STATE BANK & TRUST CO.

DOANE'S Farming for Profit®

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ENSO-neutral conditions are likely to persist through summer, but chances for an El Niño weather pattern rise to 50% during the fall and around 65% during winter 2018-19, according to today's update from the Climate Prediction Center. "The forecaster consensus favors the onset of El Niño during the Northern Hemisphere fall, which would then continue through winter. These forecasts are supported by the ongoing build-up of heat within the tropical Pacific Ocean," CPC explains. If a strong El Niño were to take hold, this could point toward a warm but wet Midwest harvest season.

Trade-war escalation between the two biggest economies sent grains, crude oil, global stocks and the Chinese currency lower to sharply lower in mid-June. China has vowed to retaliate "forcefully" against President Donald Trump's threatened tariffs on another $200 billion of its goods after announcing $50 billion last Friday. Trump ordered the identification of $200 billion in Chinese imports for an additional 10% tariff, with another $200 billion after that if Beijing retaliates like it did last Friday with its own $50 billion retaliatory threat. China cannot target the size of U.S. tariffs since it imported $129.89 billion of U.S. goods last year, compared with U.S. purchases of $505.47 billion of Chinese products, according to U.S. data. Investors cut risk exposure, and agricultural markets were in washout mode with little buying interest. The trade situation clearly holds major implications for ag sector prospects. Unfortunately, how the situation would play out was unknowable at that time.

On June 13, the Senate Ag committee passed the 2018 Farm Bill with bipartisan support. It was set to go to the Senate floor in late June. The House Ag committee passed its version of the Farm Bill on April 18, but subsequent efforts to pass it through the full House failed. Another vote was also set for late June. Passage of the differing versions of the Farm Bill before Independence Day would be followed by staff work in preparation for conference committee meetings to align them. Whether final passage will happen before the November elections is very much open to question.

In a rare break in the solidarity among Canada's processors and dairy producers, Lino Supito Jr., chief executive of Saputo Inc., one of Canada's largest dairies, indicated he was in favor of ending the country's Class 7 pricing agreement. The agreement allows processors to pay lower prices for domestic milk ingredients used to make cheese and yogurt and to export the rest, a policy that the U.S. is adamantly opposed to that has been a sticking point in talks to revamp the North American Free Trade Agreement (NAFTA). "They want their cake and they want to eat it too, which doesn't make sense," Saputo said in an interview.

Federal antitrust regulators approved the merger of agribusiness giants Bayer and Monsanto after the two companies agreed to spin off $9 billion worth of assets. This marks the largest such sale of corporate assets required by the Department of Justice. Bayer will sell its seed and herbicide businesses to a third party to BASF, the German chemical company. It will also sell its emerging digital farming business as well as a range of intellectual property and research and development projects. The spinoffs are seen as limiting the merger's impact on farmers and consumers.

Farm Manager Focus

U.S. Ag Export Prospects Look Promising in the Absence of a Trade War

Fiscal year 2018 U.S. agricultural exports are now projected at $142.5 billion, up $3.0 billion from the February USDA forecast and at a four-year high, according to the latest "Outlook for U.S. Agricultural Trade" report issued by USDA in early June. Strong corn and cotton export sales are expected to lead the increase. Importantly, this latest USDA study did not address the current and still-fluid U.S. trade disputes with several major world economies, and the possible detrimental impacts on U.S. agricultural exports. Obviously, things could change in the wake of these disputes.

Corn exports are predicted to rise $1.3 billion, to $10.3 billion, on both larger volumes exported and higher corn prices. Strong exports reflect improved U.S. export opportunities into summer in light of reduced Argentine and Brazil supplies. The report indicates corn exports in the January-April reporting period were virtually unchanged from the same year-earlier period, at $3.80 billion. However, USDA analysts added 75 million bushels to their 2017/18 U.S. corn export forecast, now at 2.300 billion bushels. Doane sees this figure as still being too low.

U.S. cotton exports have greatly exceeded expectations. This was highlighted by the May and June Supply/Demand reports, which saw the USDA boost its 2017/18 cotton export forecast 500,000 bales each time. Doane expects ag department analysts to continue making upward revisions, especially on the August report, when the 2017/18 crop year will have ended (on July 31). Signs also point to very strong U.S. cotton exports again in 2018/19, as indicated by new-crop outstanding sales falling only modestly below the record pace posted in spring 2011 Conversely, West Texas dryness may cut domestic production and cotton supplies in the new crop year.

Livestock, dairy and poultry exports forecasts were raised by $100 million, to $30.6 billion. The beef and veal category is virtually unchanged at $6.7 billion, as were pork sales at $5.5 billion. Higher shipments to South Korea, Australia and Colombia offset reduced buying from China, Japan and Mexico in the first half of the fiscal year.

Doane's MARKETING MENTOR

CORN

In its June 12 monthly Supply/Demand (WASDE) report, the USDA boosted its 2017/18 U.S. corn export forecast 75 million bushels to 2.30 billion, with cold-crop carryout dropping 80 million bushels. A 50 million bushel boost to the 2018/19 ethanol usage forecast helped pull the new-crop carry-out forecast down 105 million to 1.577 billion bushels. Thus, corn fundamentals remain supportive, although the great start to the 2018 crop has caused many to anticipate another huge fall harvest. That may be tempered by a downward revision to spring planting estimates on the USDA's June 29 Acreage report. But concerns about the global trade situation and the potential effect of a trade war and/or persistently elevated tariffs on the ag markets sent crop prices tumbling in mid-June. Corn isn't directly involved in the U.S. versus China controversy, since China imports little U.S. corn, but traders are still concerned.

