STATE BANK & TRUST CO.

DOANE'S Farming for Profit®

September 2018

**China and the U.S. were set to hold** lower-level trade talks in late August. A Chinese vice minister traveled to the U.S. in mid-August for discussions. A senior U.S. official said the agenda will include "steps to achieve a more balanced trading relationship," with the value of the yuan expected to be a key topic. Treasury Undersecretary David Malpass and Chinese Vice Commerce Minister Wang Shouwen will lead the talks. China watchers say the country's decision to return to the negotiating table is likely an attempt to head off the tariffs on $200 billion in goods scheduled for implementation on August 23.

**USDA expected to announce** official guidelines for the up to $12 billion Trump Tariff Aid (TTA) programs by Aug. 24, and be ready to implement them by Sept. 4. Farmers would receive payments between September and the end of their harvest, and would be required to provide documentation of 2018 production. Wheat payments will come in September, with payments for other crops coming before the November elections. USDA will likely utilize a similar process to make the payments to affected farmers as is used for the Ag Risk Coverage and Price Loss Coverage programs. The payments for dairy producers would be made using a similar pay process that is used for the Margin Protection Program (MPP). The process to be used to make payments to hog producers is unknown.

**Two weeks after another northeastern province,** Liaoning, culled thousands of pigs upon the discovery of China's first case of African swine fever, Chinese officials confirmed Thursday its second case at a slaughterhouse owned by WH Group, the world's largest pork producer. The plant where the 30 hogs died is in central China, but the animals were raised in the northeastern Heilongjiang province, roughly 1,440 miles away. An uncontrolled outbreak of African swine fever would devastate China's hog industry and increase demand for pork imports. But global pork exports represent only about 15% of Chinese pork consumption, which implies a major price response if China is forced to import aggressively. Conversely, such an event would also decrease demand for soymeal and other feeds.

**USDA will purchase $50 million worth** of fluid milk for distribution to domestic assistance programs, marking the first time the agency has bought milk for this use. The department will also buy $60 million in chicken products (to include whole bagged chicken, consumer split breast and dark meat parts) and an unspecified value of beef products for distribution to domestic assistance programs. These purchases are not part of the TTA program.

**In early August, the National Pork Producers Council** and the North Carolina Pork Council filed a friend-of-the-court brief in support of lifting a judge's gag order on producer statements related to nuisance lawsuits filed against more than two dozen North Carolina hog farms. Judge Earl Britt, of the U.S. District Court for the Eastern District of North Carolina, in late June, imposed the gag order on the parties, lawyers and potential witnesses in lawsuits brought against Murphy-Brown, the hog production subsidiary of Smithfield Foods. The judge worried about tainting future jurors. However, "As we pointed out in our friend-of-the-court brief, this gag order has had a chilling effect on all hog farmers in North Carolina," said NPPC President Jim Heimerl.

## Farm Manager Focus

### An Update on the U.S. Versus China Trade Conflict

As of mid-August, the Trump Administration had slapped a 25% duty on $34 billion worth of Chinese goods and is set to implement 25% tariffs on another $16 billion worth of Chinese goods on August 23. China has responded by imposing a 25% duty on $34 billion worth of American goods, including soybeans and other farm products, has promised to respond in kind on Aug. 23.

A senior Trump administration official said they are talking to Beijing about a deal, but couldn't announce any meetings. Some observers, including U.S. lawmakers, want direct talks between President Trump and Chinese President Xi Jinping, but the two leaders aren't scheduled to meet until they both attend regional summits in November. The two sides are holding background talks.

China state media recently accused the U.S. of a "mobster mentality" in its move to implement tariffs on China goods and warned Beijing will fight back. China imposed fresh tariffs on U.S. liquefied natural gas, a booming U.S. export, again suggesting trade tensions will last some time.

There are signs of a rift developing in the China leadership. An unusual increase in criticism is reportedly building over President Xi's handling of the trade conflict and economic policy. Pressure is also growing since its stock market has been one of the world's worst-performing in 2018, losing its ranking as the second-biggest market after overtaking Japan in 2014. China's inflation data was surprisingly high in July, including a 0.5% increase in food prices despite a 9.6% drop in pork prices.

The U.S. seemingly has the advantage in negotiations, due in part to the sheer size of the deficit. President Trump's move to call a truce on trade conflicts with the EU in return for its backing in the battle to force China to respect international trade laws, particularly on intellectual property, also increased his leverage. The fact that the U.S. economy, stock market and the dollar are performing well appear to favor the U.S. Having China reopen negotiations in mid-August implied things have begun moving toward a resolution.

# Doane's MARKETING MENTOR

## CORN

As expected, the USDA boosted its 2018 U.S. corn production estimate on its August Crop Production report released August 10. The result, at 14.586 billion bushels, modestly exceeded the average pre-report forecast at 14.517 billion. The projected yield figure reached 178.4 bushels per acre, which easily topped the July forecast at 174.0, as well as the record year-ago figure at 176.6 bushels per acre. The planted and harvested acreage totals at 89.1 million and 81.8 million acres, respectively, were unchanged from July, as usual. Those are likely to rise given the Farm Service Agency's (FSA) subsequently published farmer participation numbers for USDA ag programs. Corn futures dove in concert with soybeans in the wake of the data, but the tightening global situation, strong export numbers and mid-August news of a resumption of U.S.-China trade talks turned prices high once again.

