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DOANE'S Farming for Profit®

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President Trump unveiled on August 14 an investigation into China over allegations it violated U.S. intellectual property (IP) rights and forced technology transfers. Of note, no immediate action was taken against China following the president's signing of the memorandum, but the steps will authorize U.S. Trade Representative Robert Lighthizer to determine if an investigation of Beijing's laws, practices or actions is warranted. The move is not without its risks to U.S. ag interests, since Chinese officials have reportedly targeted U.S. soybeans as one product of which they would curb their purchases if the spat worsens.

The number of soybean acres across the U.S. affected by dicamba drift continued to increase and was pegged at 3.1 million as of Aug. 10, according to surveys of agricultural extension agents conducted by Kevin Bradley, an associate professor in the University of Missouri's Division of Plant Sciences. Official dicamba-related cases currently being investigated by departments of agriculture in 17 states across the south and Midwest have also risen, from 1,411 to 2,242, Bradley reports. The EPA began looking into the issue in early August.

Officials from the U.S., Canada and Mexico began talks to renegotiate the North American Free Trade Agreement in Washington on August 16. U.S. Trade Representative Robert Lighthizer said the initial NAFTA has been a failure for "countless Americans" and that the U.S. will be pushing for major changes. In stark contrast were comments from Canada and Mexico, who focused on the benefits for all parties involved. Bottom line: The U.S. offered a combative tone while Canada and Mexico made it clear they won't be easy pushovers. Expect contentious talks ahead with no guarantee one of the participants will not walk away from the process.

The EPA extended the comment period for repealing its Waters of the United States (WOTUS) rule for 30 days, with the deadline reset to Sept. 27. Supporters of the previous rule objected to the shortness of the 30-day comment period for the proposed change. The original Obama rule, also called the Clean Water Rule, was open for more than 200 days.

Disney is apparently paying at least $177 million to settle the "pink slime" lawsuit brought by Beef Products Inc. versus ABC. In a footnote on the company's August quarterly earnings report, Disney said it paid $177 million that was "incurred in connection with the settlement of litigation," at least some of which was related to a years-long legal dispute with South Dakota-based meat processor Beef Products Inc. A lawyer for BPI told CNNMoney that its settlement was worth even more than $177 million.

The current maximum for the Conservation Reserve Program (CRP) is 24 million acres. Some lawmakers want to raise the maximum by few more million acres. Budget offsets for that to occur could bring some reforms to the program, such as revising CRP rental rates on a more timely basis, restricting some whole-farm or other ground program access once those current CRP acres are up for program renewal and moving some of those and other acres into the Grassland Reserve Program. This is just one of the ag industry's various wants and needs proposed for the 2018 Farm Bill. All imply increased costs. Negotiations between legislators representing those interests will determine what gets added and what gets left out.

Farm Manager Focus

Packing Industry Expansion Should Support Hog Prices

Hog slaughter typically surges in mid-August and keeps climbing to an annual peak just before Christmas. That may prove especially true in late 2017, since the USDA's June Hogs & Pigs Report indicated fall supplies will top last year's record levels by 3%. In contrast, demand for bacon and the main grilling cuts of pork [i.e., pork chops, butts, ribs and trimmings (for sausage)] usually slumps rather badly during fall. Thus, hog prices regularly fall sharply from their summer high to a fourth quarter low.

However, the discounts built into second-half hog futures look overly large. This optimism is partially based on ideas the late-summer pork outlook isn't as poor as indicated by CME futures. Although pork bellies will likely drop sharply from record early-summer highs, the various grilling cuts had already fallen significantly from their July peak by mid-August. Even a small amount of late summer strength could limit the CME Lean Hog Index's seasonal decline, which could provide a big boost to fall-winter futures. Indeed, pork loins and ribs tend to post significant late-summer rallies, which often translates into a September rebound in cash hog prices.

But the main reason for thinking the hog market will not suffer major losses during the coming months stems from expectations for a major surge in packing industry competition. Two small plants previously opened last fall and in April. Packing industry competition should really heat up when two large new plants open their doors in September. One new plant in Coldwater, Michigan will open September 5. It will be joined in opening in September by another in Sioux City, Iowa.

The new plants will almost surely spur packing industry competition. The newer plants will be drawing some swine from associated growers, but those pigs are likely being sold on the open market at this time. Thus, packer buyers will be cultivating relationships to keep pigs flowing to their plants and trying to force the new operations to overpay for pigs at start-up, while avoiding offense to producers with low-ball bids.

Doane's MARKETING MENTOR

CORN

USDA released its first surveyed-based corn production estimate for 2017 on August 10, pegging U.S. corn production at 14.153 billion bushels, down 995 billion bushels (6.6%) from a year ago. However, the estimate came in more than 300 million bushels above trade expectations. The national yield is estimated at 169.5 bushels per acre, well below 2016's record 174.6 bushel yield. If realized, this would be the third highest national yield on record and it is only 1.5 bushels below the long-term trend yield. The trade expected a yield of 166 bushels. As one would expect futures reacted badly to the news, with the fall contracts hitting fresh 2017 lows soon thereafter. Given widespread reports of extremely various conditions, Doane is inclined to think USDA's yield forecast is too high and that the market will post an early harvest low.

