

Crop and Livestock Market Outlook

January 2020
Western Wisconsin Ag Lender's Conference

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Extension

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WISCONSIN**

River Falls

GLOBAL. INNOVATIVE. EXCELLENT.

Key Points

Situation

- What happened in 2019?
 - World and US economies
 - Exports and trade policy
 - African Swine Fever
 - Weather

Outlook

- What will happen in 2020?
 - Soybeans
 - Corn
 - Cattle



US and World Economies

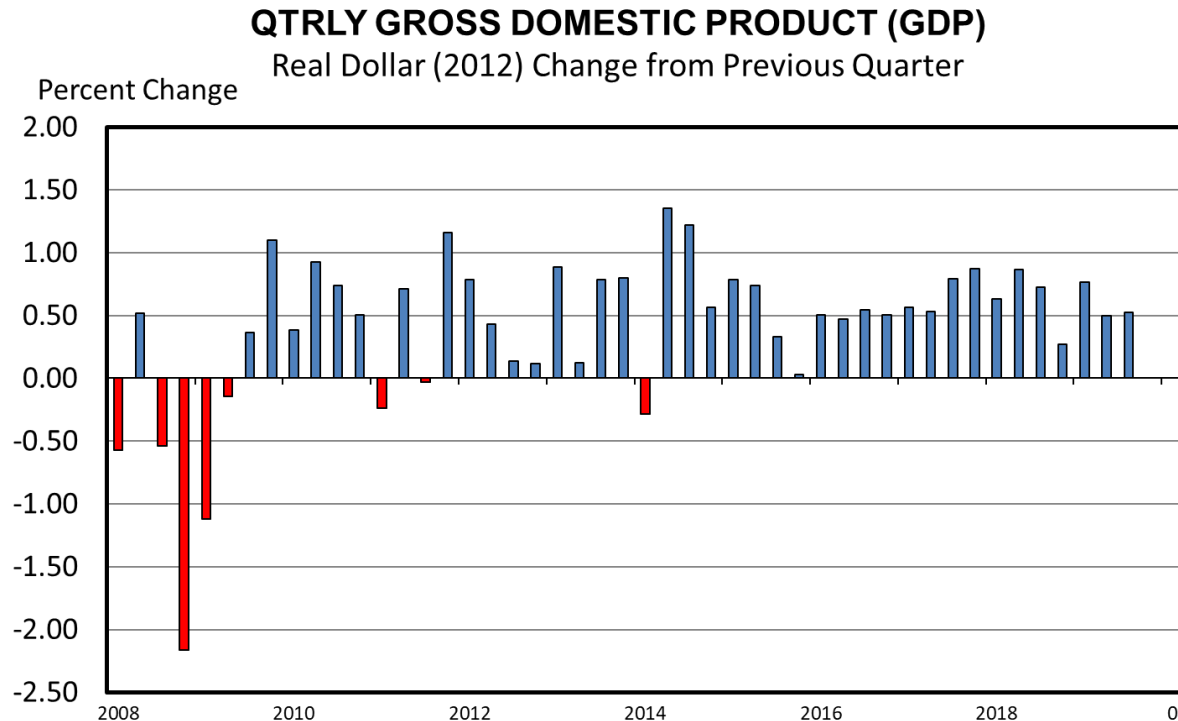


2019

- S&P increased 30%
- PBOC increased bank-lending capacity
- Major banks increasing money supply to stimulate economic growth

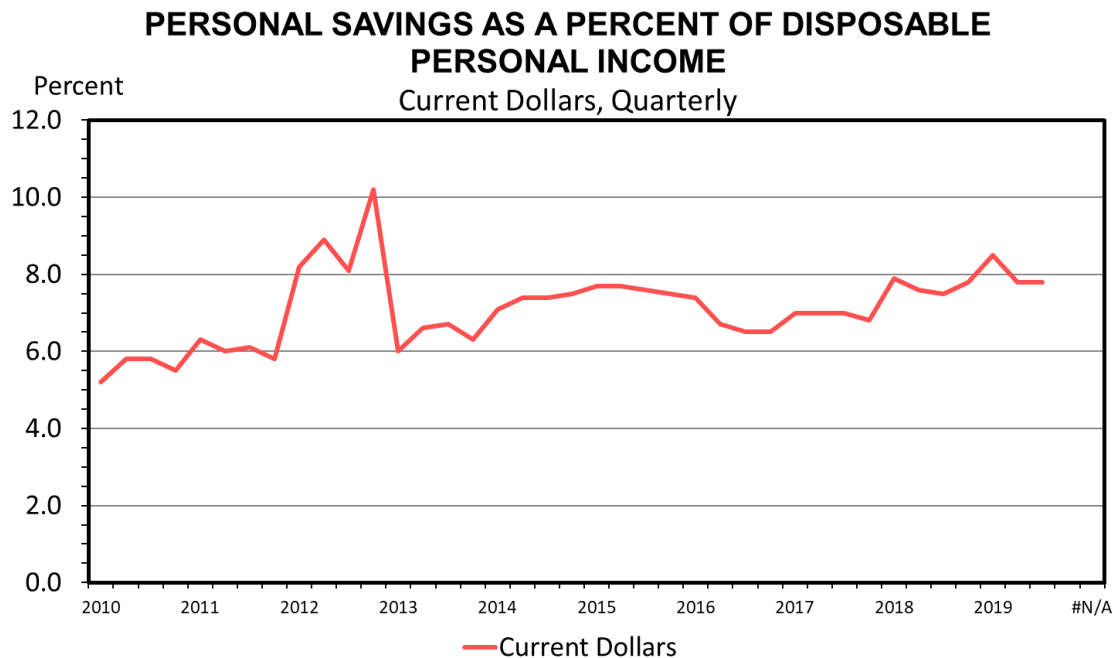
Macro conditions remain positive but times are changing...

- World economic growth is still positive – but World Bank downgraded outlook for global economy
 - 2.7% in 2019 as opposed to 3% in 2018, 3.1% in 2017
- Real US GDP growth at 3.4% in Q3, down from 4.2% in Q2



Personal Disposable Income

- 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



USD Index

DXY:CUR
DOLLAR INDEX SPOT

+ ADD TO WATCHLIST

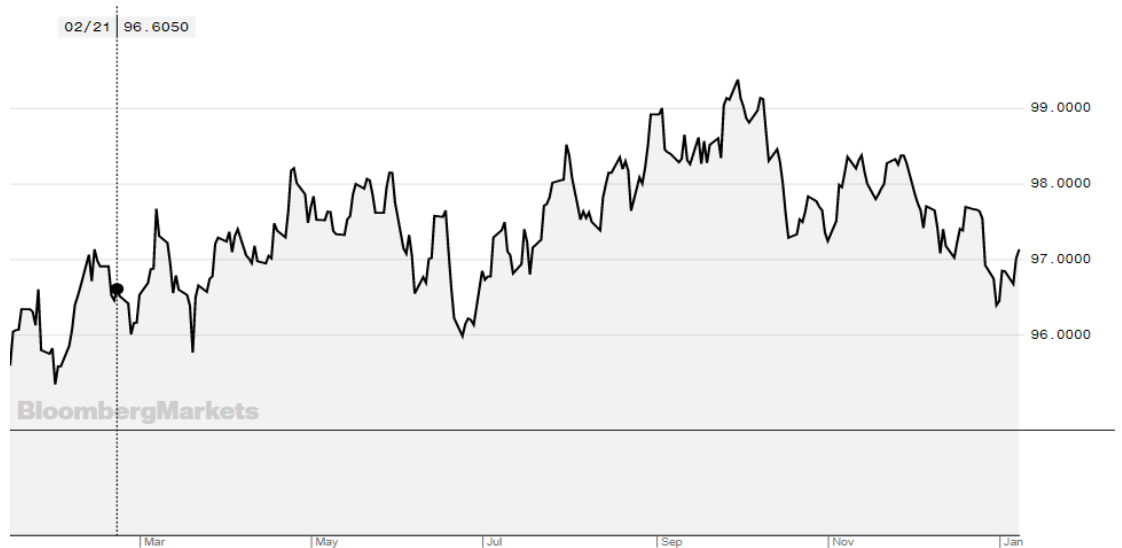
AS OF 06:04 PM EST 01/08/2020 ED

97.2990 USD +0.2940 +0.30% ▲

1D 1M 6M YTD **1Y** 5Y

MINIMIZE CHAR

Q Add a comparison



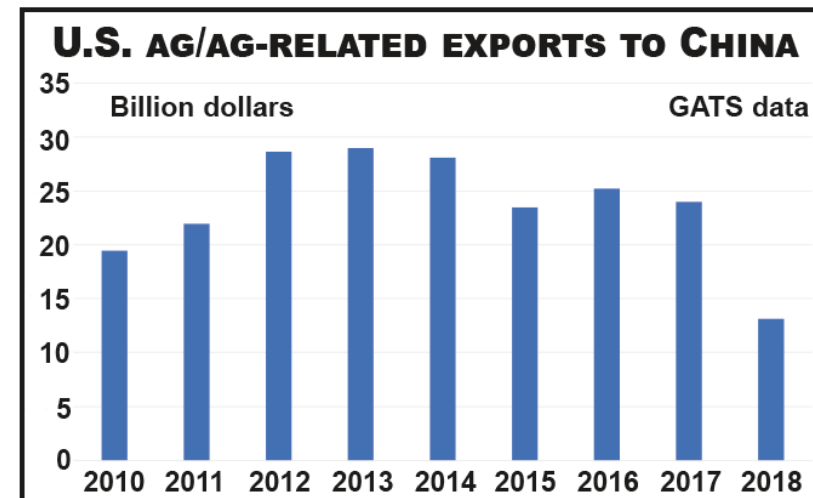
- Value of US dollar increased over last year
- Lower dollar is supportive of exports
- Last week saw index at new low
 - Shrinking interest rate differential
 - Expectations for lower US growth rate than world growth rate

