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DOANE'S Farming for Profit®

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Japan's weather bureau has joined the list of those saying a La Niña weather pattern has emerged, with the bureau giving 60% odds the event could last until the end of spring in May. In mid-December, Australian weather watchers also said La Niña thresholds had been breached, but they expected it to be a weak, short-lived event. This view was reinforced by the U.S. National Oceanic and Atmospheric Administration (NOAA); it gives better than 80% odds that La Niña will continue through the winter, but it expects a transition back to a ENSO-neutral by mid-to-late spring. It says La Niña strengthened over the past month and will be a factor in the weather for the "upcoming months."

In mid-December, the House Agriculture Committee sent a working draft of the farm bill to the Congressional Budget Office (CBO) to determine its 10-year cost, so committee members can make decisions next month on programs ranging from farm subsidies and loans to food stamps, conservation and rural development. The committee on Tuesday also unveiled a new website that outlines broad principles for the bill, alongside videos and factoids about American agriculture. Meanwhile, the Senate's work on its farm bill is reportedly three months behind schedule.

A new definition for waters of the U.S. (WOTUS) is now not scheduled to be finalized until June 2019, with a proposed rule expected in May 2018, according to the updated Unified Agenda for the Environmental Protection Agency (EPA). This is in contrast to recent comments by EPA Administrator Scott Pruitt who said the new definition of WOTUS would be coming in the first quarter of 2018.

The White House is preparing to finally release a much-delayed infrastructure rebuilding plan in January. Trump's advisers are nearly finished on details of direct federal spending of $200 billion or more -- funds it would propose to offset with cuts elsewhere in the federal budget -- to leverage hundreds of billions more from local governments and private investors to pay for road, rail, water and utility upgrades. $200 billion in federal funds over 10 years would be expected to spur at least $800 billion in spending by states, localities and the private sector. But some congressional Republicans are pushing back against the coming proposal, citing growing deficit concerns and other factors.

As of November, China's total pig herd is down 6.3% from year-ago levels, with its sow herd down 5.6%. The country is in the midst of a major industry change in which new environmental regulations are forcing out smaller producers, and large, industrial-sized operations are taking their place. Doane believes this bodes very well for U.S. pork exports over the next few years, since it implies Chinese imports will increase significantly.

The Business Roundtable, a group of leading corporate executives, released a report in mid-December that said a withdrawal from the North American Free Trade Agreement could negate much of the positive economic benefits expected under Republicans' tax reform effort. If Trump follows through on his repeated threats to pull out of the trade pact, it would be equivalent to imposing a $15.5-billion tax on U.S. exports to Canada and Mexico. That number represents the amount in taxes that U.S. companies were spared on exports to Canada and Mexico in 2015.

Farm Manager Focus

USDA Baseline Projections for 2018/19

The USDA publishes long-term (ten-year) baseline projections for crops and livestock each year, with the pertinent tables published in November followed by additional data, assumptions and commentary at the department's February Outlook Forum. We're focusing on the 2018/19 outlook for the grains and soybeans.

The USDA forecasts 2018 corn acreage up 571,000 acres (0.6%) from 2017 to 91.0 million acres. Harvested acreage next year is pegged at 83.7 million or 92.0% of planted acres. Based on a trend yield of 173.5 bushels per acre (bu./a.), production totals 14.520 billion bushels, down only 58 million bushels from 2017 and slightly above projected use. USDA's corn demand forecast at 14.450 billion bushels looks low, and is up just 15 million from 2017/18. Corn ending stocks are projected to climb 120 million bushels to 2.607 billion with the season average price $3.30 per bushel.

USDA projects soybean acreage rising 793,000 acres in 2018 to 91.0 million, a fresh record. The trend yield is 48.4 bushels, down from the 2017 yield forecast of 49.5 bu./a. The combination of reduced yields and increased acreage puts USDA's 2018 production forecast down 1.5% to 4.360 billion. However, larger beginning stocks boost total supply to 4.810 billion bushels, a 58-million-bushel increase from 2017/18. Stronger usage causes soybean ending stocks to drop 49 million bushels to 376 million. The season average price rises by 10 cents to $9.40 per bushel.

USDA's 2018/19 wheat outlook projects a modest stocks reduction along with steady prices. USDA forecast 2018 wheat acreage down 1.0 million acres to 45.0 million, which would mark a fresh all-time low. The trend yield is 47.4 bushels, up from 2017's 43.6 bushels. Despite reduced plantings, harvested acreage is up 714,000 acres from 2017 to 38.3 million acres. Output grows 74 million bushels to 1.815 billion. But reduced carry-in and imports imply lower supplies, while exports and domestic use also fall. Ending stocks drop to 813 million bushels, down from 935 million this year. The season average price holds steady with this year at $4.60 per bushel.

Doane's MARKETING MENTOR

CORN

On its December Supply/Demand (WASDE), the USDA revised its forecast of 2017/18 U.S. corn usage for ethanol production, which translated into a similar drop in projected carry-out, but it did little to support the market. Exports aren't helping much. U.S. corn export of 866,900 metric tons (MT) during the week ended December 7 fell just below the prior week and the prior four-week average. This implies recent price declines have done little to spur buying. A surge in sales announcements is needed to signal prices are "low enough." U.S. corn exports still face strong competition from Brazil. Renewed dryness concerns in Argentina and southern Brazil could trigger a corn rebound, but drought concerns eased by rainy mid-December forecasts. End-of-the-year short-covering could boost prices, but it will be difficult to generate sustained buying interest in the absence of a bullish news.

