STATE BANK & TRUST CO.

DOANE'S Farming for Profit®

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On March 24, President Donald Trump announced that his administration had approved the Keystone XL pipeline, reversing the Obama administration's controversial decision to block the oil project. Trump officially announced the approval shortly after the State Department issued TransCanada's permit, making good on one of his campaign promises. The approval greenlights the Canadian company to complete construction on the pipeline that will funnel crude oil from Canada to refineries on the Gulf Coast. The approval follows years of intense debate over the pipeline amid hefty opposition from environmental groups. The way is not entirely clear; the pipeline still faces issues in winning approval in some areas of Nebraska.

The USDA's March 30 Hogs & Pigs Report stated the U.S. hog herd expanded nearly 2.9 million head (4.2%) from year-ago as of March 1. The breeding herd inventory rose 1.4% annually, while, the number of market hogs at 64.908 million head was nearly 2.8 million head (4.4%) greater than last year. The winter pig crop was nearly 1.3 million head (4.2%) bigger than the same period last year at 31.4 million head. The number of pigs saved per litter at 10.43 head was record-large for winter. Based on the market hog inventories, hog slaughter will run just over 5% above year-ago through early spring before moderating slightly to 3.6% above year-ago by late summer. USDA revised up the September hog inventory by 1.5% and the summer 2016 pig crop by 1.2%. There were no revisions to the December hog inventory.

President Donald Trump's early-April summit with Chinese President Xi Jinping could be a boon for the U.S. beef industry. Several news outlets are reporting the two reached an agreement to lift the barricade against U.S. beef exports that has been in place since 2003. U.S. industry officials estimate the market, which includes China, Hong Kong and Vietnam, could total $7 billion. President Xi Jinping also offered to buy more American grain and agricultural products. Last year, the bulk of China's beef was purchased from Brazil, Uruguay, Australia, New Zealand and Argentina. Beef industry groups had urged President Trump to negotiate the reopening of the Chinese market to U.S. beef, calling it "essential to the future health of the beef industry."

USDA's first national winter wheat crop condition ratings of 2017, published on April 3, showed 51% of the crop in "good" to "excellent" condition, down from 58% prior to the crop entering dormancy last November and down from 59% at this same time last year. On the weighted Pro Farmer Crop Condition Index (CCI), the hard red winter crop starts spring at 328.79 points, down 19.09 points from late November, though that's less than the five-year average drop of 24.19 points over winter. The soft red winter wheat crop stands at 372.79, up 0.75 points from last fall. Typically, the soft red winter CCI rating declines nearly 6 points during winter.

The U.S. exported $11.273 billion worth of ag goods during February, while it brought in $9.384 billion of ag products, resulting in an ag trade surplus of $1.889 billion for the month. So far in the 2017 fiscal year (FY), the U.S. is running an ag trade balance of $16.718 billion, which is up $6.155 billion (58.3%) from FY 2016 at this point. Ag exports are up 14% from year-ago.

Farm Manager Focus

U.S. Crop Distribution is Shifting

The annual USDA Prospective Plantings report released March 31 indicated farmers intend to plant 90.0 million acres of corn this year, down 4 million acres (-4.3%) from 2016. This would be the second lowest level in six years, still being higher than 88.0 million acres in 2015. Prospective corn plantings came in 1.0 million acres below the average of pre-report surveys and near the low end of the forecast range. The report shows farmers planning to plant 89.482 million acres of soybeans; that would be the highest on record, which was set last year with 83.433 million acres. So the current year forecast would top last year's record by just over 6 million acres. The average of pre-report surveys had soybean acreage at 88.1 million acres, so intentions even exceeded market expectations by more than one million acres.

Total U.S. wheat plantings at 46.059 million acres were very close to trade expectations at 46.1 million. This would be the fewest acres planted to wheat on USDA records extending back to 1919. It is possible that harvested acres will be similar to levels last seen in the 1890s! USDA revised winter wheat acreage for 2017 to 32.747 million acres, up from 32.383 million estimated in January. Spring wheat seedings this year are expected to decline 297,000 acres from year-ago. Durum acres are down 408,000 from year-ago at 2.004 million. In contrast, cotton acreage surged to 12.233 million acres. This would be the largest cotton plantings total since 2012, and might easily top that figure (at 12.264 million acres) in the right circumstances. The projected result would represent a 2.16 million acre (21.4%) annual increase and a 42.6% jump from 2015.

Rice producers say they'll plant 2.626 million acres, down 524,000 acres from last year. Farmers also plan to plant less sorghum, oats and barley in spring 2017. Sorghum planting intentions are down 933,000 acres (14%) from 2016 to 5.757 million. Barley planting intentions are pegged at 2.548 million acres, down 504,000 (17%), while oats seedings are seen down 129,000 acres (5%) from 2016 to 2.7 million.

Doane's MARKETING MENTOR

CORN
Although the March 31 Grain Stocks Report suggested USDA would reduce its feed and residual usage peg by 75 million bu., USDA trimmed that category by "only" 50 million bu. in its April Supply & Demand (WASDE) report. That shift was offset by a matching increase in ethanol usage for no net change in total usage from last month. This is good news in the short run, but the threat of further demand cuts still hangs over the market. Huge South American supplies limit upside price potential, but traders' attention is shifting to U.S. new-crop fundamentals. Having corn plantings forecast at just 89.996 million acres, the second lowest total of the past six years, was somewhat supportive. History suggests the market will rally significantly during spring, but large South American supplies could limit upside potential. As usual, all eyes will be on spring-summer weather and its potential impact upon plantings, pollination and harvest.

