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DOANE'S Farming for Profit®

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The Turkish currency, the lira, recently fell to a record low against the U.S. dollar, prompting the Turkish central bank to issue a warning about "unhealthy" developments in the markets. Other "secondary" currencies suffering big losses lately include the Brazilian real and Chinese yuan. In years past, unstable secondary currency markets have occasionally spurred contagion effects in the major world currencies. While such is not the case at present, the matter of depreciating secondary currencies against the majors warrants monitoring.

The World Trade Organization (WTO) cleared the Trump administration to retaliate on billions of dollars of European goods after it determined the EU had not complied with previous decisions against government support for Airbus. But, the WTO dismissed U.S. claims that loans for the A320 and A330 were costing Boeing significant sales, thus narrowing the scope of the ruling.

A red meat allergy spread by Lone Star ticks, a malady that was discovered a few years ago, is rapidly spreading across America. Affected humans may experience a severe, delayed-reaction immune response, which hits hours after they eat red meat. In addition to hives and itching, the episodes can land people in the emergency room with anaphylaxis. Victims may suffer from the allergy for months or years. Ticks are becoming an increasing overall health threat, according to the Centers for Disease Control and Prevention. The CDC recently issued a report noting that disease cases from ticks, fleas and mosquitoes more than tripled between 2004 and 2016. That same CDC report says seven new tick-borne infections have been reported since 2004.

"The NAFTA countries are nowhere near close to a deal," U.S. Trade Representative Robert Lighthizer said on May 17, the day House Speaker Ryan (R-Wis.) had set as a deadline for Lighthizer to notify Congress if he would ask for a vote this year on a renegotiated North American Free Trade Agreement (NAFTA 2.0). Lighthizer said talks will continue. Ryan said there was a two-week "wobble room" for negotiators to conclude a NAFTA 2.0 accord and still have Congress vote on it this calendar year. Canadian Prime Minister Justin Trudeau commented positively, noting an agreement on auto rules of origin had been reached.

House GOP leaders gave House Ag Chairman Mike Conaway (R-Texas) what he urged—just a few amendments negatively impacting crop insurance and no effort on tightening farm program payment limits. The House began debate May 17 and was set to vote on up to 42 amendments made after it votes on the second rule for the farm bill. The chamber hopes to have a floor vote by May 18, provided the votes are there for passage.

China ended an anti-dumping and anti-subsidy investigation into imported U.S. sorghum, as the two countries work toward a deal to ease trade tensions. The Commerce Ministry announced the halt Friday, saying punitive measures on imports of the grain would "affect the cost of living for consumers" in China. The ministry said it would return deposits collected from importers. However, Shanghai JC Intelligence analyst Cherry Zhang told Reuters, "The damage has been done, mainly to the domestic buyer." The investigation began in February after the U.S. imposed new tariffs on imports of Chinese solar panels. The two countries are nearing a deal to resolve other trade issues, according to officials from both countries.

Farm Manager Focus

Strong Meat Demand Bodes Well for the Livestock Industry

Doane has remained optimistic about prospects for domestic red meat demand for some time. Indeed, the persistent firmness of the cattle and hog markets, despite record U.S. beef and pork production, serves as partial confirmation on this score. The improved buying partially reflects reduced costs from the growth of both the national cattle and hog populations, but it also indicates the impact of increased packing industry competition, especially from expanding pork packers since mid-2016.

Robust consumer demand also reflects relatively modest increases in grocery store costs as traditional grocers face rising competition. Walmart has reportedly vowed to maintain very competitive food prices in its supercenters, while Amazon has beefed up its online competition via its purchase of Whole Foods. Meanwhile, aggressive discounters Aldi and Lidl are expanding their chains. Thus, traditional grocers seem likely to compete quite aggressively in the meat case, where they have a significant competitive advantage.

The international meat outlook remains quite supportive, especially with the Trump administration having brought diminished regulations and growth to the U.S. and global economies. Having U.S. beef and pork exports setting or challenging former highs most months serves as a strong indicator on that front.

A recent Australian review of the global situation also cited accelerating global economic growth, particularly in the U.S. and Japan, as having improved prospects for that country's meat exports. This will almost surely hold true for U.S. sales as well since the two countries sell to many of the same users. Earlier this year the IMF projected global output growth of 3.9% in 2018, up from 3.2% in 2016 and an estimated 3.7% last year.

We at Doane believe another underlying shift is helping power this growth. Changing conclusions concerning diet and health focus much more upon the negative effects of "trans-fats" and to some extent, the benefits of animal fats in the diet. Current publicity about the World Health Organization's push to eliminate trans-fats from global diets seems likely to continue these trends and increase red meat demand.

Doane's **MARKETING MENTOR**

CORN

Corn prices seemingly have solid upside potential in current conditions, with estimates of Brazil's safrinha crop shrinking, exports thriving and U.S. plantings projected to be the smallest since 2015. USDA also projects U.S. ending stocks will tighten 500 million bushels in 2018-19. The bullish tenor allowed corn futures to ignore much of the price weakness suffered by the soybean and wheat markets in early May. Added support could come from some forecasts calling for warmer- and drier-than-normal conditions during summer and China's surprise end to its U.S. sorghum investigation. But with planting and crop emergence catching up to the normal paces and funds heavily long the market, it could be difficult to drum up strong near-term buyer interest, since seasonal tendencies favor bears into summer.