Export and Trade Policies

- USMCA
 - One step closer to Senate ratification
- US/Japan Accord
 - Decrease tariffs on ag products (beef, pork, wheat, cheese, almonds)
 - Lower beef tariff from 38.5% to 9%
- US/Korea
 - Minor tweak to existing deal
- US/China Phase 1
 - To be signed Jan 15?
 - \$40 -\$50 billion in ag goods

Export and Trade Policies

- US/China Phase 1
 - \$24 billion of Chinese purchases is base
 - Record was \$29 billion (2013)
 - JCI estimates
 - \$18.7 Billion (45 MMT) in soybeans (2016 record was 12 MMT)
 - 8 MMT corn (3 MMT)
 - 5 MMT wheat (1 MMT)
 - Questions on ethanol and rice
- Questionable if can achieve \$40B
 - All-time maximum annual purchase would be \$37.1B
 - Eliminate Hong Kong exports



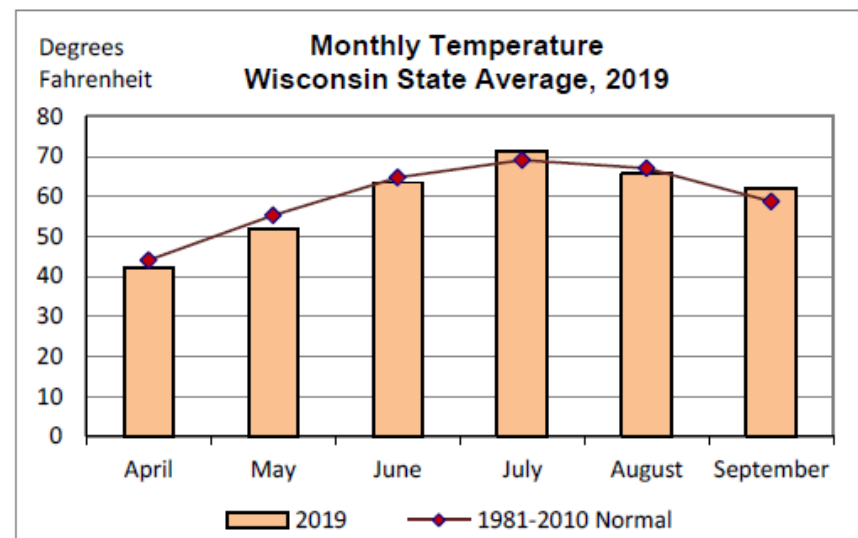
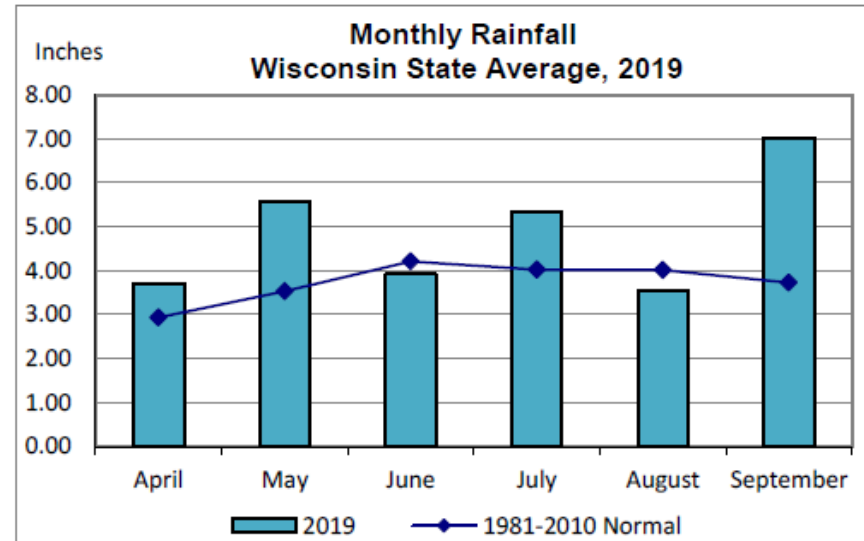
African Swine Fever

- 40% - 55% YoY decline in Chinese herd
- Slower decline in 2020
- Continue to spread
 - Vietnam
 - Philippines
 - EU



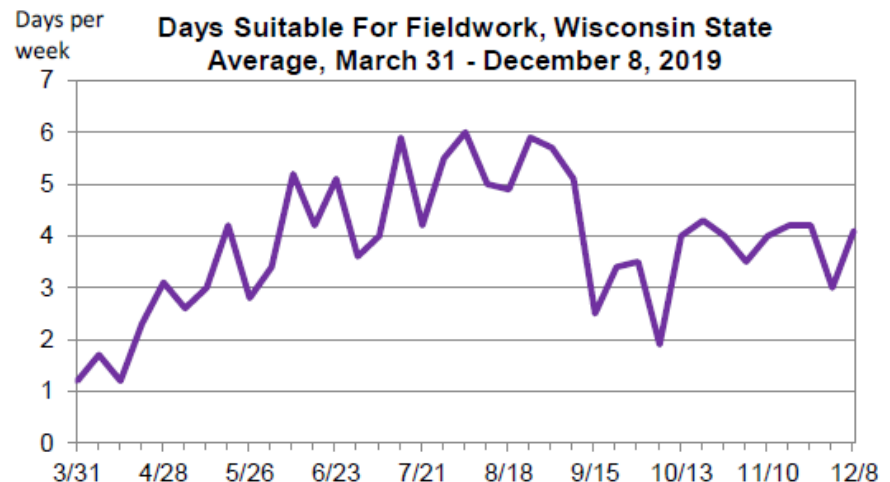
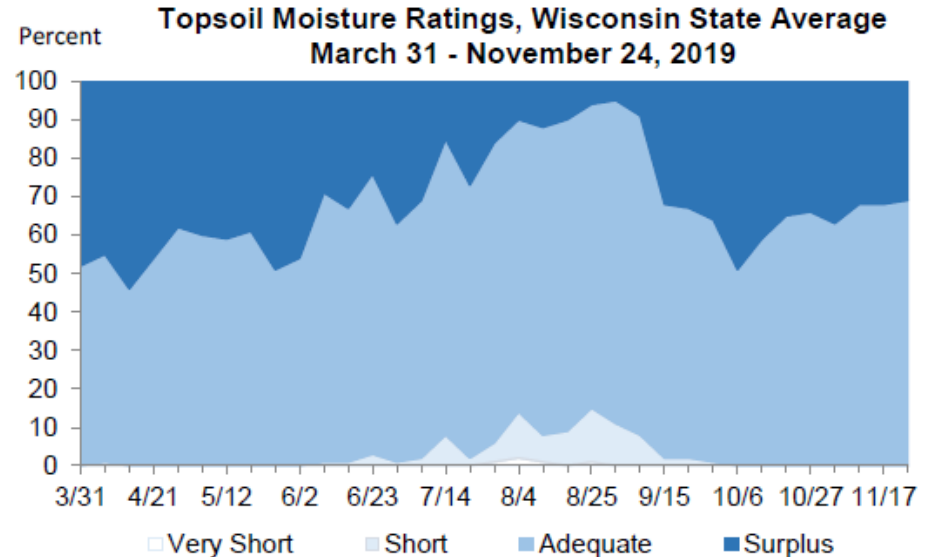
Weather - 2019

- Wet
 - 48% surplus moisture on March 31
- Cold
 - Only July and September saw above avg temp



Weather - 2019

- Soils remained wet through June
- Delayed planting and crop emergence
 - Planting through late June
- Wet again in September



Weather - 2019

- Corn
- 96% planted on June 30 (-3 wks avg)
 - Condition avg 62% (good to excellent)
 - Compared to 79% avg
- 2nd slowest harvest pace in 40 years
- 74% complete on 12/8
 - Moisture at 23%



Weather - 2019



- Soybean
 - 1% planted on 5/5
 - Not complete until mid-July – 1 month behind
 - Average 66% good to excellent (78% in 2018)
 - 82% harvest completion on 11/24

Commodity Specific Outlook

Soybeans



USDA DECEMBER SOYBEAN WASDE

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

	2018/19	2019/20 Dec	% Change vs 19/20	My Forecast	
				2019/20	2020/21
Acres Planted	89.2	76.5	-14.2%		
Acres Harvested	87.6	75.6	-13.7%	75.6	79.2
Yield	50.6	46.9	-7.3%	46.5	49.5
Supply					
Beg. Stocks	438	913	108.4%	913	431
Production	4428	3550	-19.8%	3515	3950
Imports	14	20	42.9%	20	20
Total Supply	4880	4483	-8.1%	4448	4401
Demand					
Crush	2092	2105	0.6%	2105	2050
Exports	1748	1775	1.5%	1784	1800
F/S/R	128	128	0.0%	128	129
Total Demand	3967	4008	1.0%	4017	3979
Ending Stocks	913	475	-48.0%	431	422
Stocks to Use Ratio	23.01	11.85		10.73	10.61
Avg. Farm Price	8.28	8.85		8.8-10.15	9.00-10.50
Soybean Oil Price	28.26	31			
Soybean Meal Price	308.28	310			