SORGHUM
Sorghum acreage is expected to be down sharply this year. Farmers plan to cut plantings by 14% from 2016 to 5.76 million acres. Kansas and Texas, the two largest producing states, are expected to account for three quarters of the decline in plantings. Producers are replacing sorghum crop land with corn and cotton, and in some other states, soybeans. In the latest WASDE, USDA raised 2016/17 ending stocks by 10 million bushels to 48 million. That compares to 37 million bushels last year. The upward stock revision was based on a cut in feed and residual use. Even so, sorghum ending stocks are not considered burdensome at 10.2% of annual use. Lower acreage sets the stage for tightening sorghum supplies in 2017/18. As a result, sorghum prices should strengthen relative to corn.

SOYBEANS
USDA's spring soybean plantings forecast at 89.482 million acres smashed the 2016 acreage record at 83.433 million acres. Strong demand seems likely to mitigate the impact of the implied production surge. As expected, USDA cut soybean residual use in the April WASDE to compensate for the apparent underestimation of the 2016 crop. This became apparent from the surprisingly large stocks total on the USDA's March 31 Grain Stocks report. But the residual reduction was partially offset by a 9-million-bu. boost to the seed usage figure. The 2016/17 ending stocks forecast rose 10 million bu. to 445 million bushels. Saturated Argentine conditions make that country's soybean crop vulnerable to damage if recent rains persist. Only 49% of Brazil's crop has reportedly come to market, whereas 63% is the norm for early April. That could support old-crop prices and undercut new-crop quotes. As with corn, we suspect a second-quarter rally will occur, with the size and timing depending up spring weather.

WHEAT
Although the early-April USDA Crop Progress reports stated winter wheat conditions a bit below year-ago levels, those for much of the eastern Corn Belt, where SRW wheat dominates, are actually above 2016 readings. This could handicap bullish efforts in Chicago futures this spring. USDA raised its U.S. wheat carryout forecast by 30 million to 1.159 billion bu. in its April WASDE report. But the subsequent recovery suggests recent losses have largely anticipated the bearish outlook. We can't say we expect a bull market, but we do suspect wheat prices will outperform expectations. Despite the cut in predicted spring wheat plantings, those are running behind normal. The prospect of improved winter wheat protein levels is weighing on HRS values, since the global shortage of high protein wheat seems likely to end with the summer 2017 harvest.

CATTLE
The March 24 Cattle on Feed report indicated February feedlot placements fell 1% below the year-ago total, while marketings rose 4% despite having one fewer workday than did February 2016. The March 1 feedlot population essentially matched the year-prior total. Such active marketings and greatly reduced cattle weights confirm the tightness of market-ready supplies, which seems likely to limit the usual spring price decline. Country prices seemingly peaked around $133/head in late March. Beef cutout values stabilized in early April, then turned higher before Easter. Retailers probably began buying for grilling features at that time and will very likely remain active in the beef market through mid-June. Although fed cattle values will almost surely decline through spring, the market seems likely to top bearish expectations built into CME futures.

HOGS
Hog weights trending below year-ago helped to moderate pork production during the first quarter of 2017. Recent losses by the CME Lean Hog Index from the Feb. 27 high at $77.73 to the $62.00 area around Easter, however, are spurring trader concerns about growth in pork production this year. In its April S&D Report, USDA lowered second- and third-quarter pork production forecasts slightly, but it still projects second-quarter production to be up 5.2% from the same quarter last year. Conversely, mid-year production should fall well short of levels experienced in the first and fourth quarters. Demand could surge as the grilling season begins. We believe recent pressure on the cash hog and pork markets will provoke a strong demand response just as seasonal supply reductions really begin to bite. Having two sizeable pork packing plants potentially open this summer could exaggerate demand for pigs, which in turn could power a surprising late summer rally.

FEEDER CATTLE
The CME feeder cattle index bottomed at $119.48 last October and has tended to work higher since that time. Given the bullish leadership provided by fed cattle values, as well as the reduced feed cost implied by the grain markets this spring, a rise in yearling prices seems entirely warranted. Given the relative warmth that has covered the Southern Plains this spring, one has to suspect the flow of feeders off of Southern Plains wheat pastures is likely drying up. That may help explain the mid-April surge in the CME index. It had previously proven unable to sustain a push above the $133.50 area, but jumped above $136.00 at that time. Given the persistent strength exhibited by fed cattle values in recent weeks, an exaggerated spring-summer yearling rally seems quite possible.

DAIRY
February 2017 U.S. milk production reached 16.695 billion pounds, down 1.2% from year-ago. This marked the first annualized drop in two years and almost surely stemmed from the fact that February 2016 had an extra 'leap day.' USDA revised its January estimate of the U.S. cow herd up 3,000 to 9.363 million head and boosted the February total to 9.367 million. This marks a fresh high for the new millennium. USDA made no revisions to its 2016 production totals on the April WASDE report, with annual U.S. production left at 212.43 billion pounds. But the 2017 forecast was trimmed 200 million to 217.3 billion pounds. We expect the usual "spring flush" of increased milk production to continue depressing milk and product prices.