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Understanding Your Business... From The Ground Up

DOANE'S Farming for Profit®

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Senate and House conferees were working overtime in November to get the 2018 Farm Bill passed before the end of the year. It appeared a consensus had developed regarding food stamps, but differences persisted on other titles, including safety net and conservation programs. Some key portions remained, including forestry management and some regulatory reform measures. Senator Chuck Grassley (R-Iowa) seems unlikely to get his and the Senate's proposed changes to farm program payments (tightening eligibility which is a back door pay cap cut and a lower Adjusted Gross Income test). Conferees are expected to include $300 million in mandatory funding, regarding development of vaccines for foot-and-mouth disease (FMD).

Senior Chinese and U.S. officials were "maintaining close contact" following an early-November phone call between the country's two leaders. China reportedly delivered a written response to the U.S. relative to trade demands, addressing U.S. concerns on intellectual property, U.S. access to China and the U.S. trade deficit. But it wasn't clear whether the responses were sufficient to address U.S. concerns. The U.S. and China could reach a so-called "framework" agreement that would cause ceasefire in the trade battle, but U.S. Trade Representative Robert Lighthizer was apparently telling President Trump the U.S. needs to continue with tariffs to get China to make necessary concessions.

Acting EPA Administrator Andrew Wheeler recently announced a new plan to cut emissions from 18-wheeler big rig trucks. EPA's Cleaner Trucks Initiative is expected to chop nitrogen oxide emissions from diesel engines often blamed for creating smog. Industry groups and environmentalists have called for new guidance from EPA on how to reduce big rig pollution, especially as California is moving forward with its own rules to tackle the problem. California also wants EPA to act because of the huge amount of interstate truck traffic.

China's ag ministry was busy confirming cases of African swine fever (ASF) across the country in November. The official number of cases had topped 50 across 14 provinces before November 15. Meanwhile, three cases of ASF in China's southwest Yunnan province just 200 kilometers from China's border with Myanmar and Laos and near Thailand had its neighbors on edge. The outbreaks in this province "probably represent an increased risk because of their proximity to the border" and add to the threat of international spread already posed by the movement of humans who carry the virus in contaminated pork products. Ultimately, the Chinese outbreak is almost surely much worse than officially reported. The chances of a major Chinese pork shortage and a commensurate rise in global hog/pork prices seems likely.

California voted to require more housing space for certain hens, breeding pigs and calves raised for veal. By 2022, hens raised in California must be raised "cage-free," though that definition could include indoor areas that provide between 1-square-foot and 1.5-square-feet of space per hen. Violations will result in a misdemeanor charge and a $1,000 fine. Out-of-state producers will have to update their production standards if they want to sell products in California, which imports roughly 25 million eggs per day from other states. Meanwhile, the House farm bill, which is in conference with the Senate, includes an amendment from Rep. Steve King (R-Iowa) that would require states to permit the sale of any agricultural product that is not prohibited under federal law.

Farm Manager Focus

Land Values & Rents May be Near a Floor

The annual *Pro Farmer/LandOwner* land survey indicated farmers expect steady cash rents in 2019. That departs from last year's survey showing more rental rates declining. Over 80% of respondents expect steady-weak farmland values next year, while roughly 10% expect them to rise.

Despite another year of reduced profits and climbing inputs costs, 53.6% of survey respondents expect cash rental rates to stabilize in 2019. That compares to last year's survey in which 44.8% of farmers expected steady rents and 41.8% who expected a decline of less than 10%. This year's survey showed 36.1% are hoping for a 2019 slide of 10% or less.

Since farmland is often tightly held, competition for rented land is growing. Some rented ground may be priced too high, but tight supplies reduce the chances of cash rental rate cuts. So non-farm landowners are unlikely to budge in negotiations, knowing other farmers will likely be waiting in the wings.

Ultimately, the survey suggests cash rental rates are near a price floor. This reflects the expected price firmness as well as the falling number of farmers saying they will walk away from leased land. The 2016 survey found that 14% "absolutely will" walk away from rented ground if the rental rate doesn't decline. That figure fell to 9% last year and to just 7% this year.

Farmer numbers expecting land values to rise or to drop by more than 10% are relatively unchanged from 2017. But the survey found more respondents expecting farmland prices to fall by less than 10% or expecting unchanged values to stabilize. In total, nearly 82% of farmers surveyed anticipate results in those two categories.

Those respondents looking to sell farmland next year rose fractionally to just under 11%, which is relatively high, suggesting weak returns are forcing a bit more land onto the market. But the number of producers looking to buy in 2019 leapt to 57% versus just 36% in 2018. That indicates farmland values have reached "value" levels, thereby encouraging buying despite the financial stress being felt by farmers.

American Farm Mortgage President Alan Hoskins said, "Given the recent directional trends in both interest rates and land values, now is a great time to review your overall debt structure with your lender. While no one can accurately predict the timing or movement of interest rates or land values, take the opportunity to ensure current asset values are maximizing their role in your operation's cash flow."

Doane's MARKETING MENTOR

CORN

In its monthly WASDE and Crop Production reports published November 8, the USDA cut its 2018 U.S. corn crop estimate by 152 million from October to 14.626 billion bushels. That came in 95 million below the average pre-report estimate. USDA left its harvested acreage estimate unchanged at 81.8 million acres, but cut the average corn yield 1.8 bushels to 178.9 bushels per acre. That would still be a record yield. The U.S. and global corn situations, aside from China, are tightening, which seems likely to power a sizable seasonal advance from late fall into summer 2019. One drawback stems from the autumn crude oil drop, which depressed ethanol prices and demand. However, the biggest recent news was a set of massive upward revisions to estimated Chinese supplies going back 10 years. But the indicated stockpiles are seen as likely being low quality and unexportable, so they're not expected to greatly affect prices.