SORGHUM

In May, USDA forecast the 2018/19 sorghum supply/demand using planting intentions and a projected yield of 67.3 bushels per acre. That puts production at 343.0 million bushels and total supply at 372.3 million. Domestic use is expected to surge 55 million bushels to 180 million, with usage for ethanol production taking virtually all of the increase. Exports were seen dropping 80 million bushels to 165 million, since China imposed huge anti-dumping tariffs on all U.S. sorghum in mid-April. The charge of 178.6 percent essentially stopped all U.S. exports to China. However, China announced the end to those duties in mid-May, thereby totally changing the outlook. As a result, USDA's forecast of 2018/19 ending stocks down 2 million at 27 million bushels and cash prices ranging between \$3.10 and \$4.10 per bushel now look overly pessimistic.

SOYBEANS

Soybean futures extended their price pullback in mid-May amid concerns about the U.S./China trade situation. Negative crush margins on China's Dalian exchange also indicated little need for short-term Chinese imports. But May 18 news that China lifted its investigation into U.S. sorghum shipments gave traders some hope of a potential trade deal between the two countries. A completed trade deal with China could power a strong soybean price recovery. But that same day's major soybean cancellations of 949,000 metric tons (MT) to unknown destinations – 829,000 MT for 2017-18 and 120,000 MT for 2018-19 — were a reminder that Brazil is likely to dominate global trade through

summer. While we expect USDA to raise its old-crop usage estimate and lower ending stocks, a near-term price recovery would likely be limited.

WHEAT

Wheat futures firmed in mid-May after early-May losses indicated a seasonal top had been posted. The rebound occurred despite the rising U.S. dollar, persistently poor export results and improved weather in the Plains. The strength likely reflected growing talk of dryness in Australia and the Black Sea region, but we doubt the buying will persist. The modest upward trend in winter wheat condition ratings suggests USDA may raise its yield estimate in June. But a portion of the improvements may reflect widespread abandonment and/or plantings of other crops in the affected ground. Therefore, more focus should be on production estimates rather than yields. Spring wheat planting progress virtually doubled to 58% complete in the second week of May, but HRS prices rallied amid dryness in parts of the northern Plains and Canadian prairies. Still, HRS futures are vulnerable to seasonal pressure as the winter wheat harvest gets underway.

HOGS

Trade concerns with Mexico, Canada and China seemingly weighed heavily upon the hog and pork complex through early spring. Plus, hog traders are worried the recent U.S. dollar surge will stifle U.S. pork exports. But such fears are probably overblown, especially in the wake of the big late-winter/early-spring losses suffered by hog and pork values. Optimistic signs concerning "NAFTA 2.0" also suggest Mexico and Canada will continue actively purchases of U.S. pork. Doane research shows historical instances of major first-quarter losses have been followed by exaggerated spring and early-summer rebounds. The ongoing addition of a second shift at a new Midwest pork packing plant promises to increase competition for hogs just as supplies approach annual lows. We still expect a major seasonal price advance and wouldn't be shocked if summer highs match those seen in mid-2017.

FEEDER CATTLE

As we at Doane suspected, the overweening bearishness weighing upon fed cattle demand seemed to take a big toll on feeder cattle values in early spring. That was exemplified by the August live cattle versus August feeder spread, which narrowed from around \$42.50/cwt in late April to \$37.68 in mid-May. Given those developments, as well as the persistent strength exhibited by corn and soybean

meal prices through early spring, feedlot demand for replacement yearlings is likely to suffer. Thus, after March feedlot placements fell 9% annually, forthcoming rates will probably post similar or even larger reductions from the active rates seen in mid-2017. Price losses may be limited by seasonally declining supplies of feedlot-ready animals and/or the potentially early low posted by cash cattle values in the coming weeks.

CATTLE

Cattle futures fell sharply in mid-May as traders anticipated an exaggerated seasonal supply of market-ready cattle and diminished post-Memorial Day beef demand. However, diving steer weights and the wide Choice/Select beef price spread suggest cattle supplies won't swamp the market this spring. Moreover, the belated start to the domestic grilling season may keep grocers and consumers buying beef actively through Independence Day. Vigorous export demand could also provide considerable background support. Research shows fed cattle prices reached a surprisingly early low during the first half of years with similarly large year-to-year increases in the feedlot population. Aggressive short-term feedlot marketings will likely make the expected "wall of cattle" show up as a modest wave on the beach. Active spring marketings and reduced placement rates through summer also suggest a much improved outlook for late 2018 and early 2019.

DAIRY

Big cutbacks in European production have apparently diminished the global milk powder glut and opened the trade door for U.S. production. U.S. imports of dairy products have continued their decline from 2016 levels, while the latest export totals moved up toward the highs of the past few years. That strength has been reflected by milk and product prices. Cheese and Class III milk values rallied strongly through April and early May, while the butter market sustained gains begun in mid-February. Thus, the outlook has improved in the face of cyclical and seasonal production growth. The latest USDA Milk Production Report stated March output at a fresh modern U.S. record at 18.987 billion pounds, up slightly from the record set last May. That reflected persistent improvement in production per cow and a slight dip in the U.S. milking herd. The March figure at 9.406 million head was 2,000 head below the revised February figure. Look for continued growth and firm prices supported by vigorous product demand.