



STATE BANK & TRUST Co.

DOANE'S Farming for Profit®

April 2017

Outbreaks of highly pathogenic avian influenza have recently been found in two chicken breeder operations in Tennessee. There have also been reported outbreaks in three Alabama counties, along with one in Wisconsin. State officials say the disease, also known as bird flu, poses little threat to humans, and there are no signs it has entered the food supply. Ag officials said one flock of chickens at a Lauderdale County Alabama commercial breeder operation was suspected for avian influenza, but "no significant mortality in the flock" was reported. A backyard flock in Madison County also showed signs. A third finding came in Scottsboro. There seems to be little danger of a general outbreak, such as occurred in Iowa and Minnesota two years ago, but that threat is hanging over the poultry industry.

Fertilizer prices are rising. As farmers' spring fertilizer needs increase, so are prices, although they remain below 2016 levels, says David Widmar, economist and author at Purdue University. Urea, anhydrous ammonia, DAP and potash costs have all climbed from early 2017 levels. Widmar reports current Illinois quotes for Urea at \$361/ton (up 19% since last fall), anhydrous ammonia at \$522/ton (up 8% from early January), DAP around \$400/ton (up 3% since January) and potash around \$300/ton (up 12% since August 2016). "The urea-anhydrous ammonia price ratio is the highest since September 2014," Widmar says. While prices might be higher than earlier this year, they're still lower than past years.

Butter is making a major comeback after losing out to margarine during the mid-to-late portion of the 20th century. Mid-century studies found significant health problems associated with animal products high in fat, but more recent studies have found fewer issues than those associated with trans fats found in margarine. U.S. consumption is expected to surge 8% annually to 207 billion pounds in 2017, the largest total since at least 1967. It helps that dietary experts are now focusing on the evils of sugar, shifting the spotlight away from the less-healthy aspects of eating butter.

A California Superior Court Judge recently ruled the state can require Monsanto to label Roundup as a possible cancer threat. Monsanto holds its position that the chemical poses no such risk. California is following the lead of the World Health Organization's International Agency for Research on Cancer (IARC) that labeled glyphosate, the active ingredient in Roundup, as "probably carcinogenic" in 2015. The company has fought the designation since then, pointing out that regulators around the world, including the U.S. Environmental Protection Agency (EPA), the European Food Safety Authority (EFSA) and the state of California itself, have determined that glyphosate does not cause cancer. In a separate announcement this week, the European Chemicals Agency (ECHA) announced it finds glyphosate is not a carcinogen.

On February 28, President Trump signed an executive order directing regulators to review an Obama administration Waters of the United States (WOTUS) rule. The new president is clearly targeting environmental regulations viewed as government overreach by many in the ag sector. Trump's order reportedly directs the Justice Department to ask a federal court to delay legal challenges to the rule while the administration reviews WOTUS. The order will begin what will likely be a lengthy process to undo the WOTUS regulations finalized by the Environmental Protection Agency and the U.S. Army Corps of Engineers in 2015.

Farm Manager Focus

Early Notes on the Trump Administration and Agriculture Sector

Relations between U.S. and China have improved since President Donald Trump reconfirmed the One-China policy maintained by the U.S. in recent years. That soothed Chinese officials, who regard Taiwan as a breakaway province in China's eyes. The potential for a trade war still exists, although the example of the disastrous results of past trade wars stand as a strong deterrent to such conflicts. A U.S. versus China trade war could deal a huge blow to global growth. Still, the U.S. and China are already filing trade disputes with WTO. China has complained about U.S. distillers' dried grains and ethanol and imposed elevated tariffs, whereas the U.S. has filed a case over Chinese subsidies for corn, wheat and rice. A charge of Chinese currency manipulation could come in April.

NAFTA rewrite plans are already impacting Mexico. Mexican output growth is projected to slow to a near halt in 2017, with business investment tumbling amid long-term concern over Mexico's dependence on exports. Exports account for a third of the country's economic activity, 80% of which go to the U.S., and Mexico's leaders are looking to other countries. They're speeding up negotiations for expanded trade deals with the European Union and opening talks with Argentina and Brazil aimed at easing the country's dependence on U.S. grain. The decline of the peso, down 16% vs. the dollar since last May, could help the Mexican situation.

Bilateral agreements are favored by President Trump, who thinks one-on-one country talks should give the U.S. more negotiating leverage. Japan will be a key focus. Trump officials say better penetration of the Japanese meat market will. The President is also reportedly pushing for deals with China, the U.K., South Korea and Vietnam.

Tax reform is coming, but details are changing and a final package probably won't be unveiled until late summer. President Trump reportedly hopes the process can be completed by "year's end" and thus impact 2017 tax returns. Big points of interest to the ag sector are a potential "border tax" on imports, the estate tax, particularly the basis step-up on inherited assets.

Doane's **MARKETING MENTOR**

CORN

In its March US Supply/Demand (WASDE) report, USDA made modest revisions to domestic use, cutting feed and residual use by 50 million bushels and offsetting that cut with a 50 million bushel increase in corn used for ethanol. Forecast 2016/17 ending stocks were unchanged. U.S. corn export sales surged to 1.255 million metric tons (MMT) during the week ended March 9, which easily topped forecasts. Reduced costs to foreign buyers, which have been exaggerated by the bearish U.S. dollar response to the Fed's surprisingly dovish statements after it boosted interest rates on Mar. 15, spurred buyer interest. Still, talk of competing supplies, especially out of South America, have weighed on the corn market lately. Spring plantings over 90 million acres, when combined with trendline yields and normal abandonment seem likely to make the fall 2017 harvest the second largest on record. This suggests limited upside price potential for new crop corn prices. But both U.S. and South American forecasts rely on benign weather.

