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DOANE'S Farming for Profit®

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The Federal Communications Commission indicates 34 million people in the U.S. don't have broadband internet access, defined as having download speeds of 25 megabits per second. Internet connections with lower speeds most often seen in rural areas are clearly slower and less reliable, while higher-speed alternatives are quite expensive. 40 percent of those affected live in rural America, and only a third of rural high-school students have access to computer science classes. Low population density is the source of the problem; and the lack of access is hurting businesses, health care, and education. Government agencies. such as the USDA and FCC, and local governments are working to improve the situation, as are tech companies. But the efforts, as always, will require considerable, time, effort and money.

The chances of a late-2017 interest rate hike by the Federal Reserve have recently surged. The financial markets have priced-in a 76.7% chance that the Fed will boost interest rates again this year, up from about 20% two months ago, according to wire service data. Most expect a December rate hike. Fed officials indicated last month that they're aiming for a third rate increase by the end of this year, and support three more in 2018.

Vice President Mike Pence met with Japanese Deputy Prime Minister Taro Aso this week, and according to a joint statement, the two sides made some "initial progress" on bilateral trade issues. The Trump administration hopes to launch a bilateral trade deal with Tokyo; and the president wants to capitalize on this when he visits Japan next month. U.S. beef producers are closely watching negotiations to see if the countries address Japan's safeguard tariff system that hiked duties on imported frozen beef from the U.S. and others as of Aug. 1.

October talks with Canadian and Mexican trade representatives did not go well, so hopes for a quick finish to redo NAFTA went out the window. A joint statement by those officials said new proposals have created "challenges" and "significant conceptual gaps," meaning there was little agreement. U.S. Trade Representative Robert Lighthizer said in a statement Oct. 17 that Canada and Mexico have not been receptive to U.S. proposals that would reduce U.S. trade deficits. "Frankly, I am surprised and disappointed by the resistance to change from our negotiating partners." Mexico will host the fifth round of talks in Mexico City November 17-21.

The EPA and dicamba manufacturers reached a deal in mid-October to minimize the potential for drift damage from use in soybeans and cotton. BASF, DuPont and Monsanto agreed to several label changes for over-the-top dicamba use next year. Those include restricting dicamba products to trained use-only certified applicators, reduced usage to periods of wind below 10 mph, along with other restrictions. The new labels will be available for farmers in time for 2018.

The Grain Inspection, Packers and Stockyards Administration's (GIPSA) interim final rule on competitive injury in livestock pricing was withdrawn by USDA just ahead of its Oct. 19 implementation. USDA also announced it will take no further action on a proposed regulation of the Farmer Fair Practices Rules related to its proposed rule on unfair practices and undue preferences in livestock pricing. The major livestock and poultry producer groups approved the move while ag populist groups excoriated it.

Farm Manager Focus

River Woes Highlight the Importance of Midwest Waterways

Harvest activity across the Corn Belt, along with transportation issues on Midwest rivers, combined to depress the corn and soybean markets in early October. This year's low water levels on the Mississippi River and Illinois River, due to a lack of summer rainfall and a temporary closure of the Ohio River for emergency lock repairs, amplified normal harvest pressure on prices. The result was a huge surge in barge freight costs and a plunge in interior corn and soybean basis.

The U.S. Army Corps of Engineers said there weren't any major backlogs in barge traffic on the Mississippi River and Illinois River, despite several groundings. Still, low water levels on these two main waterways caused barge lines to reduce drafts by upwards of 25% to avoid further incidents. On the Ohio River, late-September maintenance closures caused huge backups at Lock 52 and Lock 53. Repairs were quickly made, but rising water levels forced the lock closure through the following weekend. Barge operators boosted charges drastically, in some cases 10 times normal, thereby forcing grain bids lower.

The national average corn basis dropped roughly 22¢ from late August to early October. River markets in the Midwest saw an even sharper price plunge. Corn basis improved 9 cents the following week after heavy Midwest rains improved river flows. Soybean basis levels moved commensurately. As of October 10, spot barge rates for export grain from major originating locations fell 41 to 65 percent from the levels seen the week prior. But until river traffic returns to "normal," a significant improvement in interior basis is unlikely.

The situation emphasized the importance of inland waterways to U.S. grain movement cannot be overlooked. One 15-barge tow can carry 785,500 bu. to 855,000 bu. of grain. One 100-car unit train can only transport 350,000 bu. to 400,000 bu. of grain, and one semi carries 910 bu. of grain. Barge transportation is vital to moving crops. Ultimately, things have improved on the inland river transport system, but it's worrisome. A repeat of the early October situation could hurt the farm economy.

Doane's MARKETING MENTOR

CORN

In the October 12 Crop Production Report, the USDA revised 2017 U.S. corn production up 96 million bushels from September to 14.280 billion and 110 million above average forecast. The average yield rose 1.9 bushels from September, reaching 171.8 bushels/acre. This is the second highest yield on record, trailing only 2016's record of 174.6 bushels. Harvest pressure was greatly exacerbated in early October when low Mississippi and Illinois River levels dwindled and lock repairs halted shipping on the Ohio River. Improved rainfall improved the situation, but the transport situation seems vulnerable to further fall-winter disruptions. Harvest is lagging in some areas, but is expected to finish in a timely manner. The large U.S. crop and sizeable South American supplies continue weighing on prices. The big problem for the corn market is slow exports. Corn commitments (outstanding sales + exports) through early October were 33.6% below year-ago, whereas USDA's is forecasting an annualized drop of "just" 19.3%.