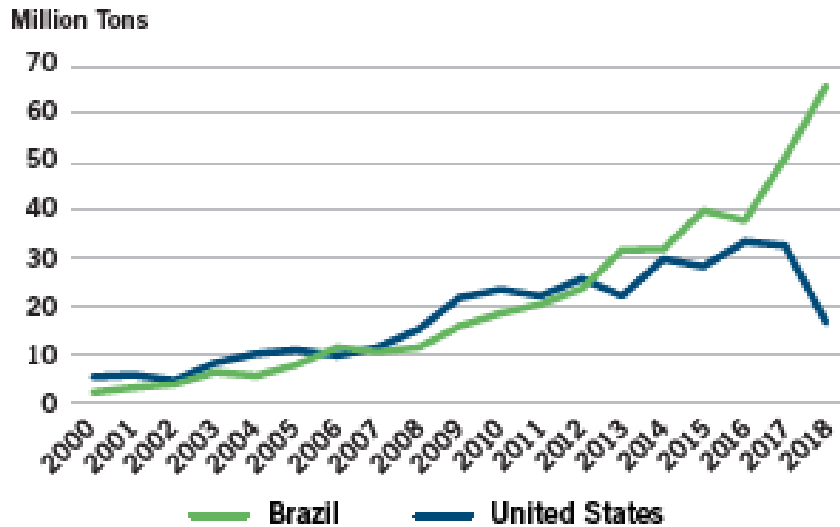
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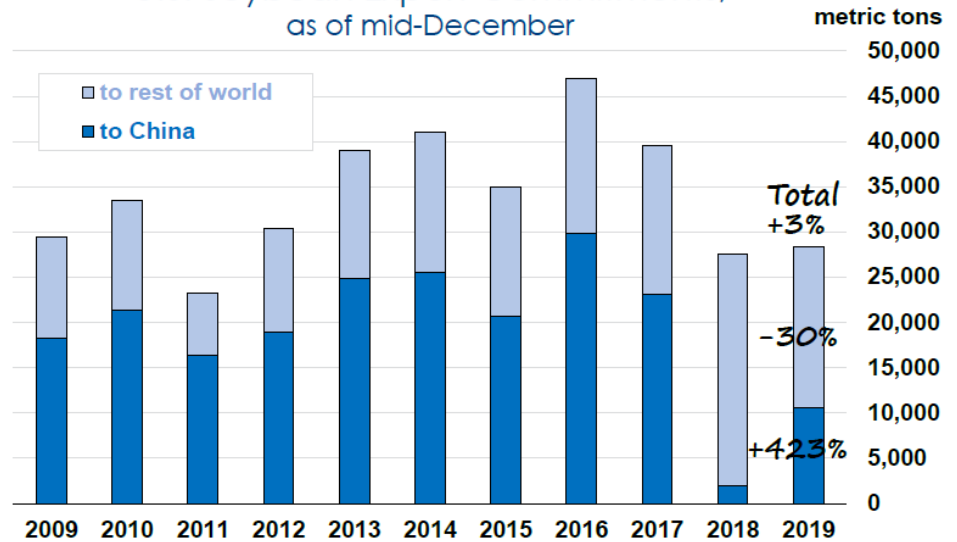
Soybean Exports

Soybean Exports to China



Source: ProFarmer

U.S. Soybean Export Commitments, as of mid-December



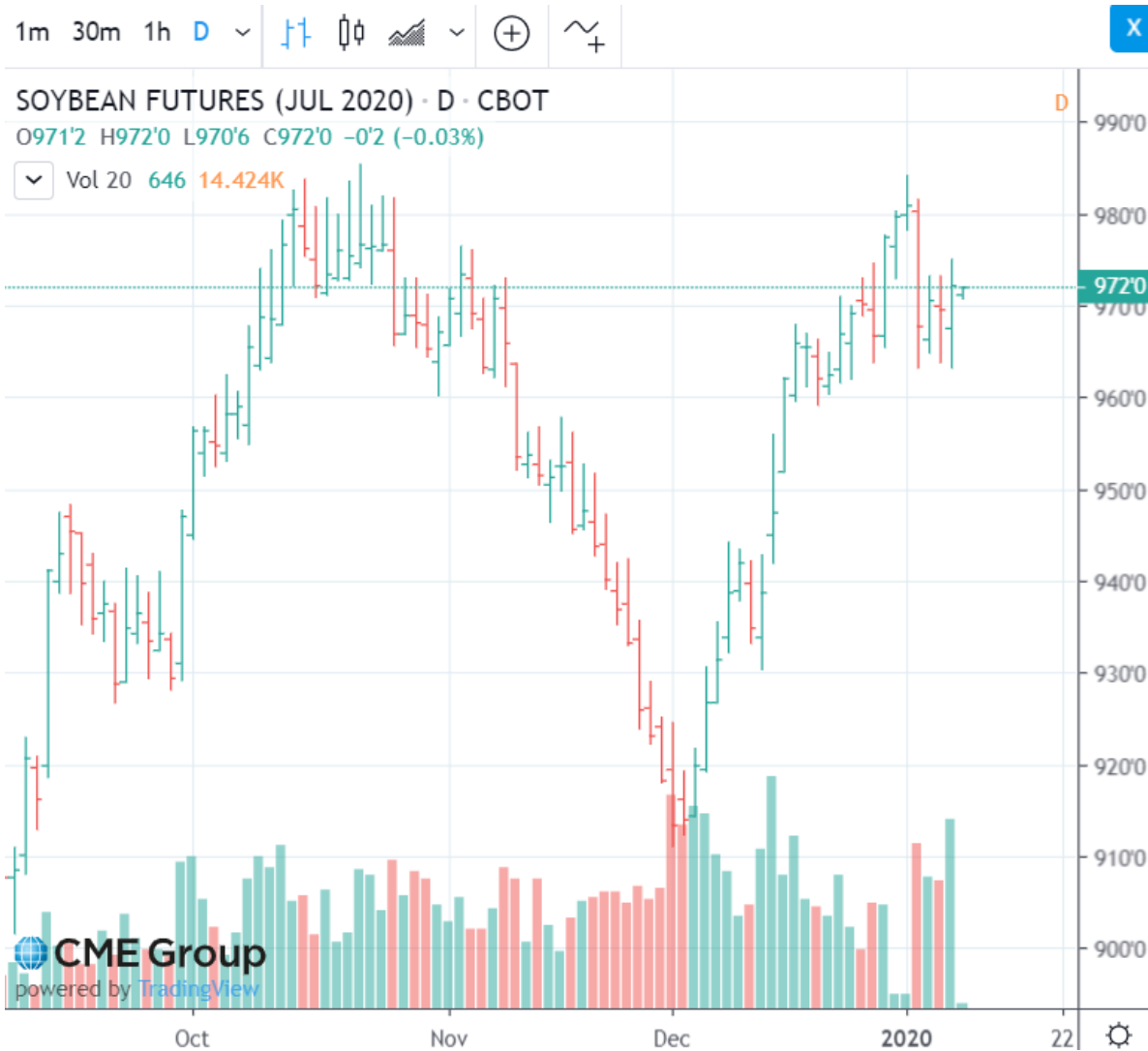
Source: Brock Report

- 62% of Soybeans went to China in MY17, 49% in MY18, 28% in MY 19
- November usually sees US dominate soybean exports to China
 - 0 exports in November 2018 – 4.7 MMT in November 2017 – 3.2 MMT in Nov 2019

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- Highest price in October

Bullish Factors

- Chinese Trade Deal
- Seasonally behavior until late Spring
- Election year is typically bullish for Soybeans



Bearish Factors

- Brazilian Record Production
- Basis levels are firm and nearby is relatively higher than deferred contracts

Where will soybeans go in MY21?

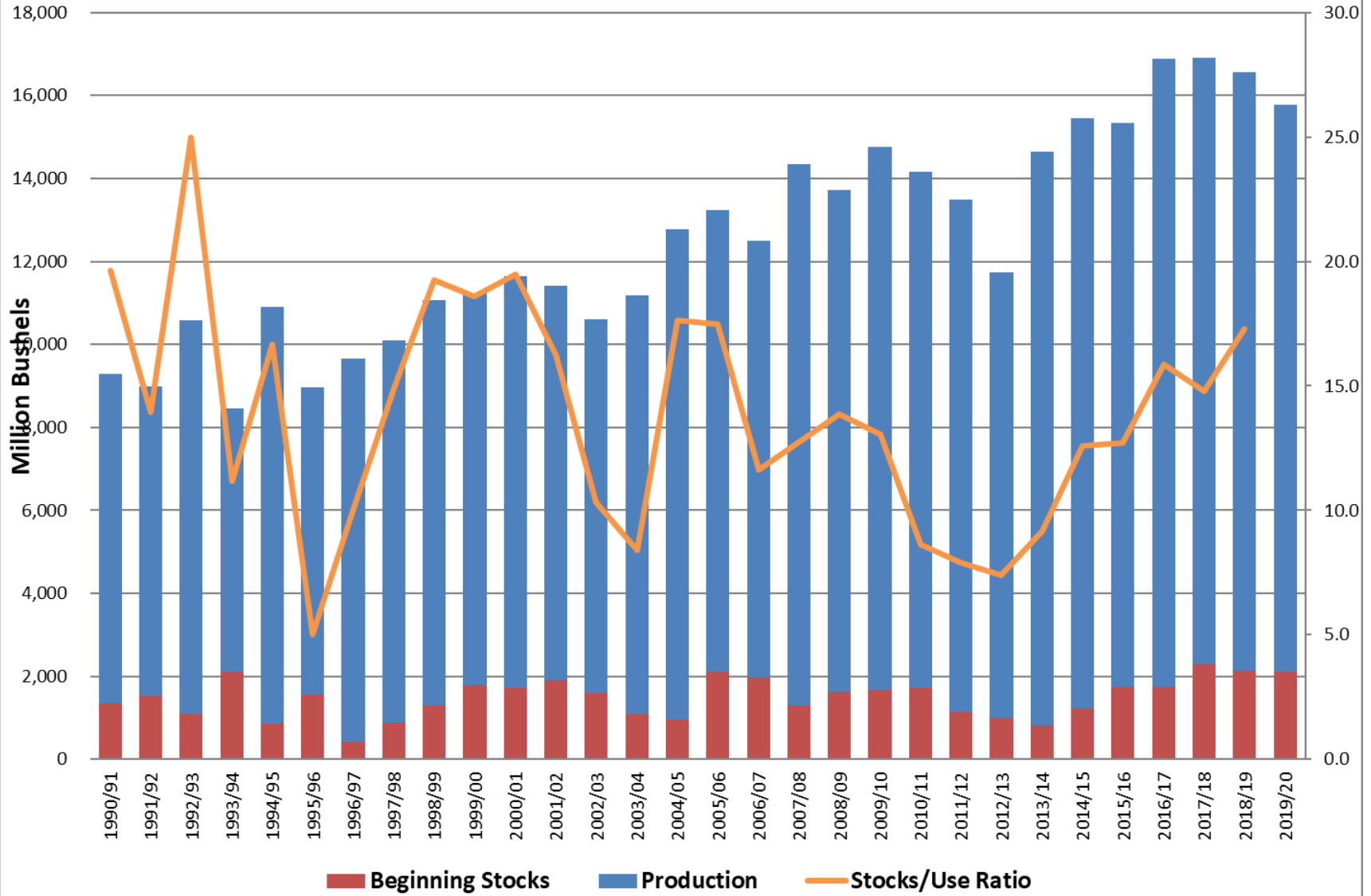
- Increase in acres harvested
 - Return to average yield
 - Increase in exports
 - Decrease in crush
 - Soybean/Corn Price ratio = 2.4
-
- Average Price in MY20 >>> \$9.58
 - Average Price in MY21 >>> \$9.00



