

Crop and Livestock Outlook and Strategies

January 2019
Western Wisconsin Ag Lender's Conference

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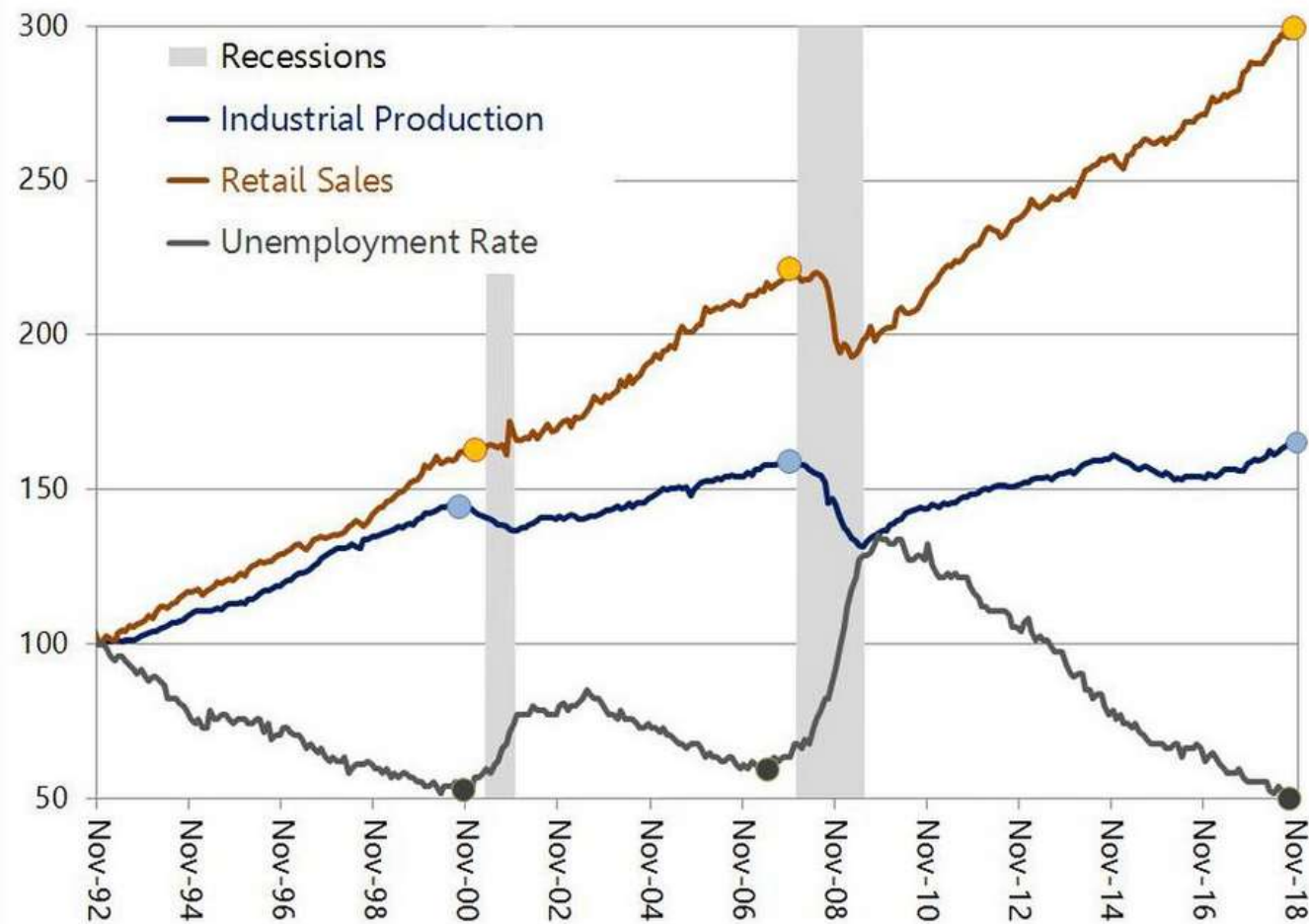
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Key Market Factors

- World and US economics
 - Exchange rates
 - Monetary Policy
 - Meat demand
- Exports and trade policy
- New Congress
- Energy Policy
- African Swine Fever
- 2018 crop supplies

Macro conditions remain positive but times are changing...

- World economic growth is still positive – but World Bank downgraded outlook for global economy
 - 2.9% in 2019 as opposed to 3% in 2018, 3.1% in 2017
- Equity markets have been volatile
- Real GDP growth at 3.4% in Q3, down from 4.2% in Q2
- RDPI increased 0.2%
- Wages are being driven by tight labor market – U rate at 3.9 – well below the natural rate, up from October (3.7) which was lowest since 1969
- BUT THIS RECOVERY IS OLD!!!!!! And we haven't had one last forever yet
- Likely no interest hikes in 2019

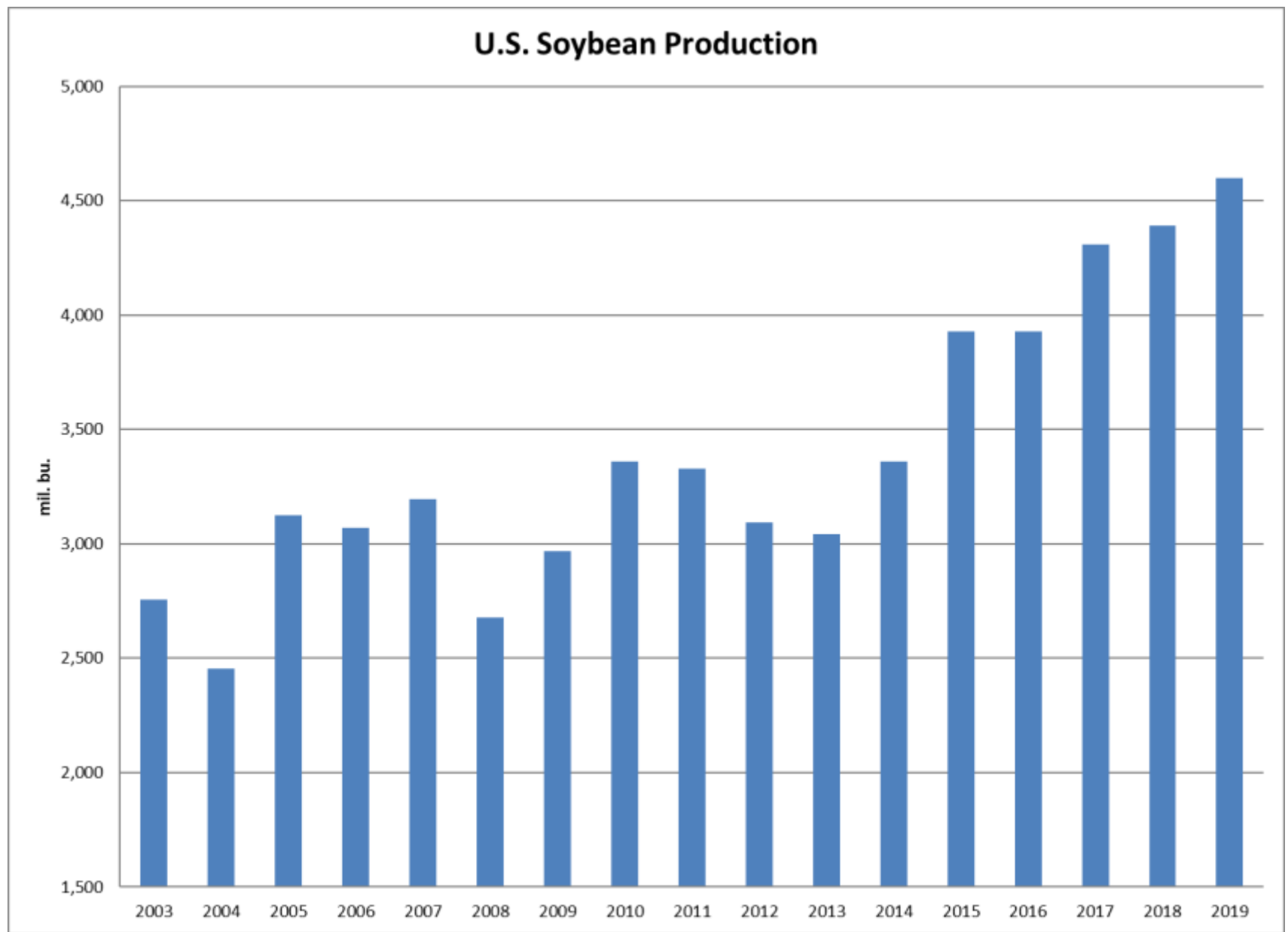


<https://www.forbes.com/sites/raulelizalde/2018/12/17/another-warning-that-a-2019-recession-is-coming/#79f42ea2d8f3>

- Employment, production and sales peak before recession
- Dr. Dieli's EAS points to Jan 2019 as 1st eligible month for recession