SORGHUM

The sorghum supply and demand situation remained quite puzzling in June due to shifting U.S. and Chinese position on agricultural trade, and whether or not China was going to reinstate retaliatory tariffs on imports of sorghum after having lifted duties back in May. Normal events and changing weather patterns are hard enough to interpret. In May, when it appeared that Chinese duties were in place for the long haul, USDA forecast exports at 165 million bushels. In early June with China again buying from the U.S., USDA projected exports of 215 million. Curiously, the bottom line on carryout was identical at 27 million bushels in both WASDE reports. If USDA analysts are correct, 345 million bushels of US sorghum supplies will be consumed in either case. USDA forecast the range of cash sorghum at $3.20 to $4.20 per bushel, up ten cents on both ends of the range versus May.

SOYBEANS

Soybean futures plunged in mid-June on increased fund liquidation and new selling as the politics of trade ratcheted up market fears of reduced Chinese buying of U.S. soybeans. The price washout appeared to peak on June 19, with the nearby contracts rebounding strongly from intra-day lows. However, the breakdown rendered U.S. prices very attractive relative to the values being paid for Brazilian supplies. USDA's WASDE report was a slightly positive surprise on smaller U.S. old- and new-crop carryover forecasts. Late spring U.S. soybean exports were running far above normal rates. But the trade was more focused on surprisingly large global inventories. As prices fell last week, speculation increased that U.S. growers planted more than 90 million acres, up from 89 million estimated in March. Doane doubts the June 29 acreage result will reach that level.

WHEAT

Prices erased in the wake of mid-June gains as a stronger U.S. dollar and slow U.S. exports put the focus back on adequate and lower-priced global supplies. That was rather surprising since reduced crop outlooks are being felt by major exporters Russia, Ukraine and Australia. Wheat is also fighting seasonal pressure as harvest ramps up. The winter wheat harvest is advancing quickly across the Southern Plains, where results signal lower yields and favorable test weights and protein. Basis surged as millers and elevators sought high-protein supplies for blending. The problem is total unshipped U.S. sales are down 33% from the same time a year ago. The price drop needs to attract new export demand to put a floor under prices. The high protein levels exhibited by freshly harvest winter wheat are depressing spring wheat premiums.

HOGS

The CME lean hog index accelerated upward in June, reaching its highest level since August 2017. That likely reflected peaking grocer demand for the grilling season, as well the rapid seasonal tightening of market-ready hog supplies. The pork loin market remains depressed, but having grocers cut retail pork chop prices for consumers seems likely to boost offtake and support futures through early summer. Conversely, grocers kept retail ham quotes quite elevated through May, with "all ham" prices up almost 10% annually and up 6.8% above those from April. Doane expects pork loin and belly strength to power persistent cash hog gains, but news that China was set to boost tariffs on imported U.S. pork by another 25% weighed heavily upon deferred futures. The bearish reaction seemed overdone, but only time will tell if that was the case.

FEEDER CATTLE

The ongoing cyclical rise the U.S. cattle population implies generally increasing supplies of feeder cattle and calves during the months and years ahead. However, the supply of young stuff available to feedlots is likely to dwindle toward annual lows over the next two months. That's a big reason yearling prices routinely work higher through spring and early summer. Of course, a larger portion of the feeder price outlook is dependent upon fed cattle values, since the amount feedlots will pay depends heavily upon their expectations for slaughter cattle quotes when they buy those replacements. Feed costs also play a role in such calculations especially at this time of year. The recent breakdown in corn and soybean meal prices seemingly bodes well in that regard, but a summer weather market in the grains could inject a great deal of volatility.

CATTLE

Cash cattle prices fell sharply in May as seasonally surging supplies came to market. Although consumer demand seemed quite robust, industry expectations for sustained summer losses exaggerated losses. Prices bounced in early June but skidded the following week. With retailer beef purchases complete for the big "beef" holidays, traders were anticipating a fresh round of price declines. That could further depress futures, despite the discounts already built into the nearby contracts. Traders continue to fear a "wall" of cattle this summer even though slaughter data and beef prices signaled feedlots were very current. Downside risk in futures seemed limited, but that may not greatly deter sellers. Doane research indicates a strong possibility of a relatively early cash low this year, as well as a strong fourth-quarter advance.

DAIRY

The well-supplied global situation tended to limit expansion by the U.S. dairy industry this spring, with depressed milk powder prices weighing on values. That at least partially explains the slippage in March and April cow numbers despite recent domestic price firmness. The May USDA Milk Production report indicated the U.S. cow herd had dipped from 9.408 million head in February to 9.402 million in March and April before edging up to 9.404 million in May. The long-term upward trend in milking efficiency continued, with the May average at 2,031 pounds per cow (up 0.7% annually), marking a fresh record. The May total at 19.100 billion pounds also reached a new all-time high. Still, the seasonal outlook seems favorable, since milk and product prices have worked higher despite the spring flush. Doane looks for sustained firmness amidst robust domestic demand.