Commodity Specific Outlook Corn



U.S. Corn Supply



Record supply in MY18 = 16.95 BB
 MY20 = 15.8 BB

Corn December WASDE

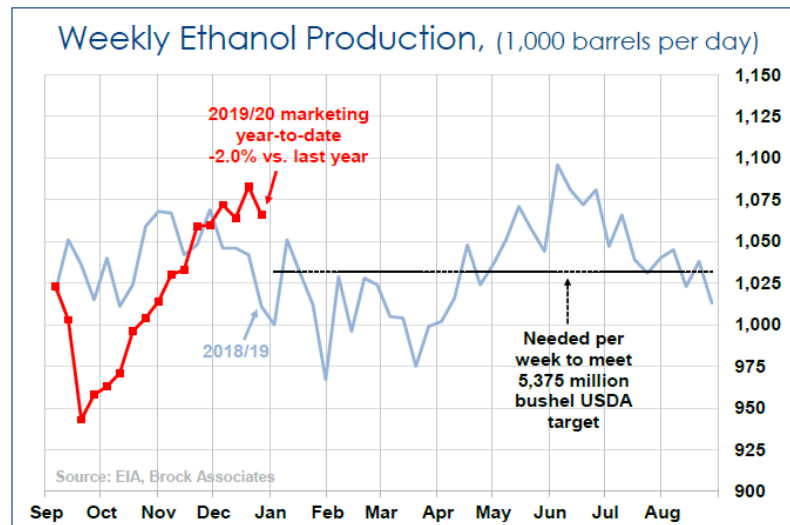
		2018/19	2019/20	% chng vs 18/19	My Forecast	
			Dec		2019/20	2020/21
Acres Planted	Mil. A	89.1	89.9	0.9%	89.9	94
Acres	Mil. A	81.7	81.8	0.1%	81	85.7
Yield	Bu/A	176.4	167	-5.3%	168.4	176
Stocks	Mil. Bu.	2140	2114	-1.2%	2114	1838
Production	Mil. Bu.	14420	13661	-5.3%	13640	15083
Imports	Mil. Bu.	25	50		50	25
Total Supply	Mil. Bu.	16585	15825	-4.6%	15804	16946
Residual	Mil. Bu.	5275	5275	0.0%	5300	5400
Fuel	Mil. Bu.	5375	5375	0.0%	5350	5400
Exports	Mil. Bu.	2060	1850	-10.2%	1850	2250
Total Useage	Mil. Bu.	14140	13915	-1.6%	13925	14500
Carryover	Mil. Bu.	2445	1910	-21.9%	1879	2446
Avg. Farm Price		3.6	3.85		3.9	3.6
Stocks/Use		17.29	13.73		13.5	16.9

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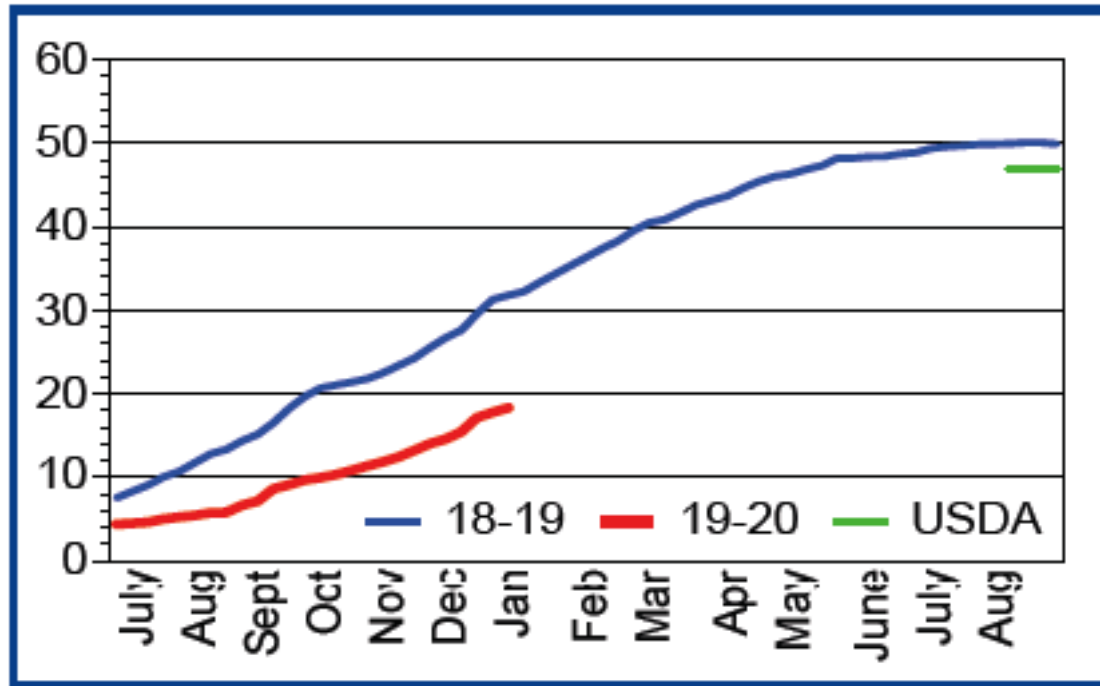
Ethanol Production

- December corn used for ethanol is lower – while YoY ethanol production is higher
- Ethanol stockpiles have decreased
- EPA confirmed sticking with RFS announced in the fall
 - Issues is with waivers
 - States will determine waivers based on DOE recommendations – EPA tends to exceed DOE



Total Corn Export Commitments

CORN EXPORT BOOKINGS (MMT)



- US exports are low
- Total commitments down 42%

CORN FUTURES (JUL 2020) · D · CBOT O397'0 H397'6 L396'6 C397'6 O'0 (0.00%)

Vol 20 457 16.495K



 **CME Group**
powered by [TradingView](#)

Bullish Factors

- Seasonality
- Improved trade with China
 - Spur corn, ethanol and DDG trade
- Likely see smaller harvested acres vs Dec

Bearish Factors

- Rains in SA will limit rallies
- Exports are low with little signs of increase



Where will corn go in 2020/2021?

- Likely trade up until mid-May
- Limited upside potential for price
 - To make a move up need bullish news, but most of bearish news already incorporated
- In spring dependent on acreage and mother nature
- Likely see an increase in acreage
 - Trend yield of 176 bu/acre
 - Increase current demand to 14.5 bb
 - Have a stocks to use ratio of 16.9% (compared to current 13.7%)
- Average MY20 price >>> \$3.90
- Average MY21 price >>>\$3.60