SORGHUM

USDA kept its 2018 US sorghum planted and harvested area estimates unchanged in November at 5.8 million acres and 5.1 million acres, respectively. National average yield was pared 3.6 bushels to 71.4 bushels per acre. The net-impact of the changes was an 18 million bushel production cut to 364 million bushels. As for demand, USDA boosted feed and residual usage 30 million bushels and cut exports 50 million bushels to trim usage 20 million bushels. A large portion of this is attributable to the US/China trade war with China now buying less US sorghum. Thus, ending stocks inched 2 million bushels higher to 39 million. And yet, the season-average farm price was raised $0.10 per bushel to $3.00-$3.80 per bushel, which would be the highest level since 2014/15. Harvesting of this year's crop is lagging at just 73%-complete, which could exaggerate abandonment.

SOYBEANS

As expected, USDA cut its US soybean output forecast, although the size of the 90 million bushel drop to 4.600 billion bushels, topped expectations. The national average yield fell one bushel to 52.1 bushels/acre. Harvested acreage prospects were also trimmed. But the supportive influence of that news was swamped by the slashed export forecast, down 160 million to 1.900 billion bushels. A very strong start to South America's growing season likely bodes ill for 2019 bean prices as well. Nevertheless, soybean futures soared in reaction to an early-November tweet from President Trump, in which he noted a productive phone conversation with China's President Xi. The market largely sustained that strength through mid-November, thereby strongly suggesting the "smart money" is expecting some sort of U.S.-China trade agreement in the near future.

WHEAT

USDA made just one minor adjustment to its all-wheat supply/demand estimates in November, raising seed usage 7 million bushels on larger 2019 wheat plantings. USDA maintained its export forecast of 1.025 billion bushels, with continued demand optimism about U.S. wheat shipments persisting. Projected carryout stocks at 949 million bushels was down 7 million from October and were 17 million below the average trade guess. Doane's forecast of 995 million assumes lower exports, but we will remain patient for signs of growing demand for US product. Winter wheat seeding advanced just 5% to 89% complete as of Nov. 11, lagging the five-year average of 94% for that date. Kansas still had 10% of its crop to plant, while Oklahoma had 16% and Texas 20%. Some of those acres won't get seeded to wheat. Doane calculations suggest the "at risk" acres this year are about 1.5 million for HRW and 300,000 for SRW.

FEEDER CATTLE

Feeder cattle prices usually decline late winter, rally from spring into late summer, then slide through year-end. The first two portions of that pattern were exaggerated in 2018, with the summer high topping the spring low by $24.50 per hundredweight. The top also came in early October. The strength of the rise may partially explain the relative severity of the recent price drop, which carried the CME feeder index from its October peak at $158.45 to mid-November levels around $149.00. Firm autumn corn prices, as well as the cyclically rising supply of calves and yearlings, may also have played roles in the slump. More weakness may be coming, especially with producers selling heifers rather than retaining them for the breeding herd.

CATTLE

Wholesale beef prices suffered an extended early-November decline, due in part to seasonal turkey and ham strength and concurrent beef demand weakness. The good news is that the U.S. Thanksgiving holiday is early this year, providing an extra week for beef sales. Consumer confidence is at an 18-year high because U.S. unemployment is at a 49-year low. The sharp autumn drop in crude oil prices gives consumers more money to spend on beef during the year-end holiday season. Packers have been unwilling to share near-record margins with feedlots up to this point. That may change in December. Winter has come early, and feedlots are not in the best shape, thereby tending to reduce weights and curb beef supply. Low steer weights and wide choice-select beef price spreads also point to tight market-ready cattle supplies. A sizable seasonal advance seems likely.

DAIRY

In its October Milk Production Report, the USDA chopped its summer estimates of the U.S. dairy herd and stated the September U.S. population at just 9.367 million head. That's down from 9.399 million in September 2017 and down from the previous August estimate at 9.40 million (with latter being revised down to 9.379 million). This latest reduction is clearly the largest decline in domestic milking cow numbers since autumn 2013. Excessive global supplies amidst ongoing output increases by the U.S., E.U. and New Zealand are almost surely pressuring prices, with falling international powdered milk values once again being the driver of these moves. The relatively low seasonal high posted by wholesale butter prices in September, as well as the early start to the usual seasonal drop in cheese values, are also weighing on prices.

HOGS

Hog futures have swung widely this fall as large supplies met intermittent demand surges. But low pork prices have kept product moving. Futures seem undervalued versus recent cash prices, implying some insiders are concerned about the December outlook, especially after grocers complete their Christmas ham purchases. Growth in domestic supply and packer demand seemingly presage stable prices. However, Chinese discoveries of fresh cases of African swine fever and some positive progress on the U.S./China trade talks front suggest strong upside price potential next year. Chinese domestic chicken prices recently reached three-year highs as consumers moved away from pork. Imported pork will likely gain traction in China because of falling supplies and consumer ASF concerns. But, U.S. pork sales remain dependent on a deal between President Trump and President Xi in the coming weeks.