SORGHUM

Once again USDA made offsetting revisions to sorghum demand projections in the March supply and demand update. Based on the slower pace of sorghum used for ethanol production so far in 2016/17, USDA cut the food, seed and industrial forecast by 10 million bushels to 115 million, but offset the cut by raising feed use by 10 million bushels. This is the second consecutive month USDA has increased the feed use forecast. While there was no change to exports this month, the forecast is at risk with export demand highly dependent on Chinese buying. USDA will release 2017 planting intentions at the end of the month, but early indications suggest farmers are planning to sharply reduce sorghum plantings this year. If so, the supply and demand balance for US sorghum could tighten significantly in 2017/18.

SOYBEANS

In a surprise move on the WASDE report, USDA cut its projected U.S. soybean export forecast by 25 million bushels to 2.026 billion in response to surging forecasts for South American soybean production and a big rise in international competition. Doane thinks the move was premature. Early March export news was price supportive, since the data came in toward the upper end of industry expectations. Still, the relatively low totals indicate Brazil is starting to dominate international soybean trading. Moreover new-crop price

prospects look rather dim in light of forecasts for record U.S. plantings this spring. With normal abandonment and trendline yields, the fall 2017 harvest may fall only slightly below last year's record. Spring and summer weather, and/or persistently robust Chinese and global demand may change things in the weeks and months ahead.

WHEAT

Farmers seem set to greatly reduce wheat plantings for a second straight year. Acreage may fall to the lowest level since 1909. Given talk of global cutbacks, the price outlook is likely to improve by autumn. That might make wheat the grain complex leader. The latest state crop condition reports indicate hard red winter wheat continues struggling with warm, dry weather, although forecasts point to improved early spring rainfall. But bulls have struggled to build support amidst the global glut of old-crop grain. Doane estimates spring wheat seedings, including durum, will slip 500,000 acres from 2016 to 13.417 million acres. That would also represent a dive of 1.90 million from 2015, which is a better indicator of the cutbacks being made by U.S. farmers. Given the current global shortage of high protein wheat, this may bode well for prices.

CATTLE

November-January placements into U.S. feedlots jumped 14% annually. But producer marketings accelerated in concert, as indicated by the February 1 feedlot population just 1% over year-ago. Beef production increased accordingly. Nevertheless, choice boxed beef prices leapt over \$30 between mid-February and mid-March, with quotes pushing above \$220 at that time. This certainly suggests beef demand is extremely strong. The beef gains were clearly supporting cattle prices as well, with Nebraska steer prices topping \$130 on March 15. Retailers often reduce their buying late in most months as they complete planned purchases for features early in the month following. Heavily discounted futures imply the situation will deteriorate quickly this spring. But active marketings, low kill weights and talk of big forward bookings make one suspect futures are undervalued.

HOGS

The CME Lean Hog Index surged from a November low at 47.49 cents to a February high at 77.73 cents/pound, which marked a 63.7% jump in less than three months. The move was exaggerated by talk of a bacon shortage, which in turn powered what seemed like a premature surge in pork belly prices. Prices subsequently suffered a sizeable seasonal setback,

then stabilized in mid-March.

A comparative increase in pork production, which has climbed versus year-ago levels played a role in the drop. The latest increases were quite close to the 4% late-winter/spring rise indicated by USDA's December Hogs & Pigs Report. Concerns about stifled bacon demand and increased supplies have the closely followed June future at modest premiums to late winter cash quotes. But the strength exhibited by the cattle and beef markets will probably give considerable cover for the hog and pork complex. Doane remains cautiously optimistic due in part to the fact that the index peaked at \$85.03 amidst poor demand conditions last year.

FEEDER CATTLE

After spending February and early March in a narrow trading range, May feeder cattle futures turned higher and were moving to challenge the January high near \$129/cwt in mid-March. In addition to typical seasonal price strength from late-winter into the spring, recent gains in fed cattle prices have added to the optimism. The 700-800 pound feeders at the Oklahoma City auction traded in the low \$130s at that time, down about \$30 from a year ago. With improved feeding margins reflecting reduced feed costs, demand for feeders should be solid this spring, but the feeder cattle supply is up 2.2% from a year ago. The larger yearling supply will be a limiting factor for prices. But if the strength underlying the complex persists into spring, the feeder market may also outperform expectations.

DAIRY

USDA stated January 2017 U.S. milk production at 18.127 billion pounds on its February report. The twenty-third straight monthly record represented a 2.5% annual increase. This followed fourth-quarter totals that averaged 2.4% over comparable 2015 levels. The January report brought a modest downward revision to 2016 U.S. milk production results, with the annual total slipping to 212.436 billion pounds. In the March WASDE report USDA again raised its 2017 forecast, which now stands at 217.6 billion. USDA also revised its late-2016 cow herd totals slightly lower, but stated the January U.S. dairy population at 9.36 million head. That marked a fresh high for the new millennium. Unfortunately, a weakening global dairy situation seems set to exaggerate the negative price impact of climbing U.S. supplies.