SORGHUM

The U.S. sorghum crop is forecast at 369 million bushels, down 23% from a year ago on a combination of lower acreage and yield. Harvested acreage is down 14% from a year to 5.3 million acres and the yield forecast, at 69.6 bushels per acre, is 8.3 bushels below 2016's record high yield of 77.9 bushels per acre. Sharply lower production will restrict sorghum use in the season ahead. While all demand components are expected to be lower, feed and residual use is projected down the most, falling 70 million bushels to 100 million. Sorghum for industrial falls 10 million to 100 million and exports ease 15 million to 225 million bushels. This results in 2017/18 total use of 370 million bushels vs. 465 million in 2016/17. As a result, 2017/18 ending stocks are little changed from this year at 52 million bushels or 14% of annual use. Sorghum prices are expected to average $2.90 per bushel in 2017/18, up from $2.75 in 2016/17.

SOYBEANS

In its first objective survey for the 2017 soybean harvest, USDA forecasted the crop at a record 4.381 billion bushels. That is up from its July WASDE forecast at 4.260 billion, as well as the 2016 harvest at 4.307 billion bushels. USDA's yield forecast is at 49.4 bushels per acre, down from 52.1bushels per acre in 2016. USDA reduced its 2016/17 soybean ending stocks forecast by 40 million bushels to 370 million bushels. Trade expectations were higher, which may have limited somewhat the futures market's bearish reaction. Losses were also likely diminished by good demand published in mid-August. Not only did the domestic industry crush soybeans faster than expected in July, USDA reports indicated strong export activity at that time. Late-summer and early-fall weather over the Corn Belt remains a wildcard for the price outlook.

WHEAT

USDA updated its wheat production forecasts on August 10, stating total U.S. wheat production for 2017/18 at 1739.2 million bushels, down 570 million from 2016. This will be the smallest U.S. crop since 2002. However, despite the drought-reduced total for the spring wheat crop, the projected crop topped industry expectations. The wheat markets seemed to emerge as a bullish leader in late spring and early summer, especially when drought damage to the spring wheat crop became apparent. It appeared to be supporting corn. But recent developments have shifted the relationship, with corn now acting as an anchor for wheat prices. The large supply of low-protein grain is apparently weighing on winter wheat prices. Conversely, the tight supply of high-protein wheat seems likely to support the spring wheat market.

CATTLE

The aggressive pace of feedlot placements maintained from late 2016 through June is now weighing heavily upon the live cattle market. Extremely active fed cattle marketings supported the market for months, but have proven unable to stem the tide this summer. One sign of the relative slowdown in marketings was the swift seasonal increase in steer weights. After having dived from 905 pounds/head in early January to an early-May low at 832, steer carcass weights reached 880 pounds in early August, thereby implying marketings are losing currentness. Mid-August fed steer prices around $110/cwt represented a $35 drop from their May high. Thus, despite ideas that a normal seasonal rally will occur during autumn, the short-term outlook seems much less promising.

HOGS

A $15.00 drop in pork belly values depressed pork cutouts and hog futures (the October contract dropped sharply last week). And yet, the CME Lean Hog Index continues to decline quite grudgingly, having remained above $84.00 until Aug. 16. Wholesale bacon price declines from record highs will likely persist through late summer, but seasonal firmness in pork loins, hams and ribs could offset that weakness. It is not uncommon for the hog and pork complex to stage a rally of some sort during September. We would also suggest that pork values will become a secondary issue for pork packers in September, since the scheduled start-up of two large packing plants may make a battle for market-share their overriding concern. Thus, large discounts built into the fall and winter hog contracts look much too large, despite expectations for increased hog supplies in late 2016.

FEEDER CATTLE

Fed steers traded around $110.00 in mid-August, with persistent wholesale weakness also undercutting prices. That marked a drop of about $35 from their May peak. In contrast, the CME feeder cattle index is priced only about $20 below its June 8 high at $145.44. That reflects the summer crop market dive and seasonally tight yearling supplies. The resulting feeder price gain versus fed cattle suggests slowing July placements were to be revealed in the August USDA Cattle on Feed Report. Feeder prices have historically tended to post a late-summer high, then decline through much of fall. That pattern seems very likely this year, especially when one considers the expected size of the 2017 calf crop, which the USDA estimated at 36.3 million, up 3.5% from last year.

DAIRY

U.S. milk output continues growing steadily, as indicated by the July USDA Milk Production report. It stated the June national total at 18.047 billion pounds, which marked a fresh record for the month (as has become routine for all months except February; leap year totals are exaggerated by the extra workday). The real June news was the fact that the domestic dairy cow herd topped the 9.4 million head level (at 9.404 million) for the first time since the current data series began in 1999. When combined with steady improvements in milking efficiency, the increased population total is clearly powering the long-term upward trend. And despite industry complaints about low prices, the milk and product markets continue performing relatively well. For example, the June 'all milk' price reported by the USDA reached $17.30/cwt, the three-year high for that month. Demand apparently remains robust, with wholesale butter prices seeming likely test the $3.00 level again this fall.