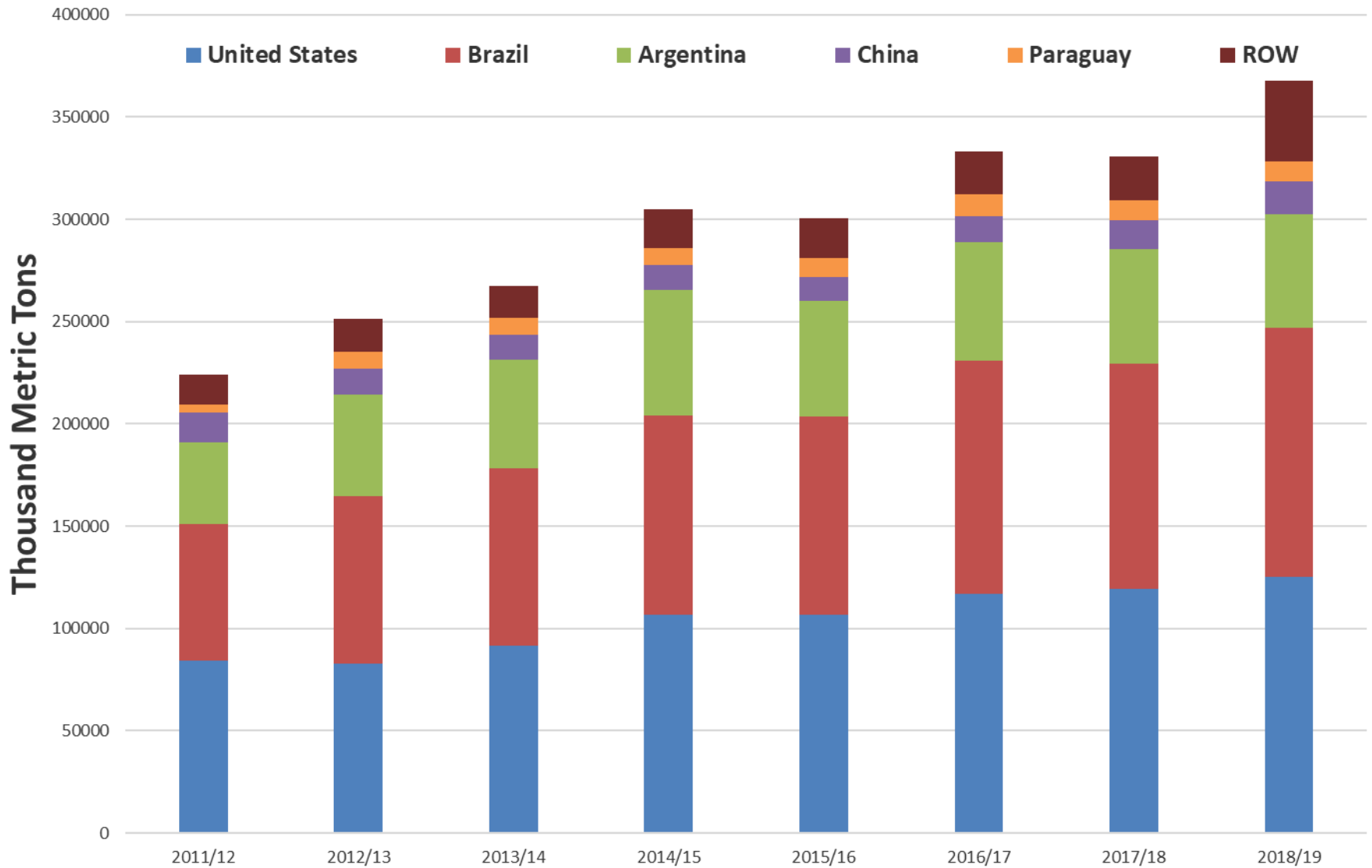
Government Shutdown

- Many USDA publications halted
 - January 11, 2019 Reports
 - Final size of 2018 corn and soybean crop
 - Winter Wheat Seedlings
 - December 1 corn stocks estimate
 - January 24 & 25, 2019
 - Livestock Slaughter
 - Cattle on Feed
 - January 31, 2019
 - Cattle
 - Export Data
- Market Facilitation Program payments
 - Still going out if production evidence processed by Dec 21
 - Jan 15 deadline (may be extended) to sign up for MFP payments



2019 will have 208 MB increase (a 4.7% increase from 2018)

World Soybean Production

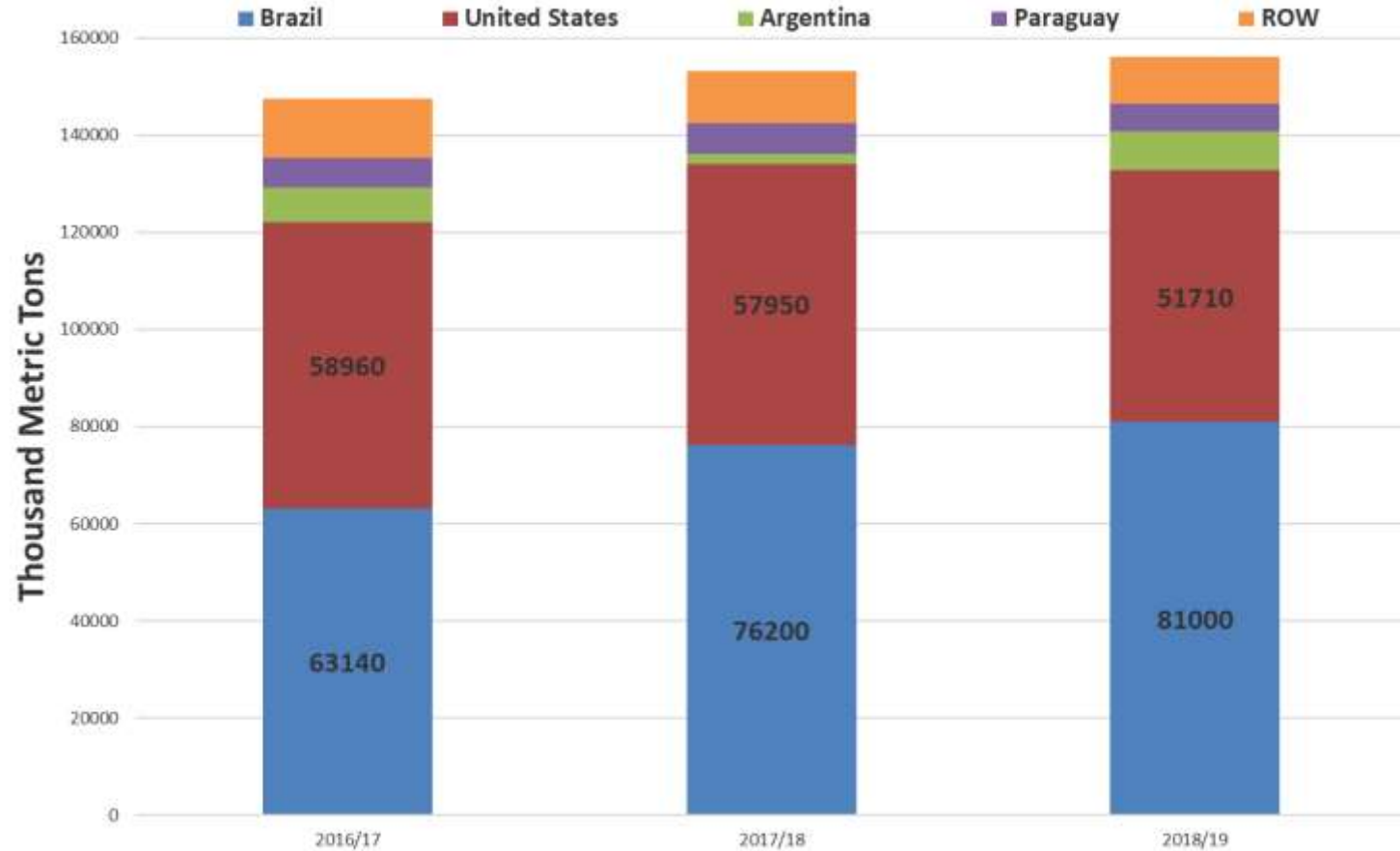


USDA DECEMBER SOYBEAN WASDE

U.S. Soybean Balance Sheet (Year Beg. Sept. 1)

	2016/17	2017/18	2018/19	%Change vs 17/18	My Forecast 2018/19
			Dec		
Acres Planted	83.4	90.1	89.1	-1.1%	89.1
Acres Harvested	82.7	89.5	88.3	-1.3%	88.2
Yield	52	49.3	52.1	5.7%	51.8
Supply					
Beg. Stocks	197	302	438	45.0%	438
Production	4296	4411	4600	4.3%	4569
Imports	22	22	25	13.6%	25
Total Supply	4515	4734	5063	6.9%	5032
Demand					
Crush	1901	2055	2080	1.2%	2080
Exports	2166	2129	1900	-10.8%	1900
F/S/R	146	112	128	14.3%	128
Total Demand	4214	4296	4107	-4.4%	4107
Ending Stocks	302	438	955	118.0%	925
Stocks to Use Ratio	7.17	13.20	23.25	76.2%	22.5
Avg. Farm Price	9.47	9.3	8.6		
Soybean Oil Price	32.48	31.5	30		
Soybean Meal Price	316.88	350	310		

World Soybean Exports



- 60% of Soybeans went to China in MY17
- November usually sees US dominate soybean exports to China
 - 0 exports in November 2018 – 4.7 MMY in November 2017
 - Brazil exports to China increased 84% in November
 - Brazil exports stayed strong in December