SORGHUM

In the December supply and demand update, USDA significantly revised to its sorghum demand estimates, which corn as much as sorghum. In response to strong Chinese buying, USDA raised its sorghum export forecast by 50 million bushels to 260 million. That's greater than 2016/17's total of 241 million bushels, but falls short of the 340 million bushel total reached two seasons ago. Tight ending stocks and added exports caused USDA to cut sorghum use for ethanol production which is now projected at only 50 million bushels vs. 115 million in 2016/17. This also persuaded USDA to boost its corn for ethanol projection commensurately. Sorghum's season average price forecast is unchanged from November at $3.10 per bushel. Interestingly, the sorghum price forecast is 96% of the projected corn price. That compares to 83% last season.

SOYBEANS

The USDA trimmed predicted U.S. soybean exports in the December WASDE report, which translated into a larger carry-out forecast. Although the pace of U.S. soybean exports has picked up, the export commitment pace is still running well behind USDA's projected levels. Soybean futures returned to the bottom of the three-month trading range before Christmas in reaction to improved weather forecasts for dry areas of Argentina and southern Brazil, as well as ongoing favorable conditions for central Brazil. Brazilian soybean sales reportedly lagged behind comparable 2016 rates in late fall, but farmer reluctance to let go of their holdings may explain that development. Futures sellers may become more aggressive if they believe an inventory overhang is building. But we still anticipate a seasonal rebound.

WHEAT

Both Canada and Australia issued major crop reports on December 6. Unfortunately for the wheat markets, the big Canadian increase virtually doubled the cut to Australian production. Thus, the global glut worsened and futures slipped to fresh lows. The news was most negative for HRS prices, since it represents the bulk of their production (73.9% of the latest figure). Australia mainly produces varieties of white wheat, which also compete with U.S. HRS. But its indicated production cut is unlikely to give HRS prices much of a boost. The cold weather that dropped across the Great Plains in mid-December seemingly represented little threat to young HRW wheat plants. The region could use some snow to help protect against coming winter weather, but that seems doubtful with La Niña conditions in place. The fact that late-summer expectations for a sizeable increase in winter wheat plantings shifted to late fall forecasts for drop without causing a commensurate rise in futures prices reflects the bearish situation.

HOGS

Hog slaughter during the first two weeks after Thanksgiving came in around 2.535 million head, while the total for the week ended December 15 set an all-time record at 2.578 million. The latter two weeks topped comparable 2016 rates by about 3% on average, which largely matched the results implied by the September USDA Hogs & Pigs Report. But November kills fell well short of forecasts. This suggested the December 23 version of the quarterly report would hold some downward revisions to the summer/fall numbers. Doane still expects a 2%-3% increase in 2018 hog supplies. Anticipation of sustained cash losses through December depressed February hog futures in late fall, but those seemed overdone. The addition of more packing industry capacity in 2018 suggests vigorous demand for swine, which should limit losses caused by increased production.

FEEDER CATTLE

After leaping upward in late October and early November, fed cattle prices set back substantially from those fall highs. Feeder cattle values also fell. The CME Feeder index posted an autumn high at $159.63/cwt on November 13 and has declined significantly from that point. But a seasonal rebound is likely, especially if/when fed cattle prices lead the way higher. Demand from feedlots will probably power such a move, but tightening supplies may also spur gains. That is, with large numbers of calves entering feedlots during fall and another substantial number having been placed on southern Plains wheat pastures, the supply available to feedlots should be limited through early winter. Depressed corn and soybean meal costs also favor sustained yearling price strength.

CATTLE

As has been the case over the past few years, late-2017 cattle slaughter has been quite large. While the big totals seen at that time weighed on cattle and beef prices, that may exaggerate the usual seasonal reduction to be seen in early 2018. That is, the five-year average indicated a fourth-quarter peak at 601,000 head during the week after Thanksgiving, whereas the first quarter low has averaged just 545,000 head in the second week of February. Historically, the fourth-quarter high was reached in mid-October, with the first-quarter low coming in mid-March. This suggests the potential for a quicker, stronger rally in early 2018. One of the most important developments of 2017 was the persistent strength of meat demand in general and beef demand in particular. Given the strength of the financial markets and the elevated confidence exhibited by consumers, this likely bodes well for the 2018 cattle and beef outlook.

DAIRY

The bearish global dairy sector situation seemed to take a toll on the U.S. market during fall 2017, with the glut of dry milk powder apparently undercutting domestic prices. The U.S. market is well-supplied, as indicated by another monthly record production figure for October, at 17.805 billion pounds, up 1.4% from last year's high. The U.S. dairy cow herd has stabilized around 9.40 million head, while production per cow continues inching upward. The butter and cheese market proved unable to challenge the elevated highs of the past few years this fall, thereby causing widespread pessimism about 2018 price prospects. For example, the March 2018 CME Class III milk price fell from August levels around $16.50/cwt to $13.75 just before Christmas. We don't look for big supply cutbacks in the near future, so resurgent demand will be key to an improved outlook.