SORGHUM

Sorghum production is now estimated at 364 million bushels, down 6 million from September and 116 million below last year. The cut stems from lower acreage and increased yields. The yield, now estimated at 72.2 bushels, is the fourth highest on record. Sorghum use is unchanged from September, but at 370 million bushels, it's down 115 million bushels from 2016/17. The 24% cut in production will restrict use and pull ending stocks down 6 million bushels from last season to 28 million bushels. The season average farm price is seen at $2.90 per bushel, up only 11 cents from 2016/17. The annual increase would be larger, but abundant corn supplies are depressing feedgrain prices. Rain in the central Plains has slowed the sorghum harvest. Harvest progress as of mid-October was 40% compared to 50% on average.

SOYBEANS

The USDA essentially left its 2017 U.S. soybean production forecast unchanged at a record 4,431 billion bushels, unchanged from September, but up from the 2016 harvest at its recently adjusted 4.296 billion bushels. USDA's yield forecast slipped 0.4 bushels from September to 49.5 bushels per acre, thereby offsetting a 740,000-acre rise in the harvested acreage forecast. Hot, dry weather in late summer seemingly diminished pod fill. The market was well supported during early autumn by the USDA's downward revision to its 2016/17 and 2017/18 carry-out forecasts, as well as persistent dryness over Brazil's main soybean growing region. Transport problems on the Mississippi River system also weighed on the market, but that was more than offset by consistently strong export sales and shipment results. The outlook depends heavily upon South American planting and growing conditions and the strength of export demand.

WHEAT

U.S. wheat export sales for the week ended October 12 reached 615,400 MT, exceeding industry forecasts. Unfortunately, the glutted global market and the competitive advantage enjoyed by producers in the Black Sea region (e.g., Russia, Ukraine) suggest that will be an exception. One indicator of the poor situation is the fact that the U.S. Wheat Associates plan to close their Cairo, Egypt office, where U.S. grain once dominated. Anecdotal reports indicate Canada's spring wheat crop maintained ample protein levels, implying some relief for the high-protein shortage in place since spring 2016. The industry has been expecting winter wheat plantings to rebound this year, but laggardly fall plantings are threatening to reduce that total, especially if fall conditions turn wet and cold.

HOGS

A Early-October U.S. pork production essentially matched 2016 highs and will likely top those levels by 2% to 3% later this fall. And yet, the CME Lean Hog Index climbed steadily since bottoming at $54.29 on Sept. 29. It reached $63.34 on Oct. 18 and showed little sign of reversing in early autumn. One might argue that such levels are unsustainable, especially when compared to the $47.49 low reached in November 2016. But the index also climbed back above $58.00 before Christmas last year. Given the lags between shifts in wholesale and retail prices (as indicated by the July peak in pork belly prices and the September high in retail bacon quotes), consumer pork demand may just be starting their response to recent cash and wholesale market lows. Thus, despite the hog and pork complex's history of fourth-quarter weakness, sustained short-term price strength in the cash and futures markets seems likely.

FEEDER CATTLE

One has to suspect the fed cattle market performed better during early autumn than many feedyard managers expected, since the spread between November feeder cattle and December live cattle futures narrowed sharply from the September 20 peak at $41.30/cwt. Preceding yearling gains likely reflected aggressive feedlot placements through the summer months, but the subsequent decline versus fed cattle suggests a relative slowdown (although October placements typically mark the annual high). The cyclical cattle herd expansion implies growing yearling supplies for the foreseeable future, while large corn and soybean harvests indicate plentiful, low-cost feed. That may support feeder prices despite the increased yearling supply.

CATTLE

Summer and early fall cattle slaughter proved very large, but early October reductions pushed cattle and beef prices to fall highs during the week ended Oct. 14. Active marketings seemed to keep market-ready supplies under control. But the industry was reminded last week of the major role played by demand shifts. Indeed, vigorous demand from U.S. consumers and export customers powered the advance from late summer lows. Grocers traditionally reduce their beef buying in late October after meeting their needs for early November beef features, since they usually feature hams and turkeys before Thanksgiving. Still, cattle futures continued carrying significant premiums over cash values, with traders apparently anticipating a normal seasonal advance from a summer low to a peak the following spring, when fed cattle marketings routinely fall to their lowest levels of the year. The sizable futures premiums represent a subtle danger to the market, since they encourage producers to hold out for higher short-term prices, which may eventually lead to a backlog of market-ready animals in feedlots.

DAIRY

U.S. milk production set a fresh September record when it reached 17.770 billion pounds. That marked persistent upward trends in the U.S. dairy cow herd, now at 9.400 million head, and increasing productivity per cow, which reached 1,827 pounds per head. Neither of these trends seems likely to end soon, especially with the 'all milk' price being sustained well above its spring 2016 low of $14.50. This raises concerns about the 2018 outlook, with market sources citing a huge inventory of non-fat dry milk in the U.S., as well as active production increases from major global producers New Zealand and the E.U. Still, given the ongoing industry adaptation of robotic milking, which makes life much easier for producers while incurring major fixed costs, prospects for a quick industry cutback are quite low.