Commodity Specific Outlook Cattle



Restaurant Performance Index

Values Greater than 100 = Expansion; Values Less than 100 = Contraction



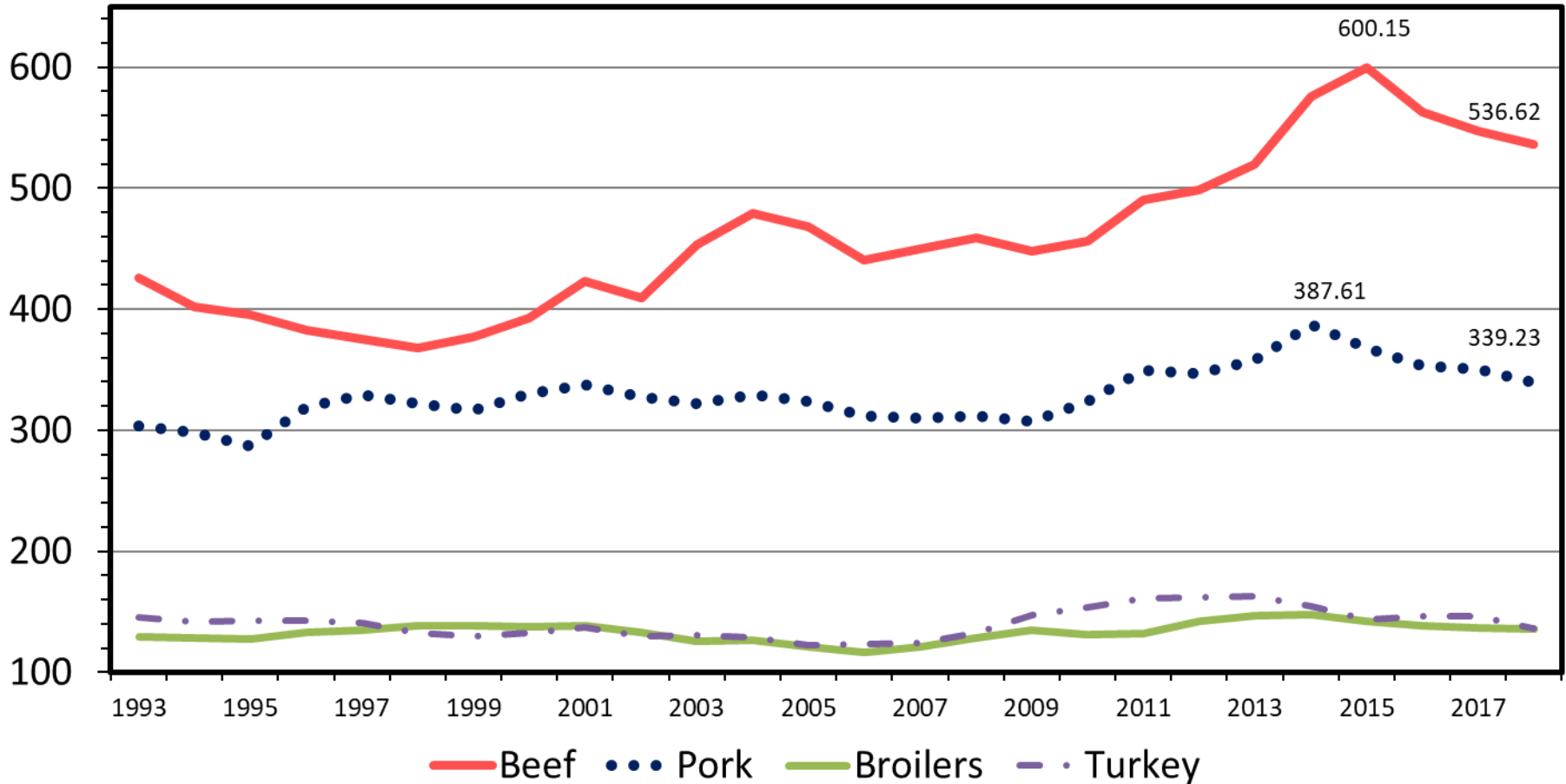
Source: National Restaurant Association

- RPI at 101.1 in October – up 0.7 from September
- Higher same store sales - Restaurant menu prices have increased 2.6%
- Worsening expectations – 26% expect worse conditions within 6 months (although expectations have increased)

RETAIL MEAT AND POULTRY PRICE

Real (2012 \$, GDP Deflator), Annual

Cents Per Pound



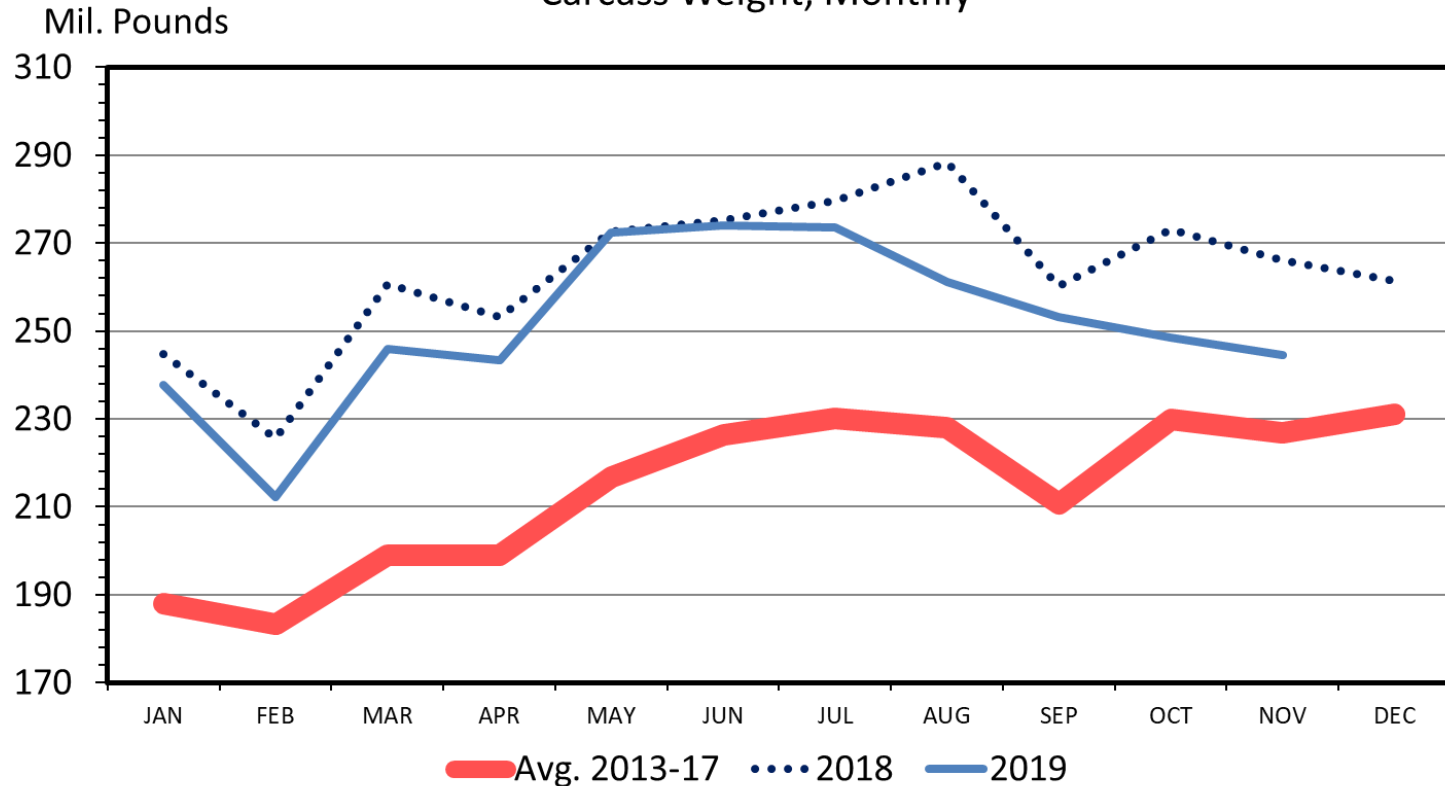
- From highs

- Pork down 9.7% from September 2014
- Broilers down 7.9% from October 2013
- Beef down 8.9% from July 2015

Beef Exports Lower

US BEEF AND VEAL EXPORTS

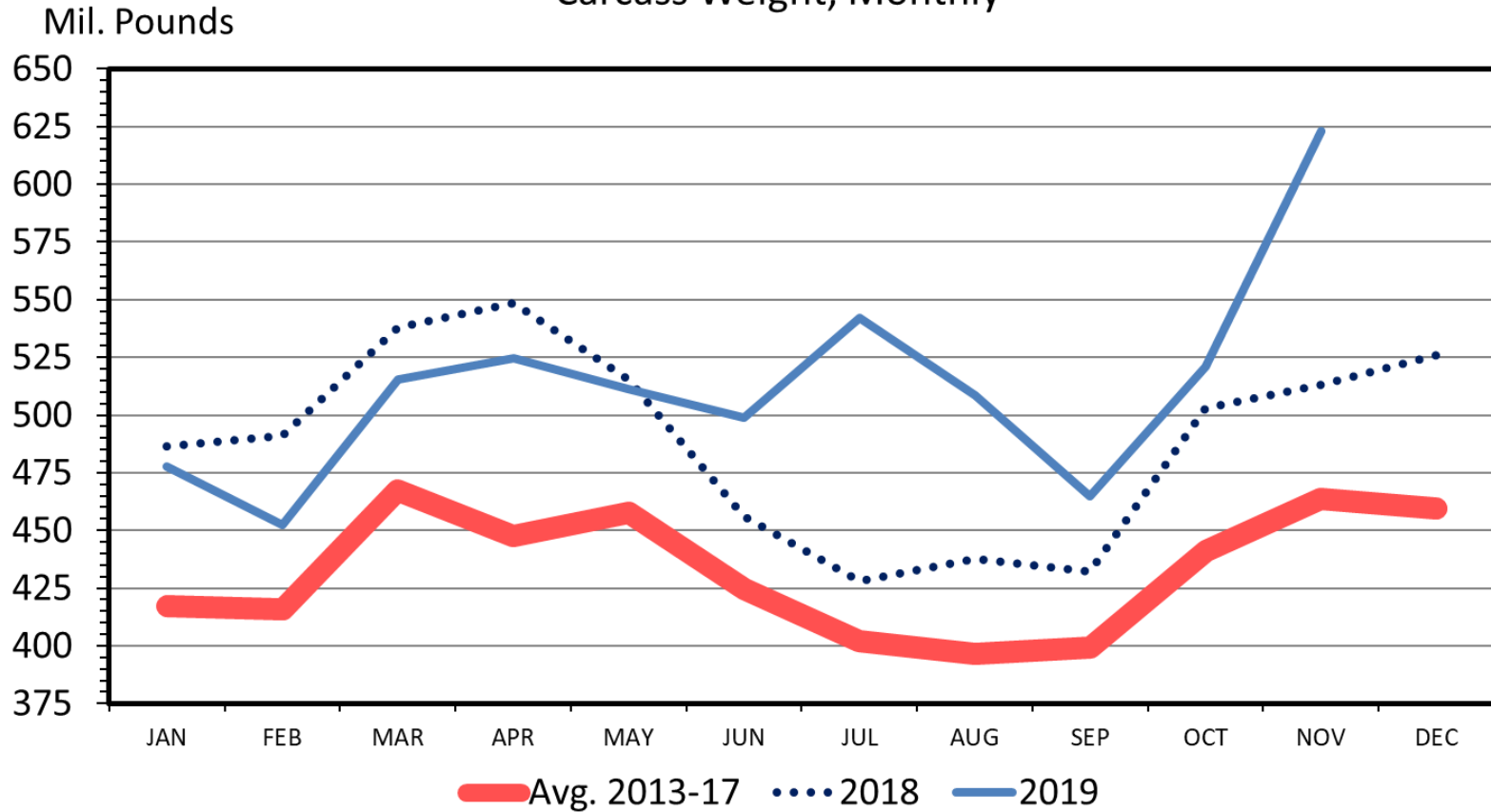
Carcass Weight, Monthly



- 2019 is down 4.2% compared to 2018
- US-Japan trade deal will reduce tariff to 9%
- Japan – 28% of US beef exports

Pork Exports higher

US PORK EXPORTS Carcass Weight, Monthly



- Exports are up 3.8% over 2018

Bullish

- Holiday beef movement was better than expected
- Consumers are still increasing expenditures on beef and pork
- Pork trade is increasing

Bearish

- Record beef and pork production



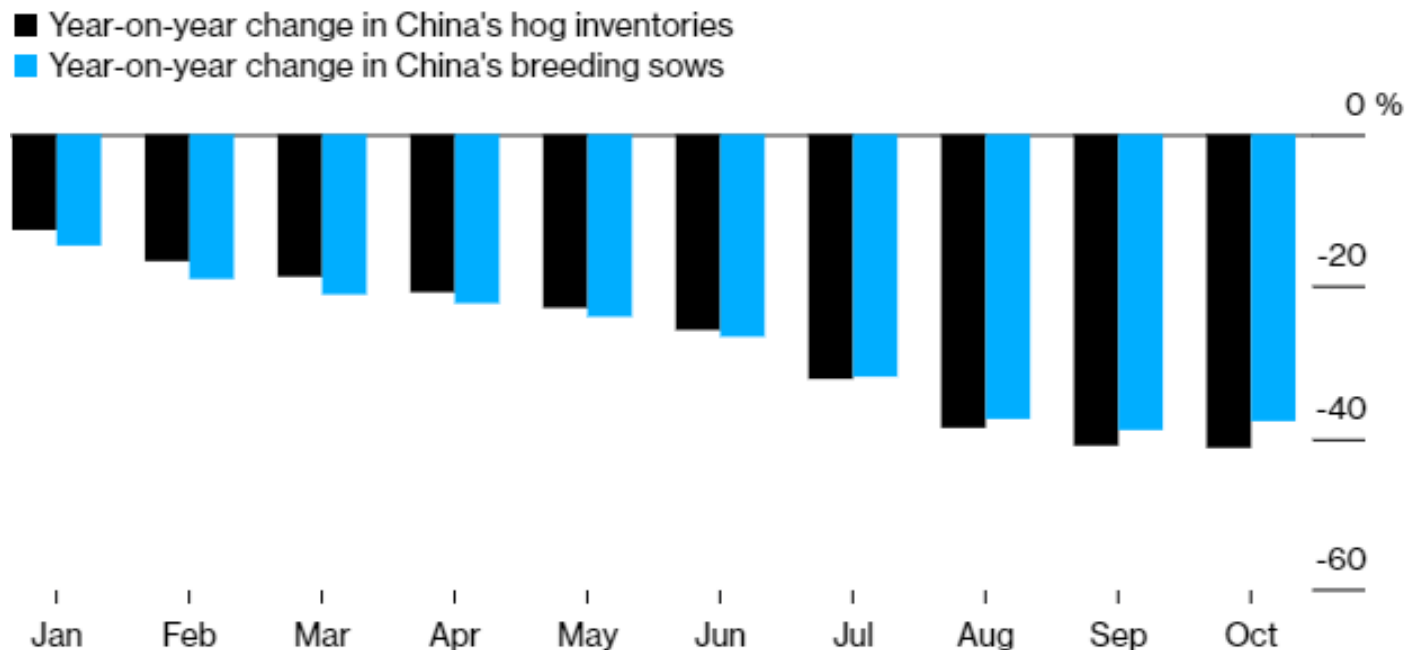


protein supply



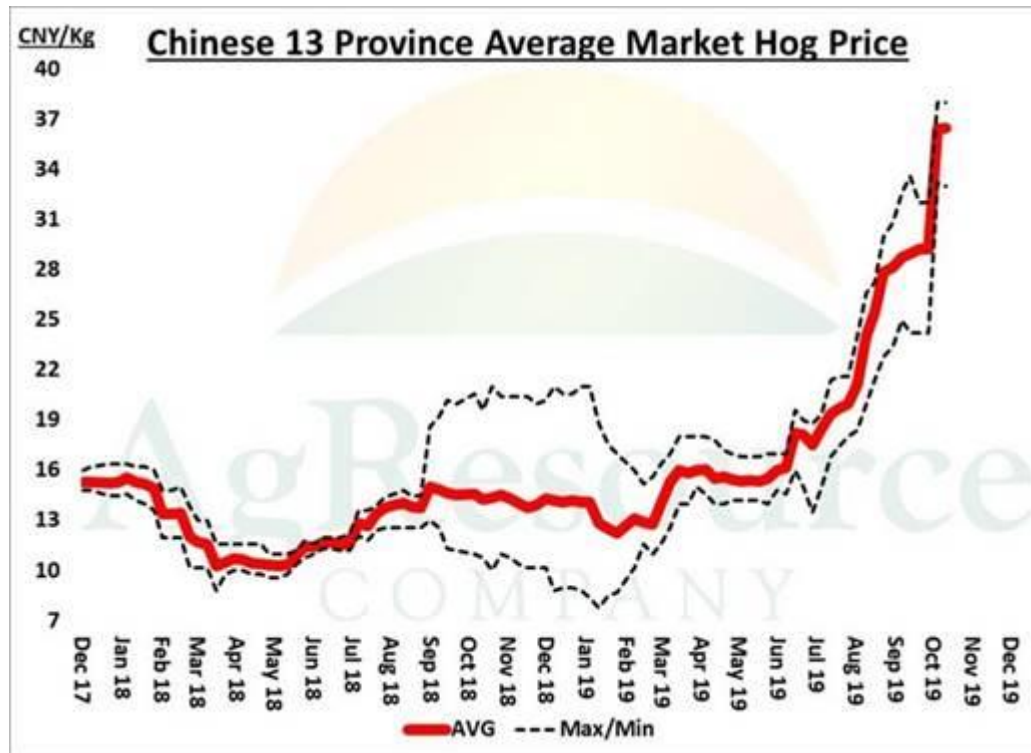
African Swine Fever

- Chinese hog inventories down 40%
- Chinese inventory 441 M head in 2018
 - EU inventory 150 M head - US 73 M head in 2018



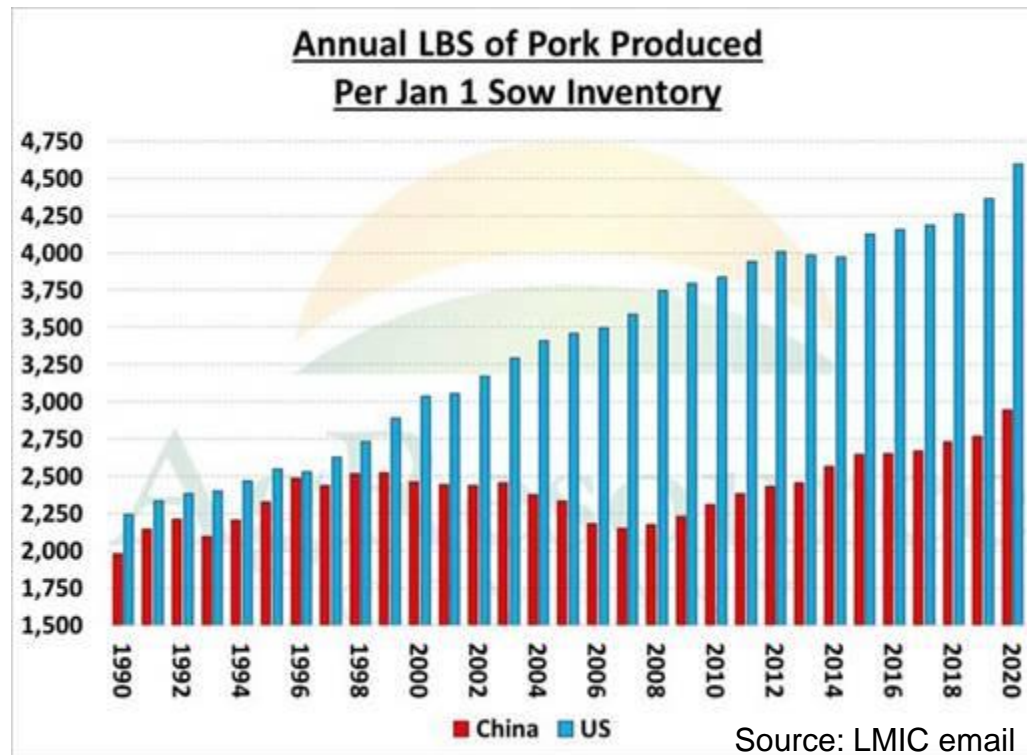
Source: Ministry of Agriculture and Rural Affairs

Chinese pork price



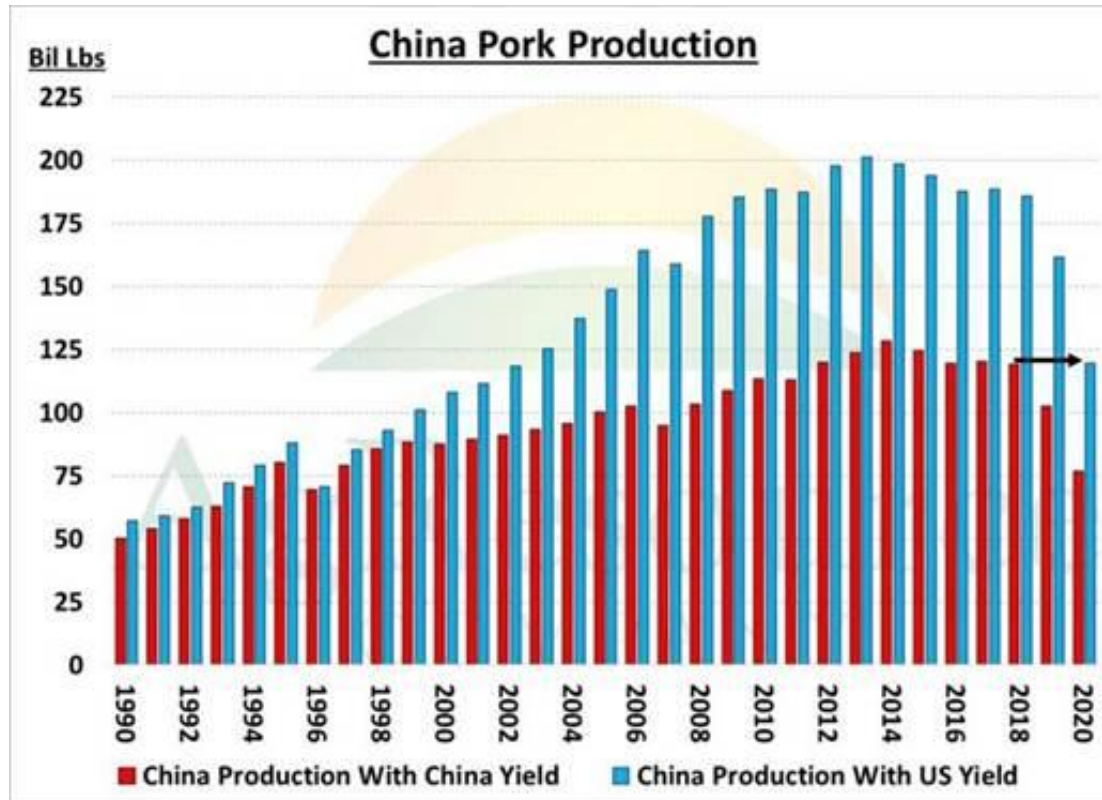
- Chinese pork price is at an all time high – up 155% over 2018

CHINESE pork production



- Chinese production is very inefficient compared to US
- Top 20 Chinese hog firms leading a transformation
 - Currently account for 10% of production
 - Likely why it will take 3-5 years for complete recovery

CHINESE pork production



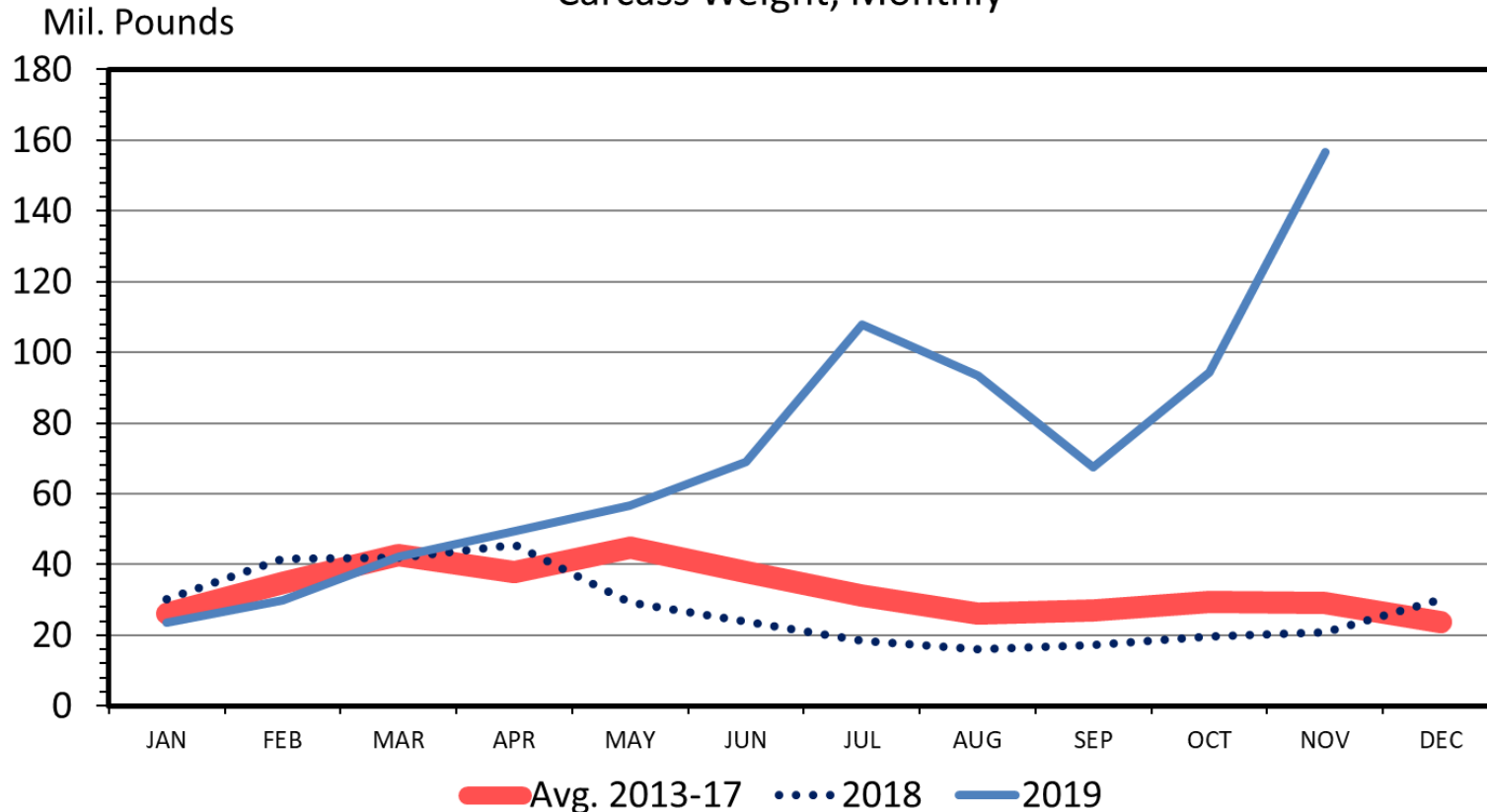
Source: LMIC email

- Chinese government steering industry toward more commercial production
- Huge subsidies to expand pork production

Pork Exports higher

US PORK EXPORTS TO CHINA (MAINLAND)

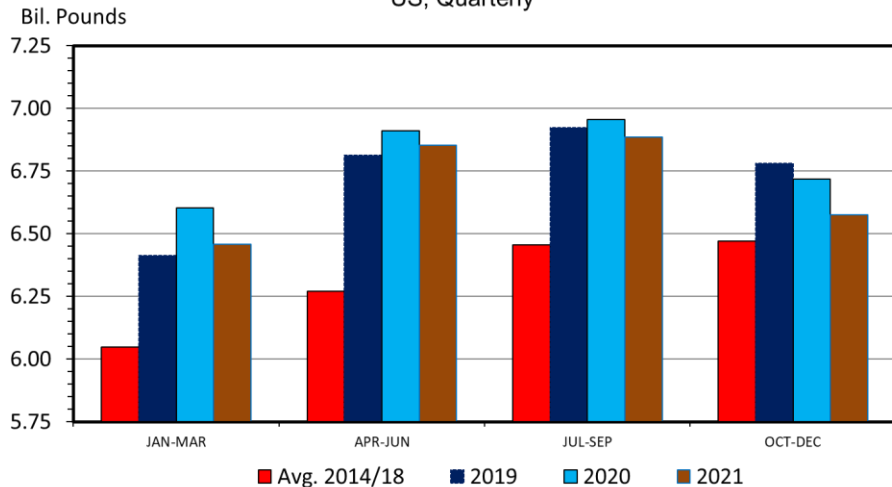
Carcass Weight, Monthly



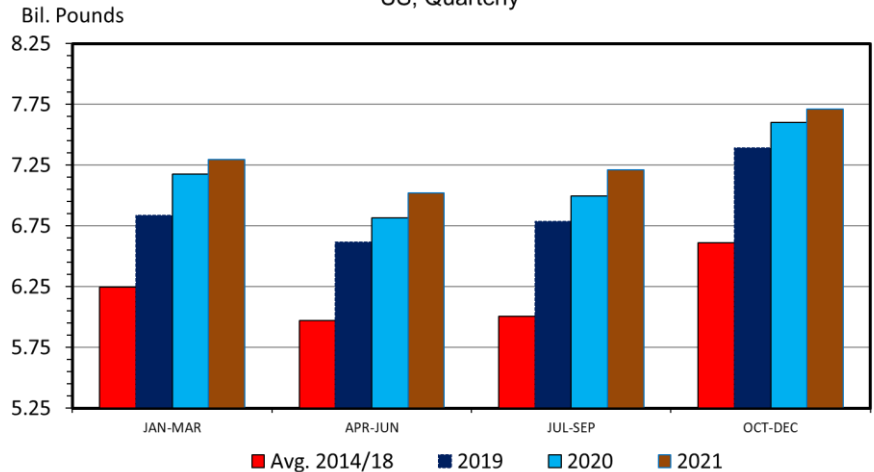
- China has pork shortage due to ASF
- US exports to China are up 125% over 2018

Beef and pork production

COMMERCIAL BEEF PRODUCTION
US, Quarterly



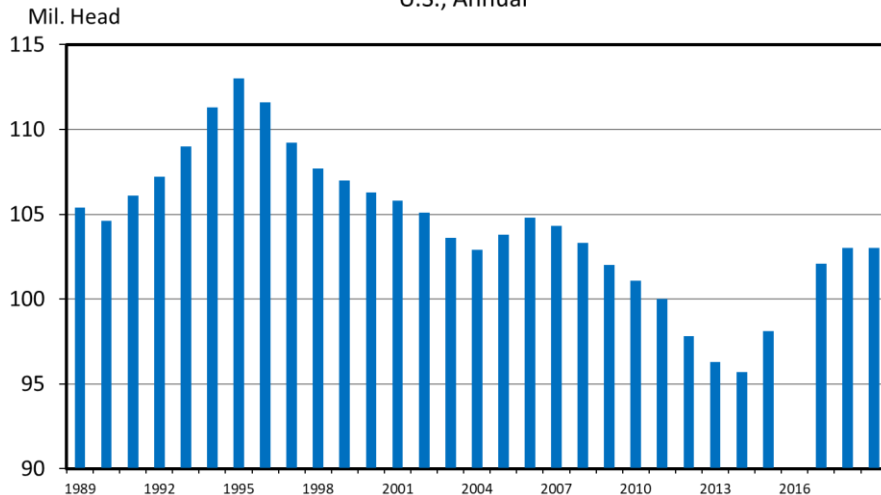
COMMERCIAL PORK PRODUCTION
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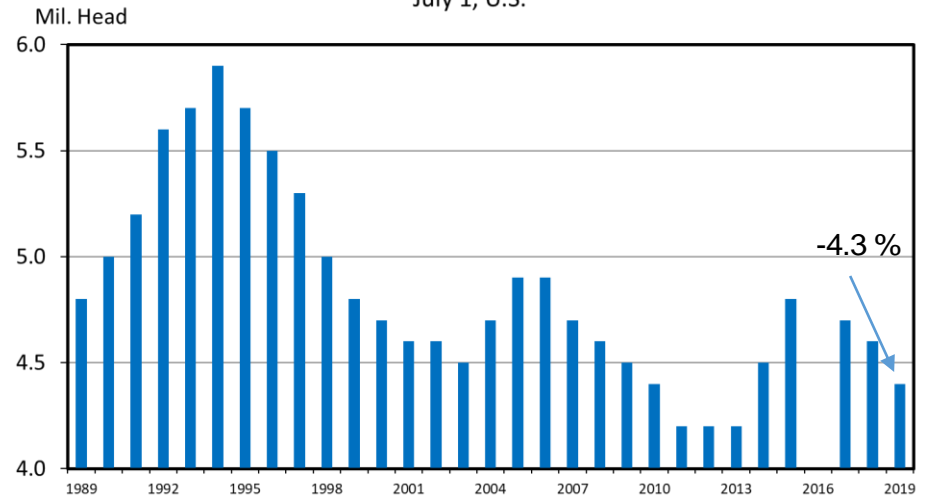
- 2019 beef production up approximately 1% over 2018 – but up 15% over 2015
- 2020 beef production will be up another 1%
- Pork production will be up approximately 5% over 2018 – up another 3% in 2020

Beef Cattle Herd Stability?

JULY 1 TOTAL CATTLE INVENTORY
U.S., Annual

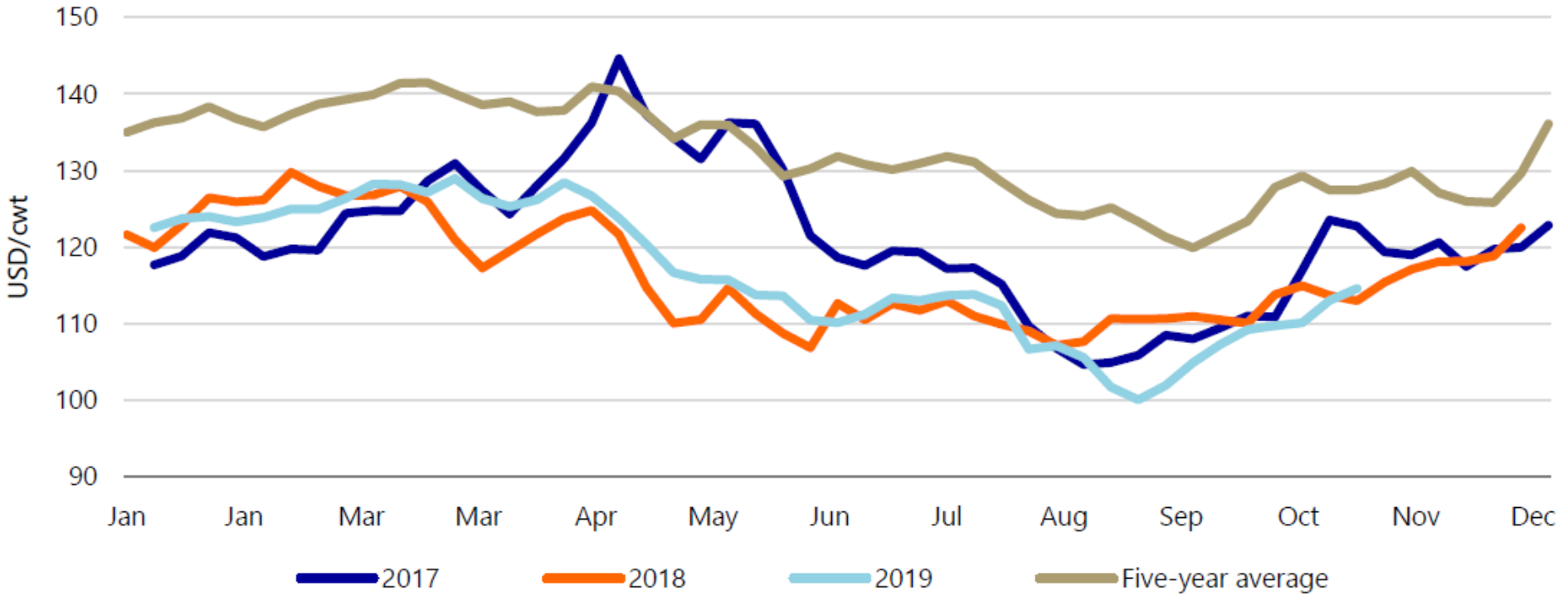


HEIFERS HELD AS BEEF COW REPLACEMENTS
July 1, U.S.



- US cattle herd at 103 M head, same as 2018
 - Beef cows same at 32.4 M head, dairy cows down 1%
- Calf crop fractionally lower at 36.3 M head
- Fewer beef heifers entered herd from Jan – October 2019
- Heifers on feed increased by 8% YoY in July
 - Represent 39% of COF

US Five Market Area Steer Price



WHERE ARE WE HEADED?

- Large production in all 3 major proteins
 - Record protein production of 104.3 B lbs
- Mixed impact on trade
 - Beef will benefit from US/Japan deal
 - Chinese ASF will likely impact for another year
 - Beef and pork will likely see increases in exports in 2020
- Growing front end beef supplies will decrease producer leverage
- Need to focus on measuring and managing input costs

Where are we headed?

- Cattle price outlook should be viewed as having potential to be much different than expectations shown here.
- Carcass weights are likely higher in 2020
- Commercial slaughter will be
 - Down 0.4% in 2020
 - Down 2.1% in 2021
- Beef production will be
 - up 0.9% in 2020
 - down 1.5% in 2021



Where will cattle prices go?



AFTER MY EIGHTY-FIVE DOLLAR LIVE CATTLE PROJECTION FAILED,
IT'S KINDA NICE TO EAT SOMETHING BESIDES CROW!

Where will Fed cattle prices go?



- Year over year decreases
 - 1st quarter -1.0%
 - 2nd quarter +2.3%
 - 3rd quarter +4.5%
 - 4th quarter +3.2%

Where will Feeder prices go?

- YoY changes in prices

	700-800#	500-600#
1 st quarter	+1.8%	-3.2%
2 nd quarter	+3.3%	+1.4%
3 rd quarter	+2.8%	+9.7%
4 th quarter	+1.9%	+8.1%

FACTORS TO WATCH

- Trade
 - USMCA – final ratification
 - Will China sign on January 15?
 - Will China buy \$40 B in ag products
- Economy
 - Recession?
- Election
- Geopolitical Environment

Questions or Comments?