USD Index

95.7860

USD

-0.1170 -0.12% ▼

1D

1M

6M

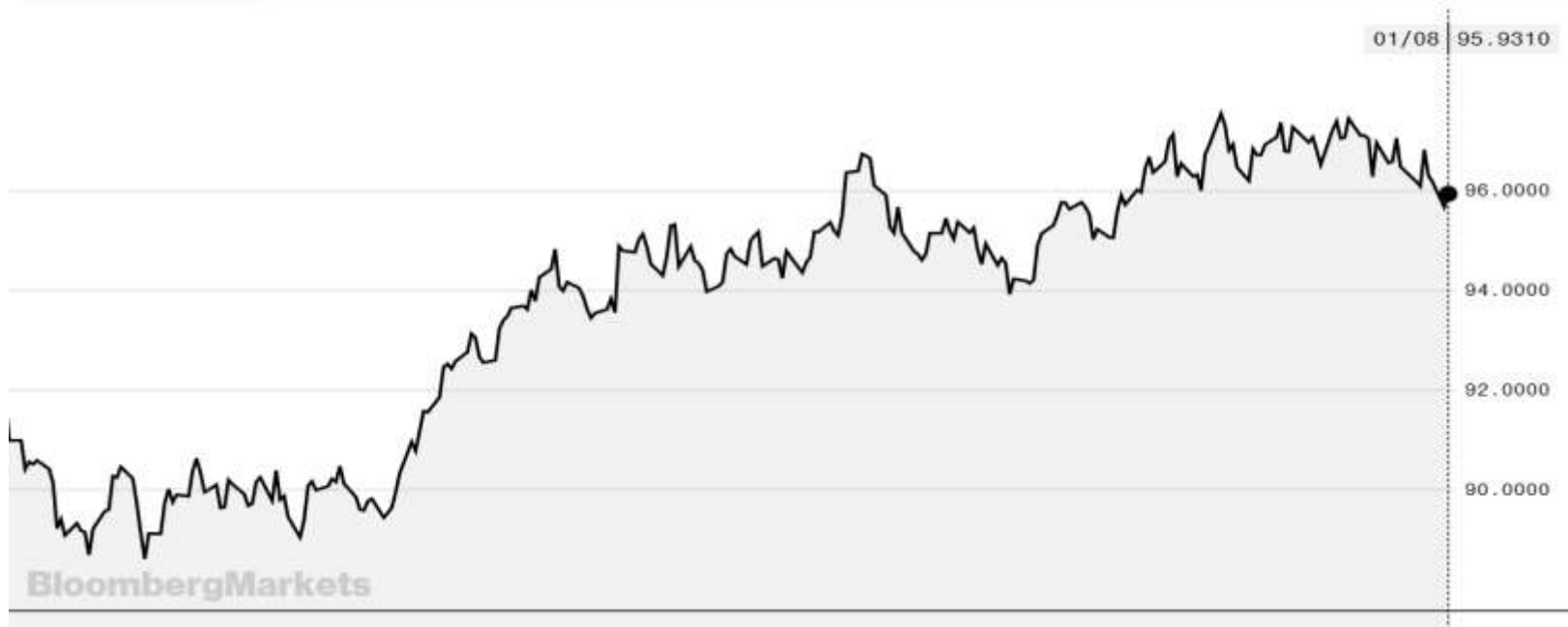
YTD

1Y

5Y

MINIMIZE

Add a comparison



- Value of US dollar increased over last year
- Lower dollar is supportive of exports



Bullish Factors

- Brazilian production is likely to be cut
 - Hot dry conditions and early beans yields are disappointing
 - 3 MMT decrease to 119 MMT
- Argentina crop is lower too
 - 1 MMT decrease to 56 MMT
- Most of the bearish news is incorporated into price
- Trade war nearing an end

Bearish Factors

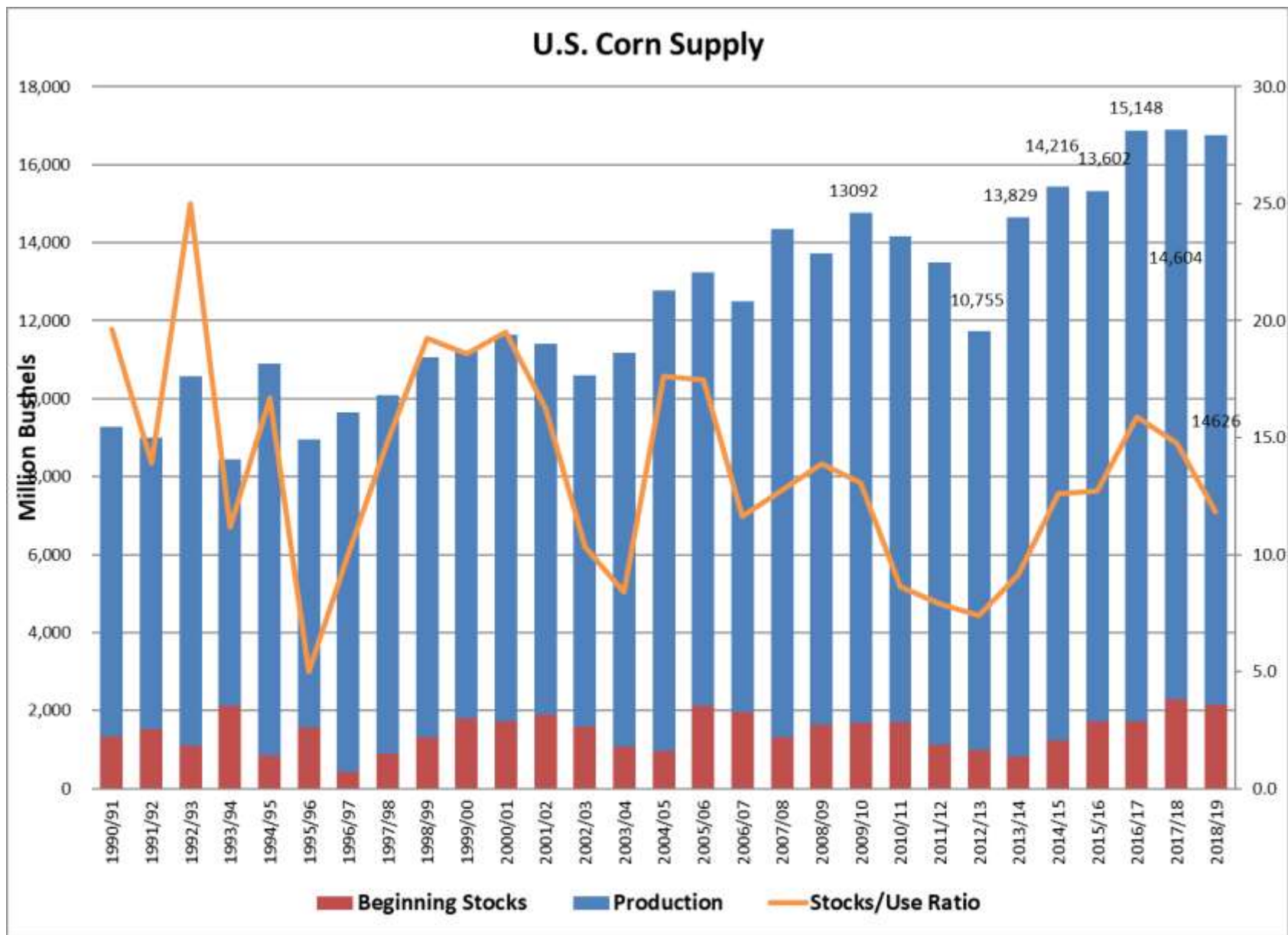
- Inventories are so high that it limits any upward momentum
 - 960 million bushel carryover
- Likely see continued large soybean acres in 2019

Where will soybeans go in 2019?

- Fundamentals are historically bearish
 - But this is already built into the price
- Surprises will be on the bullish side
 - Trade war ending??
- Will have less acres planted in 2019

Where will soybeans go in 2018/19?