## SORGHUM

USDA's first survey-based yield forecast of the 2018/19 sorghum crop reported a yield gain of 3.6 bushels per acre over trend to 70.9 bu/acre. This would produce a crop of 375.4 million bushels from the 2.1 million harvested acres. Total supply is seen rising 29.4 million bushels to 419.7 million bushels, given the production increase and an increase in beginning stocks. Total projected use was revised upward by 25 million bushels, reflecting a 25-million-bushel increase in sorghum FSI use based on larger sorghum grind for ethanol, as opposed to expectations for reduced exports to China. Projected ending stocks are 39.7 million bushels, 4.4 million greater than July's forecast. USDA expects farm prices averaging between $2.90 and $3.90 per bushel in 2018/19, with a midpoint price of $3.40 per bushel, based on the higher carryout.

## SOYBEANS

Soybean and product prices fell sharply in the wake of the USDA August crop reports. Soybean prices plunged over 40 cents per bushel. USDA forecast the soybean crop to reach a stunningly large 4.586 billion bushels. That topped the July WASDE forecast by 276 million bushels and would easily top last year at 4.392 billion. USDA placed the national yield at a near record 51.6 bushels per acre. If realized, the forecasted soybean yield will be a record high in Alabama, Illinois, Indiana, Kentucky, Mississippi, Nebraska, Ohio, and Pennsylvania. FSA farmer participation data suggests the acreage forecast is too high and production will be adjusted lower this fall. USDA left the 2017/18 world production forecast unchanged at 336.7 million tonnes. There were no adjustments to the Argentine and Brazilian production forecasts. USDA lowered China imports. As one would expect, soybean futures rebounded strongly to news the U.S. and China are set to resume trade talks.

## WHEAT

In its 2018/19 domestic wheat supply/demand forecasts, USDA lowered estimated carryover to 935 million and down 50 million bushels from last month. USDA says foreign 2018/19 wheat supplies decreased 7.92 million tonnes in August, reflecting reduced production prospects. The production declines were led by a 7.5-million-tonne reduction for the EU, a result of continued dryness, especially in the north. However, there were slight upgrades for Russia and Kazakhstan. There were no changes to the forecasts for Australia and Canada despite lots of pre-report speculation that droughty weather would lead to cuts. Wheat prices dove despite the relatively large cut to the forecast for US ending stocks. In contrast to the corn and soybeans, where production and ending stocks forecasts were higher, wheat was lower. Nonetheless, the outsized bearishness directed at the corn and soybeans affected the wheat market as well.

## FEEDER CATTLE

The USDA's July Cattle report stated the U.S. beef cow and heifer breeding population at 32.5 million head, up 300,000 head annually. The 2018 calf crop was forecast at 36.5 million head, up 692,000 (1.9%) from 2017. Adding up the number of steers, "other" heifers, and calves available on July 1, then subtracting out the feedlot population, put the supply of younger animals available to the feedlot industry at 37.10 million head, up just 200,000 from mid-2017. The modest increase reflects the large number of steers and heifers placed during the past year, as well as the shift of many heifers from the breeding herd to the feeder supply. This downshift in yearling numbers could be supportive in the second half of 2018, although the recent rebound in corn and soymeal prices suggests elevated feed costs will slow feedlot demand.

## CATTLE

The USDA's biannual cattle report released July 20 indicated the July 1 population of cattle and calves in the U.S. climbed 1.0 million to 103.20 million head, up 1% annually. This was surprisingly large since the UDSA's January 1 population total at 94.40 million head rose approximately 700,000 head from year-ago. Doane estimates the January 1, 2019 U.S. cattle population, around 94.80 million, will mark the high for the ongoing expansionary phase of the current cattle cycle, although the sustained cash market firmness seen this summer may encourage some producers to continue expanding their herds. Much depends upon the second half outlook. Traditional seasonal patterns imply declining fed cattle supplies and rising prices, but slaughter rates have proven surprisingly large during the autumn of the past three years.

## DAIRY

The USDA's monthly Milk Production report stated total U.S. output for July at 18.35 billion pounds (up just 0.4% annually), well short of the recent trend of 1% yearly gains. Milk production per cow set a new July record at 1.953 pounds, but the rise was clearly depressed by the heat and dryness prevailing over many areas at the time. The domestic cow herd fell 8,000 from July to 9.396 million head. Given the milk price losses seen since the late-May peak, that wasn't surprising. Ultimately, improved U.S. export activity through the first half of 2018 supported the milk and product markets. The second half outlook likely depends upon consumer demand in the year-end holiday season. The burgeoning strength of the U.S. economy seemingly bodes well for prices.

## HOGS

The hog market suffered badly during summer 2018, with the CME Lean Hog Index diving from a late-June peak at $86.20/cwt to just $51.50 by mid-August. Cyclically rising supplies limited upside on price potential, as did grocers maintaining high retail costs for pork loins (chops) and hams. Hog slaughter soared to 2.46 million head during the week ended August 18 (up 5.1% annually), whereas gains of 3%-4% were expected for midsummer. Doane suspects the summer breakdown was overdone and would not be terribly surprised if hog prices post their traditional fall low in September. The wild card for the outlook arises from recent findings of hogs infected with African swine fever in China. An uncontrolled outbreak in that country's mountainous hog population (around 400 million) could force them to import huge amounts of pork, thereby potentially boosting global prices dramatically.