STATE BANK & TRUST CO.

DOANE'S Farming for Profit®

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China's plans to roll out the use of gasoline containing 10% ethanol (E10) by the year 2020 could help the country consume its 200 MMT corn stockpile in just four years, according to a recent report. As much as 15 MMT of ethanol may be needed annually to meet this new source of demand, meaning that as many as 36 new ethanol plants may be required. These factories would need 45 MMT of feed corn each year. Currently, 10 new ethanol plants in the northeast Corn Belt are planned, with many of them expected to be operational next year, according to JC Intelligence. It adds that this should boost ethanol capacity by 3 MMT.

Americans' grocery shopping habits have changed. A new survey by the International Council of Shopping Centers shows that rather than going to a single store once a week, most U.S. consumers now buy their groceries in several ways, multiple times a week and from a number of different places. Most consumers still pick their groceries up at brick and mortar stores, even if they bought online. Ninety-nine percent of adults buy all or some of their groceries in person because they want the food immediately and want to choose their own meat, dairy, produce, etc.

International climate models recently suggested the tropical Pacific Ocean may cool further, according to the Australian Bureau of Meteorology, but still are seen at neutral levels relative to El Nino/Southern Oscillation (ENSO). "Two of the eight models approach La Nina thresholds around the end of the year, which is typically when ENSO events reach their peak," the agency said. One model suggests the potential for La Nina by November with another signaling by January, the agency detailed. "Thus, ENSO is likely to remain neutral until at least early 2018."

Trump administration infrastructure plans are reportedly waiting on a tax overhaul. More-detailed plans on infrastructure legislation are being readied by the White House for Congress to use in putting together such a package, but an administration official reportedly said the package will not come until after there is progress on tax overhaul. Congress will take the lead in the effort, with lawmakers having asked for more specifics on how the administration envisions bringing state and private money into the mix. Savings via cuts to other programs is where the $200 billion in federal money will come from, for the infrastructure effort.

Cash rents for U.S. cropland held steady this year on a national average basis, according the USDA's National Agricultural Statistics Service. The nationwide survey pegged average cropland cash rent at $136 an acre, which was also even with 2013. The national average cash rent peaked in 2015 at $144 an acre. While USDA reports cash rents held steady for the nation as a whole, it indicated general weakness in the Corn Belt states.

Conservation easement donations were part of a recent taxpayer win. Two partnerships donated easements on ranchland, with the terms allowing the donor to make some boundary modifications with the donee's consent. The ruling tax court said this negated the tax deduction as it violated the requirement that usage restrictions must remain forever on the property subject to the easement. But a federal appeals court reversed the tax court decision (BC Ranch II, 5th Circuit).

Farm Manager Focus

USDA Land Value Survey

After having noted a slight decline in farm real estate values in 2016, USDA's August Land Values-2017 Summary Report indicated the national average price had climbed $70 (2.3%). Farm real estate values (including both land and buildings) averaged $3,080 per acre in the ag department's June survey.

Farmland values in the Northeast and Atlantic states, as well as those on the West Coast, remain extremely high. The West Coast average gained 8.7% annually, thereby likely reflecting a broad recovery from the drought of recent years. Values in the Corn Belt were once again the highest of the other regions, with the five state (Iowa, Missouri, Illinois, Indiana and Ohio) average coming in at $6,260 per acre. That actually fell 0.5% below the comparable 2016 result. The northern Plains states (down 1.8% to $2,200/acre) were the only other region to suffer a decline.

The grain and soybean price declines of the last few years had limited effect upon cropland values. After having fallen $40 to $4,090 per acre last year, the national average remained unchanged at that level in mid-2017. This likely reflects expansion by aggressive farmers, as well as buying by mutual funds investing in farmland. Again, outside factors can affect state averages, which explains the cost of New Jersey farmland at $13,000 per acre, whereas the climate also has a major impact. That's best indicated by the California mean at $11,290 per acre. Corn Belt values remained the highest of the various regions despite the $40 (0.6%) dip to $6,670 per acre. And yet, Iowa farmland bucked the lower trend, with the state average rising $100 to $8,100 per acre. It continues leading the farm states on this front.

Pastureland values apparently resumed their modest long-term uptrend in mid-2017. The USDA stated the national average value at $1,350 per acre, which marked a $20 (1.5%) annual increase from last year's flat quote at $1,330. Pastureland values in the Southeast command the highest regional value at $3,910 per acre, with those for the Northeast and Appalachian regions coming in second and third, respectively.

Doane's MARKETING MENTOR

CORN

The USDA boosted its September corn crop estimate 32 million bushels to 14.184 billion bushels. That spurred debate about crop size, especially with late-summer dryness causing plants to shut down earlier than normal. While prices recovered from their post-report plunge, traders also note that when USDA raises September yields from August, further yield gains are typically seen. But the bigger story may be the corn market's firmness after initially diving in reaction to the September 12 reports. Strength spilling over from the soybean market, as well as solid early-September export sales, buoyed futures. With low prices and a weakening U.S. dollar keeping U.S. corn attractive on the global market, we believe downside price risk is limited. Indeed, the fact that nearby corn futures held above the August low, and rebounded strongly from that point on September 12, suggests the market has already posted its harvest 2017 low.

SORGHUM

In September, USDA revised the U.S. sorghum crop up 2 million bushels from August to 371 million bushels, driven by a 0.2 bushel yield increase to 69.8 bushels per acre. A combination of both lower acreage and yield contributed to a 23% cut in production from 2016. The largest revision to demand this month was to the 2016/17 crop year. USDA raised 2016/17 exports by 20 million bushels to 245 million, resulting in much tighter ending stocks of only 29 million. Sharply lower 2017 production, along with lower beginning stocks, will cut sorghum supplies and force reduced usage just to maintain modest ending stocks. Sorghum prices are expected to be firm relative to corn in order to curb sorghum use, particularly in feed rations. Sorghum prices are expected to average $2.90 per bushel in 2017/18, up from $2.85 in 2016/17.

SOYBEANS

The USDA also raised its soybean harvest forecast 50 million bushels from August to September, with the revised result reaching 4.431 billion bushels. Despite historical indications that August-September gains in USDA's soybean yield estimates imply more of the same on subsequent reports, traders are skeptical of the projected 0.5-bu.-per-acre rise to 49.9 bu. per acre reported September 12. Futures bounced quickly recovery from their post-report plunge to mark a fresh monthly high. Robust export data provided bullish fuel. Soybean export news was particularly good during early September. But it will take consistently vigorous sales to meet USDA's aggressive 2017-18 export forecast. If the recent price rally stalls demand, the market seems likely to prove vulnerable to fresh weakness. This seems particularly true if our suspicions that the USDA is underestimating Brazil's early-2018 soybean harvest prove correct.

WHEAT

USDA left its U.S. 2017-18 wheat carryover peg (at 933 million bushels) unchanged from August, whereas traders expected a slight reduction. But futures posted a modest mid-September recovery in response to spillover strength from soybean futures and a weaker tone in the U.S. dollar index. Spreading drought conditions in Kansas are raising doubts as to whether or not producers will increase HRW seedings as aggressively as previously thought this fall. When combined with the ability of HRW and SRW futures to top short-term chart resistance after setting lows in August, suggests seasonal factors now point higher. USDA trimmed its 2017-18 HRS export forecast 10 million bu. from August to 260 million bu. and raised imports by 5 million bu. in September. Those added directly to predicted ending stocks, now at 146 million bushels. Still, the shortage of high-protein wheat persists.

CATTLE

Recent cattle market weakness reflects surging supplies. August beef production was the highest of 2017 and was only slightly below the peak posted last November. Torrid feedlot placements during the first half of the year are almost surely boosting marketings, despite the fact that producers sold their cattle in a very timely manner through summer. The real question concerning the fall outlook is whether supplies follow the traditional pattern of declining from a summer high through the end of the year, or repeat the 2015-16 pattern of peaking late in the year. A normal declining pattern seems more likely, but the strong feedlot placement makes this a very tentative conclusion. Live cattle futures are trading at modest premiums to early-September cash quotes, thereby reducing the incentives producers feel when looking to market cattle quickly. This raises doubts about the late-2017 outlook.

HOGS

Pork production averaged about 2% above year-ago levels through the summer, although two weekly totals in late August and early September pushed to 3% or more over comparable 2016 levels. Whether that indicates the implicit USDA forecast for a 3% annual increase in autumn production will prove correct is open to question. The larger supply, particularly the usual seasonal slaughter increase, is weighing on futures and the cash market. But diving pork belly values were the main price driver of the price drop. However, we expect belly prices to stabilize above year-ago levels as the industry actively rebuilds stockpiles this fall. Given the big May-July boom and August-September bust in bacon prices, packers and processors will want to avoid a recurrence in 2018. Given the late-summer price drop, the fall outlook seems less than promising. But don't be surprised if those losses spark renewed consumer demand during autumn. The early-September start-up of two new packing plants should also boost competition for swine.

FEEDER CATTLE

In contrast to the historical pattern of seasonal strength into late summer, feeder cattle prices proved relatively weak during summer 2017. That is, the CME feeder index peaked at $154.91/cwt on June 8, then moved lower. It did climb to $149.71 in mid-September after having fallen to $142.61 in late August, but the market is clearly less elevated than in late spring. This essentially marks the feedlot industry's response to falling fed cattle prices and to the cyclical increase in calf and yearling supplies. Conversely, weak corn and soybean meal prices are almost surely supporting feeder values due to favorable implications for feed costs. Having feeder futures gain strongly versus their fed cattle counterparts through late summer implies strong industry demand for replacements.

DAIRY

Given the latest U.S. dairy cow herd stated just 1,000 head below the June record for the new millennium, at 9.404 million head, as well as the sustained upward trend in milk production per cow, the U.S. dairy market is well supplied. Conversely, having June and July quotes for the "all milk" price paid to farmers stall at $17.30/cwt implies considerable demand strength, especially when compared to the $14.50 low posted in May 2016. That price firmness seems likely to spur continued growth in dairy output through the balance of 2017, although seasonal culling may reduce the national herd somewhat. Comparative weakness in wholesale cheese and butter values suggests potential dairy complex vulnerability in the months ahead.