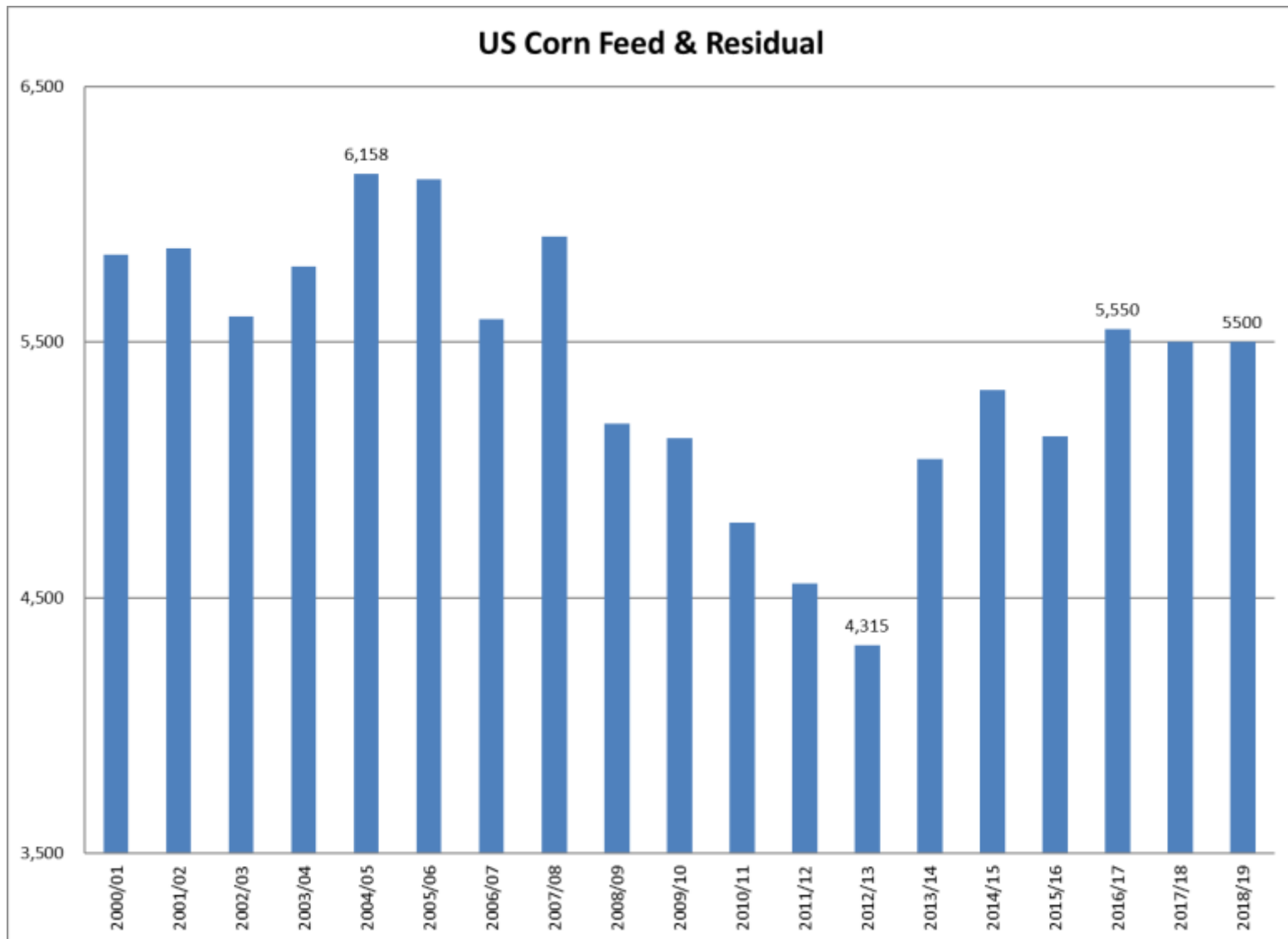
- If have 85 Million acres planted (a decrease of 4.1 million acres)
 - Yield of 50 bu/acre
 - Increase exports to 1980
 - S/U would be 11.7% - carryover of 487 MB
 - Cash harvest price could be as high as \$9.5



Total Supply = 16811
(16940 in 2016/17)

Corn December WASDE

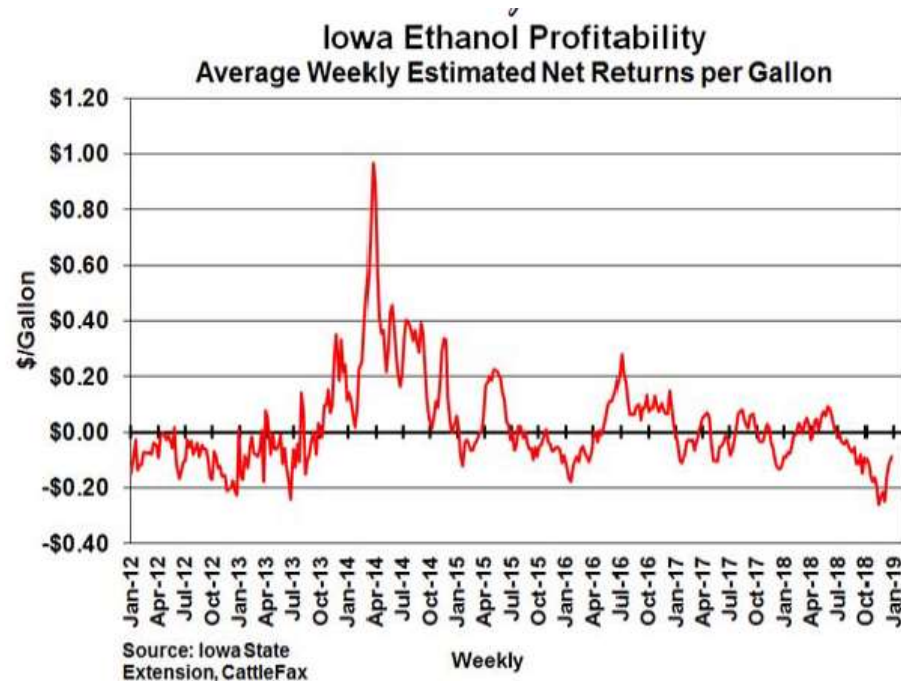
		2016/17	2017/18	2018/19	% chng vs 17/18	My Forecast 2018/19
		Dec				
Acres Planted	Mil. A	94	90.2	89.1	-1.22%	90.2
Acres	Mil. A	86.7	82.7	81.8	-1.09%	81.7
Yield	Bu/A	174.6	176.6	178.9	1.30%	177.2
Stocks	Mil. Bu.	1,737	2293	2140	-6.67%	2140
Production	Mil. Bu.	15,148	14604	14626	0.15%	14477
Imports	Mil. Bu.	57	36	45	25.00%	45
Total Supply	Mil. Bu.	16,942	16934	16811	-0.73%	16662
Residual	Mil. Bu.	5,472	5298	5500	3.81%	5500
Fuel	Mil. Bu.	5,432	5605	5600	-0.09%	5600
Exports	Mil. Bu.	2,293	2438	2450	0.49%	2475
Total Usage	Mil. Bu.	14,649	14793	15030	1.60%	15055
Carryover	Mil. Bu.	2295	2140	1781	-16.78%	1607
Avg. Farm Price		3.36	3.36	3.6		
Stocks/Use		15.67	14.47	11.85		10.7



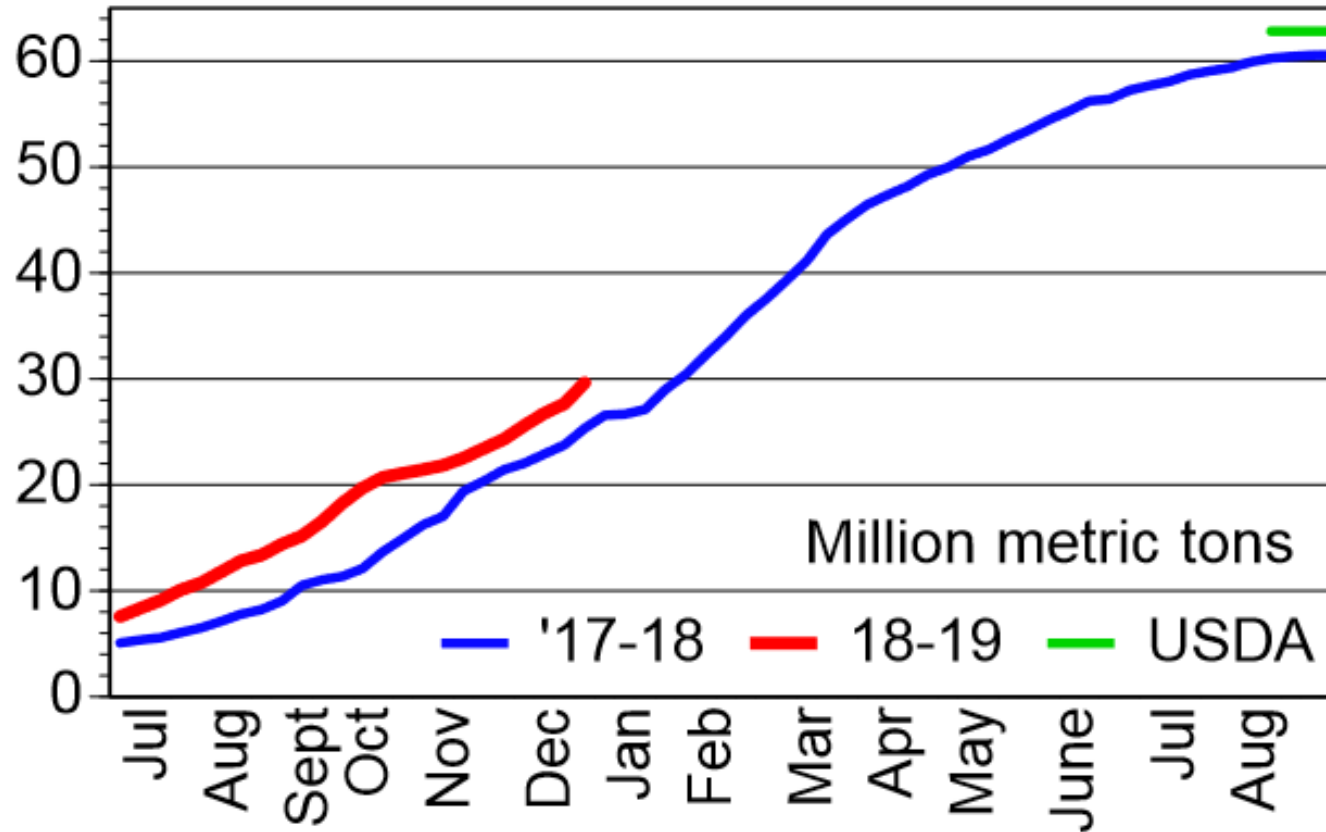
- Jan 11 report would give indication of feed and residual usage for Q1
- Stocks hard to predict w/o final production and Q1 consumption
- Likely see an increase in feed and residual usage

