Crop and Livestock Market Outlook

January 2020
Western Wisconsin Ag Lender’s Conference

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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

![PERSONAL SAVINGS AS A PERCENT OF DISPOSABLE PERSONAL INCOME](chart)

Current Dollars, Quarterly
USD Index

- 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

Source: NASS, Crop Progress Report
Weather - 2019

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

Source: NASS, Crop Progress Report
Weather - 2019

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

Source: NASS, Crop Progress Report
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

Source: NASS, Crop Progress Report
Commodity Specific Outlook

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

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Soybean Exports

• 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
Record supply in MY18 = 16.95 BB
MY20 = 15.8 BB
## Corn December WASDE

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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

- US exports are low
- