and from the climbing U.S. dollar. Still, if the equity markets are correct in anticipating renewed U.S. and Chinese economic growth, rampant global soybean demand seems likely to persist for the foreseeable future.

WHEAT

The Dec. 9 USDA reports also held few changes to wheat fundamentals. The wheat markets are dealing with a global glut of feed wheat supplies and a strong U.S. dollar. But weekly export sales totals, as exemplified by the 531,300 metric tons tonnes reached the week ended Dec. 8, have consistently matched or exceeded forecasts, helping to limit price pressure. HRW futures and cash values rose 20¢ between Dec. 7 and Dec. 14, which was rather impressive in the current environment. As expected, bearish news has dwindled in the wake of big upward revisions to Canadian and Australian output totals, enabling prices to get off the mat. Recent Southern Plains dryness and forecasts for much more of the same have also supported wheat quotes. Spring wheat prices have sustained their upward trend in the face of huge global supplies and a climbing dollar. Again, this reflects the relative value of high-protein wheat, tight supplies of which may not improve until next summer.

CATTLE

Cattle prices apparently ended their two-year bear market in October, the rebound strongly into early December. After having set back to the $109.00 area during the week ended Dec. 9, midweek indications pointed to firming cash prices in the week following. Boxed beef quotes rallied early in the week, but turned mixed on Dec. 14, likely reflecting a pause in grocer buying for early January features. Still, recent price action has been very impressive when one considers the relative size of recent cattle kills and beef production when compared to those of the past two years. Output likely peaked during the week before Thanksgiving and should decline seasonally into March. Historically, that has tended to power a sizable first-quarter rally in cattle futures. However, concerns about cyclical supply growth persist.

HOGS

Extremely aggressive producer sales and elevated pork packer margins apparently enabled the hog and pork industry to avoid a big supply-driven fourth-quarter price breakdown. Prices have rebounded strongly from November lows. Grocers likely completed their ham buying for the holiday season in mid-December, which often opens up the hog and pork complex to a sizeable seasonal price dip. The Quarterly USDA Hogs & Pigs Report arrives Dec. 23, which may cause holders of large long positions to actively cut those positions beforehand. Those factors, as well as nearby futures' premiums over the spot index, suggest something approaching a normal late-year setback may occur. Still, the market's outstanding fourth-quarter performance will almost surely spur further herd expansion, especially with three new packing plants starting up in 2017.

FEEDER CATTLE

The CME feeder cattle index bottomed in October at $119.48/cwt. Since then, the index has been trending higher, reaching the $130-$131 range in mid-December. Strength in the deferred live cattle futures, along with relatively low corn and feed wheat prices, led the recovery in feeder cattle values. Seasonally, fed cattle prices should continue to strengthen through the winter and provide underlying support to feeders. After several months of losses, feedlot margins are expected to improve in early 2017, which should also underpin demand for feeders. The CME index is expected to continue working higher, reaching the $140/cwt area by mid-to-late winter. In late January, USDA will release the cattle inventory report including estimates for the 2016 calf-crop and numbers indicating feeder cattle supplies outside feedlots.

DAIRY

USDA stated October U.S. milk production at 17.550 billion pounds on its November report, which represented a 2.5% annual surge and a fresh record for that month. The U.S. milking herd averaged 9.335 million head in October, down just 2,000 from the minimally revised September result. The long-term upward trend in milking efficiency persists, with the October national average at 1,880 pounds/cow rising 42 pounds (2.3%) annually. Having California productivity jump 45 pounds to 1,870 lbs./head during October clearly played a major role in the rise. That states large industry is finally coming back from the long-term drought. USDA analysts again trimmed their estimates of U.S. milk production in the December WASDE, paring 100 million and 200 million pounds from prior 2016 and 2017 forecasts, which are now stated at 212.4 billion and 216.8 billion pounds, respectively. The dairy markets performed surprisingly well this autumn; the rising prices probably presage continued industry expansion in 2017.