Ethanol Production

- Corn used for ethanol is lower
- Renewable Fuel Standard waivers allowed in 2018
 - RFS requirements would severely harm the economy of a state or region in the US
- Negative margins have led to temporary shut-downs



Total Corn Export Commitments



- No export reported for the past two week



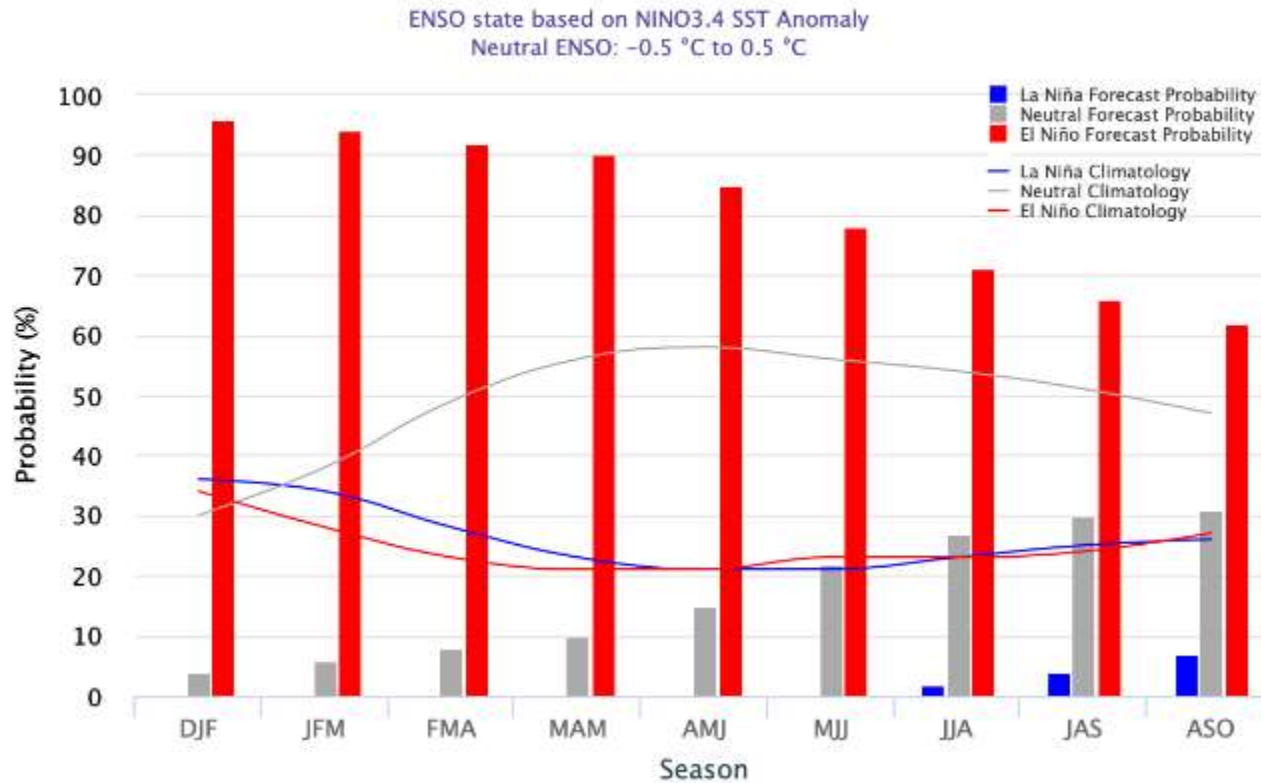
Bullish Factors

- Seasonality
- Improved trade with China will increase soybean acres
- Likely see a yr/yr decrease in corn stocks
- Strong quarterly exports

Bearish Factors

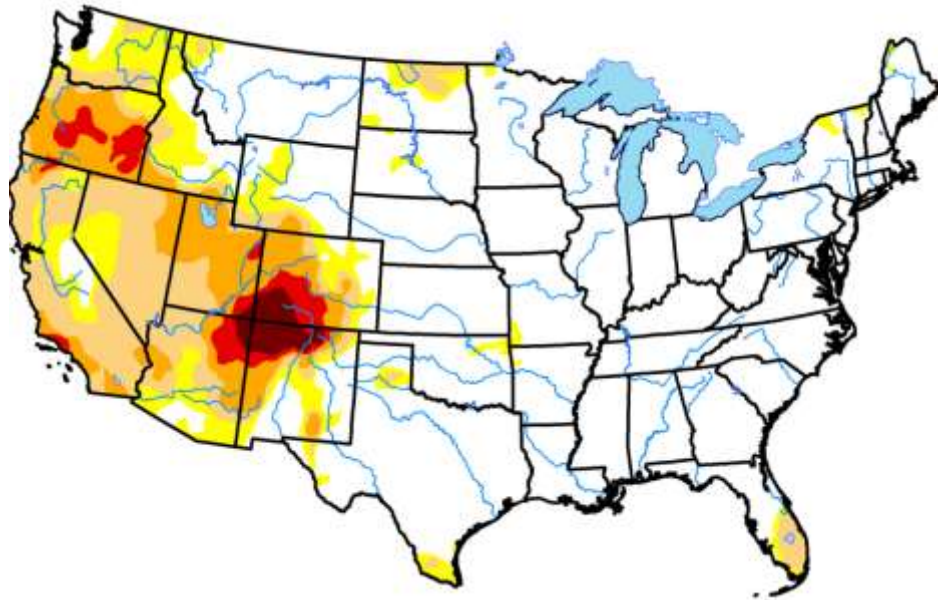
- Negative ethanol margins and shuttered operations

Mid-December 2018 IRI/CPC Model-Based Probabilistic ENSO Forecasts

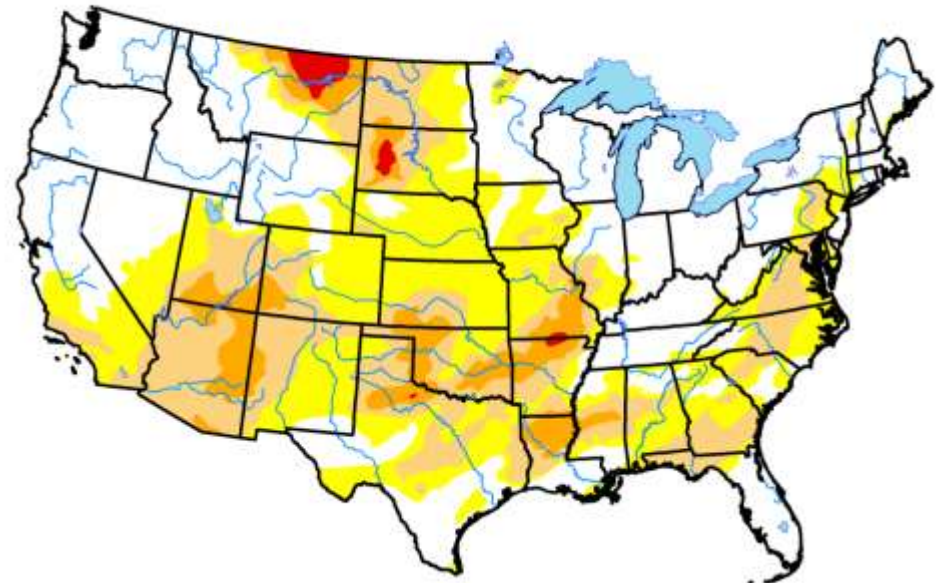


- Neutral conditions but with an El Nino watch are expected to continue (65-75% chance) in Northern Hemisphere through summer 2019.
- El Nino winter means milder with less snow for our region and cooler and wetter summer

Jan 1 2019

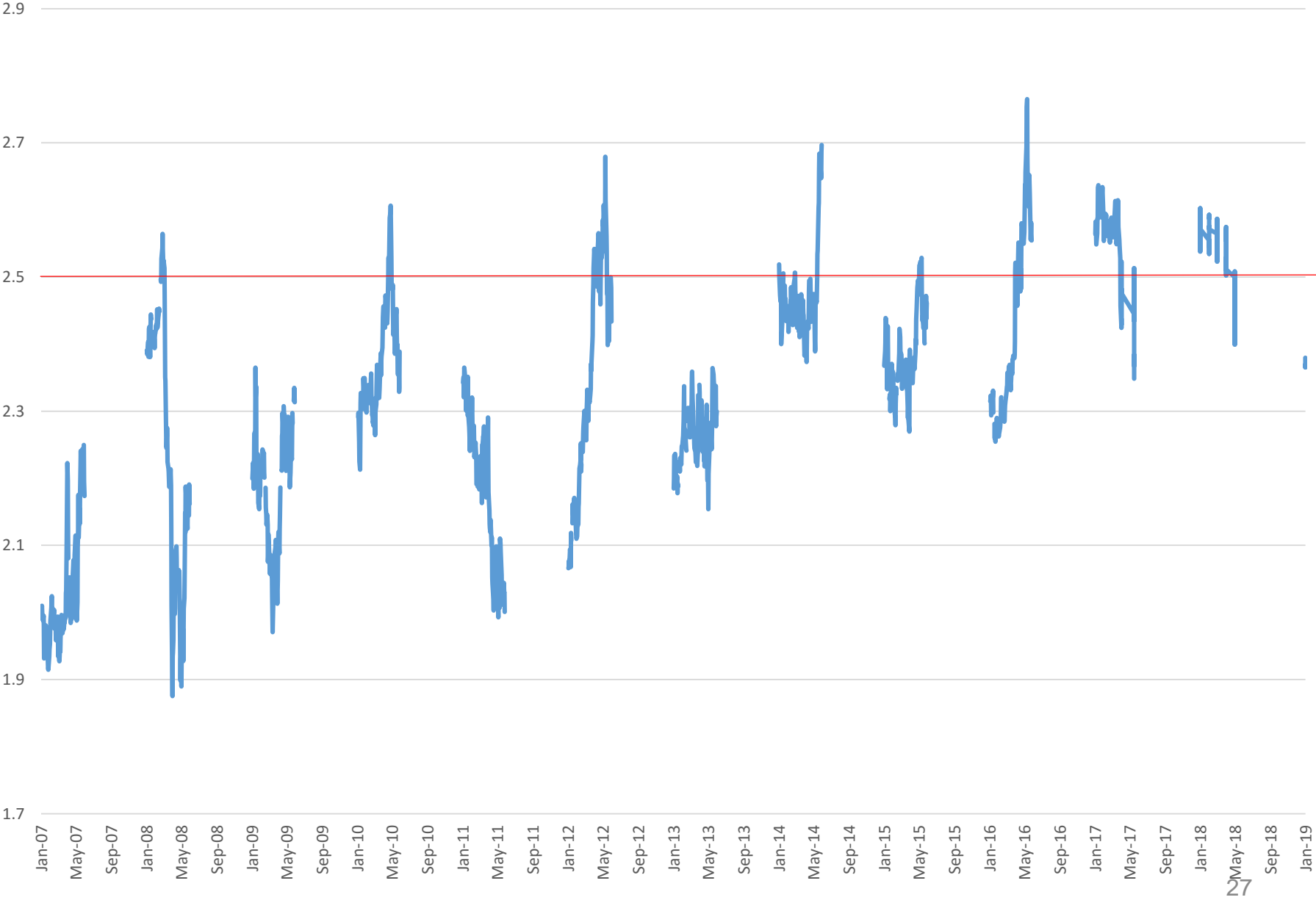


Jan 2 2018



- Least amount of drought in very long time

Soybean/Corn Ratio



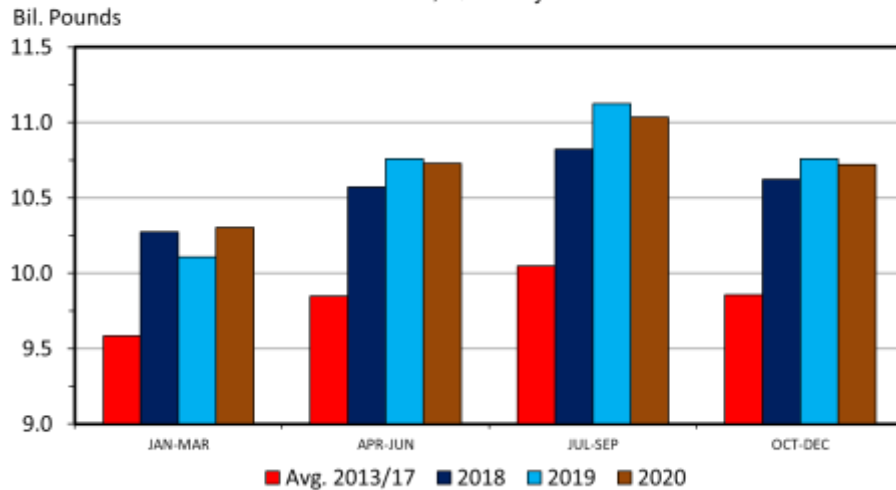
Where will corn go in 2018/2019?

- Likely trade up until mid-May
- Dry weather in Southern Plains depressing winter wheat seedings
- Limited upside potential for price
 - To make a move up need bullish news, but most of bearish news already incorporated
- Ukraine grain exports up 12% in first half MY 19
- In spring dependent on acreage and mother nature
- Likely see an increase in acreage
 - Trend yield of 176 bu/acre
 - Increase current demand to 15.1 bb
 - Have a stocks to use ratio of 10.8% (compared to current 11.8%)

Where will corn go in 2019?

- Yield of 176 bu/acre
- Demand of 15.1 BB
 - If have 89 Million acres planted
 - S/U would be 9.6%
 - Cash **harvest** price could be as high as \$4.00
 - If have 91 Million acres planted
 - S/U would be 11.8%
 - Cash **harvest** price could be as low as \$3.35

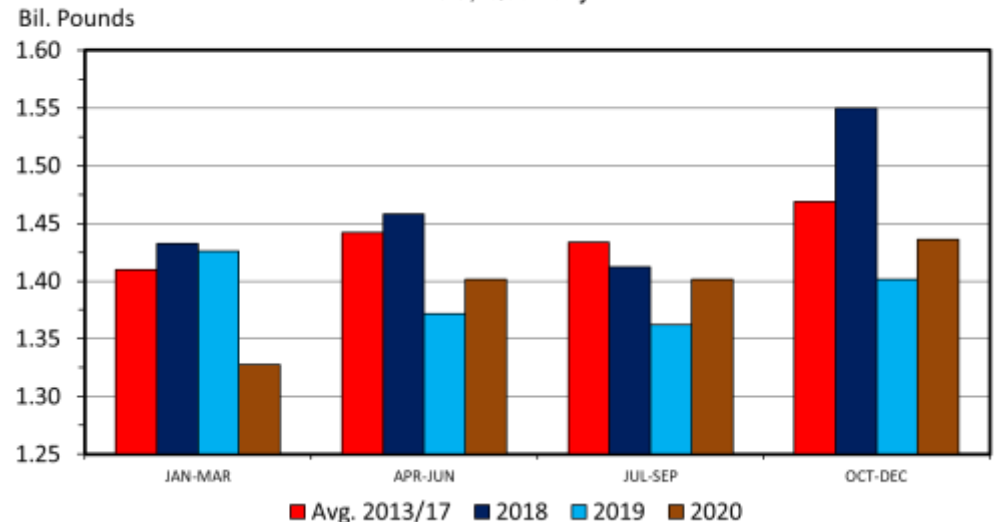
RTC BROILER PRODUCTION US, Quarterly



- Oct 18 broiler production 3.9B lbs (0.4%+)
- Oct first month since Jan 18 with yr/yr decrease
- 2019 projections lowered due to decreased weights
- Exports highest since Oct 2013

- Turkey production down on daily basis by 1% compared with 2017
- 2018 production up 2% over 2017
- 2019 will be up 0.3% over 2018
- Exports were 3% higher yr/yr in Oct

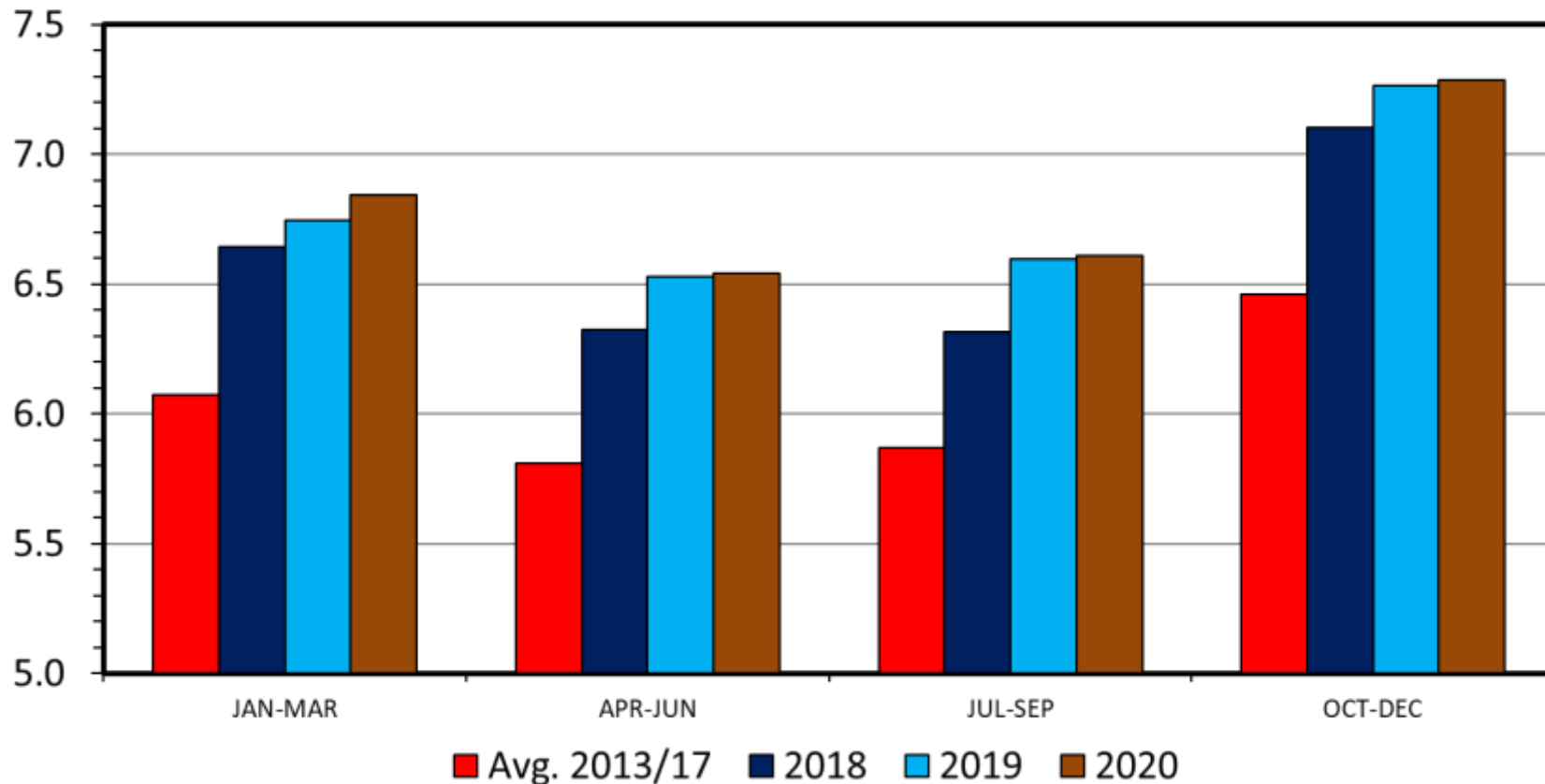
RTC TURKEY PRODUCTION US, Quarterly



COMMERCIAL PORK PRODUCTION

US, Quarterly

Bil. Pounds

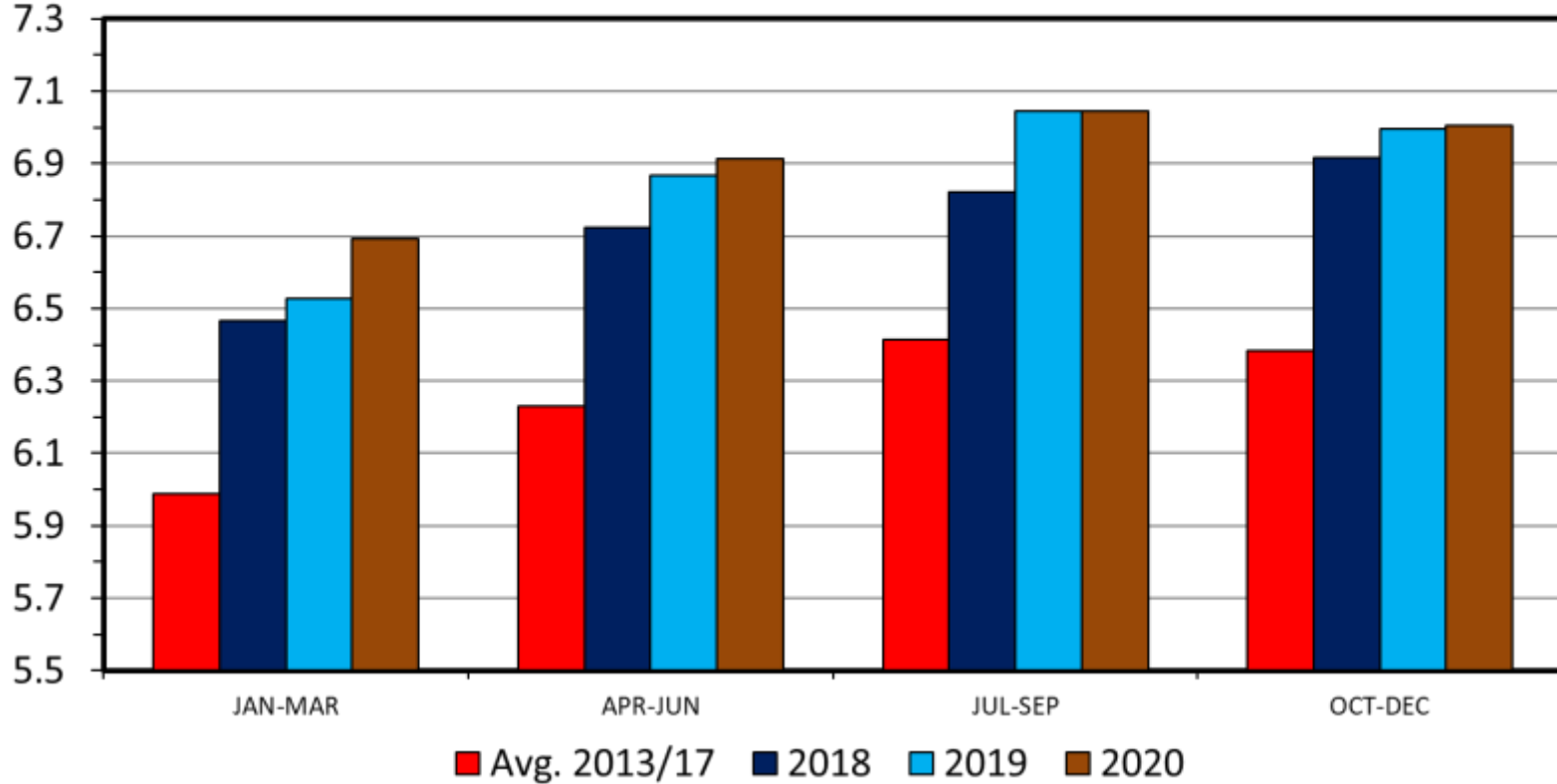


- 4th year of record production – slightly greater than 7 B lbs.
- Adjusting to expanded processing capacity
- Export between 22 – 25% of production
 - Mexico (-3.9% mo/mo) and China/Hong Kong (-44.4% mo/mo) are lower yr/yr
 - Tariffs make US pork imported by China more expensive than other countries
- Mo/Mo 2018 exports up 1.5%

COMMERCIAL BEEF PRODUCTION

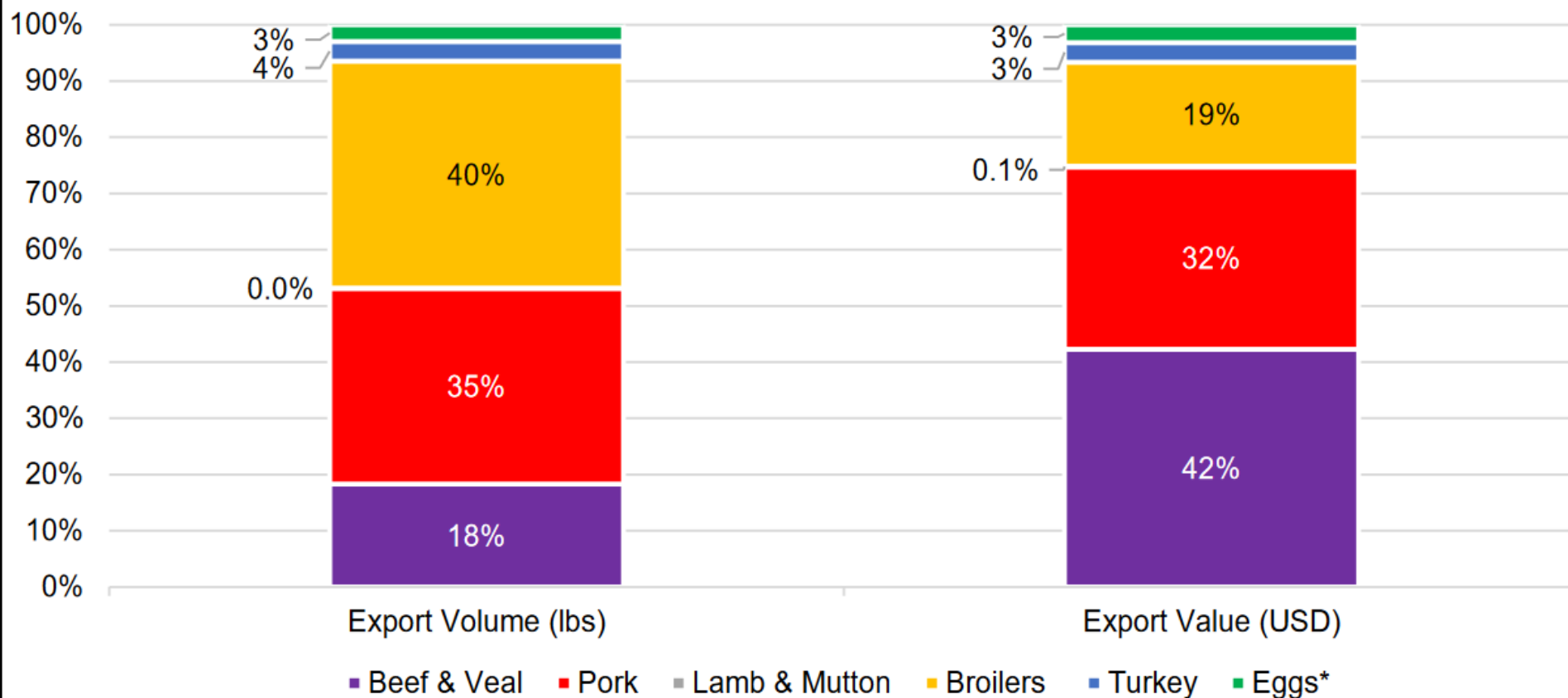
US, Quarterly

Bil. Pounds

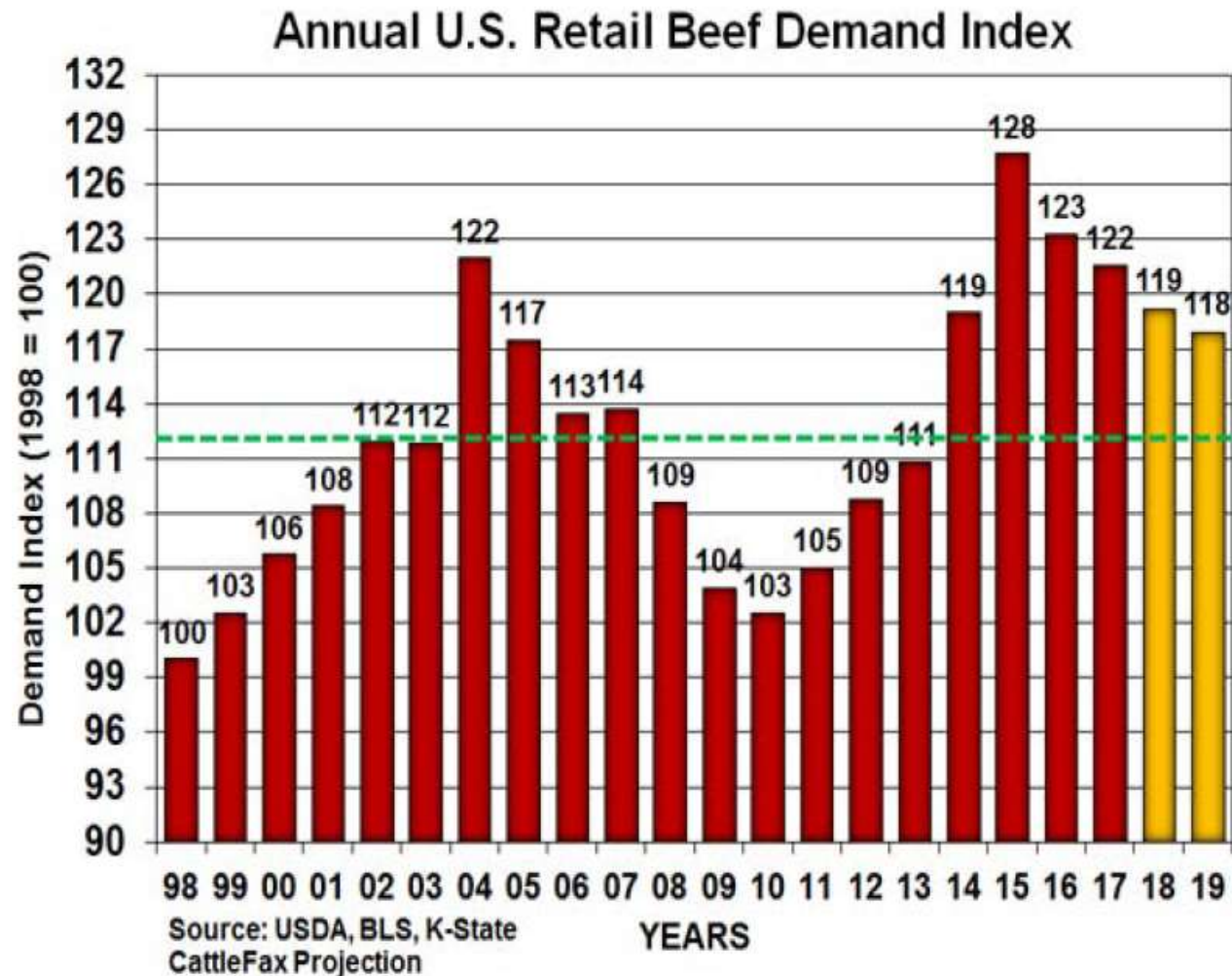


- Production up 13% over 2015 – likely increase another 2% in 2019
- Beef exports up 11% in 2018 – 3rd year with double digit growth
- 2019 likely see a 6% increase in exports

Percentage share of major U.S. livestock and poultry exports by commodity, in terms of volume and value (January-July 2018)



• USDA ERS Livestock, Dairy and Poultry Outlook Sept 2018

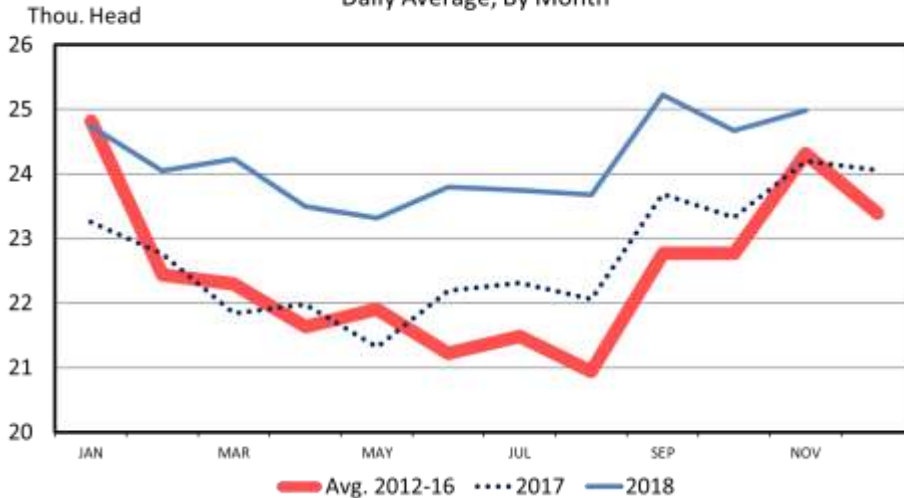


- Consumer expenditures in 2018 increased
- Macro economic conditions play into increase
- Jan-Jun 2018 saw stable demand – weakened 2.5% since July
 - Export demand has off-set weaker domestic demand
 - Likely see lower casual dining restaurant growth in 2019

Herd Stability?

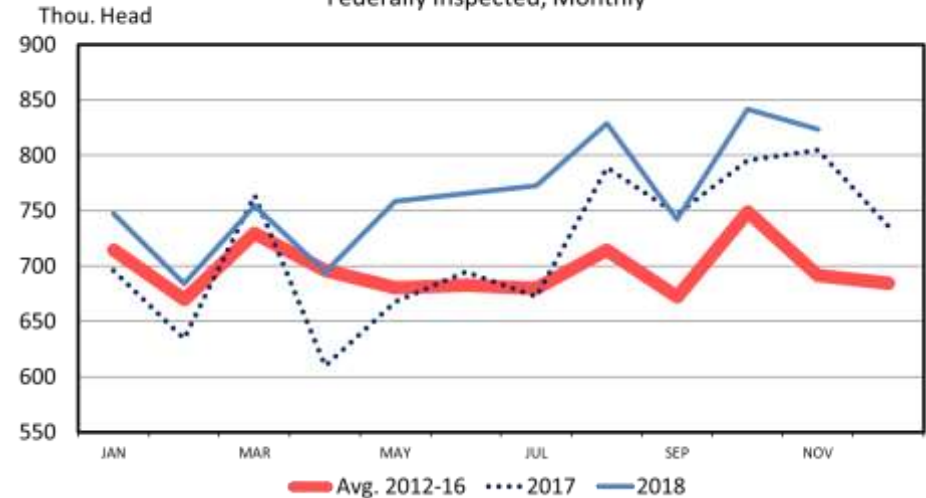
FEDERALLY INSPECTED COW SLAUGHTER

Daily Average, By Month



HEIFER SLAUGHTER

Federally Inspected, Monthly



- Female slaughter up and retention down
 - Heifers were 35.5% of fed cattle slaughter
 - Beef cow cull rate was 9.8%
- Likely see herd inventory peak in 2019
 - Beef cow inventory at 31.9 Mhead in Jan 2019
- 2018 calf crop will be 1% larger than 2017
 - Feedyard placement will grow in 2019 with larger feeder cattle supply
- Beef production will peak in 2021 – 2022
 - 2019 beef production will be up 2% in 2019

Where are we headed?

- Continued expansion in all 3 major proteins
 - Record protein production of 102.5 B lbs
- Stronger global demand is critical to keep per-capita consumption near forecasted levels
- African Swine Fever may create global protein shortage
- Growing supplies will decrease producer leverage
- Profit margins will decline for producers
 - Processors will see larger margins
- Fed cattle will see losses in first half 2019
- Fed cattle producers gain leverage over feeder producers
- Need to focus on measuring and managing input costs

Watch List for 2019

- Trade
 - need for bilateral agreement with Japan
 - How long with trade war with China last?
- Economy
 - Recession?
- Energy Policy
 - RFS waiver allowance
- Lab-created meat
 - Regulations on synthetic meat will be implemented in 2019
- Immigration Reform
- Consolidation
 - Farms to coops
- Regulations
 - WOTUS

Questions or Comments?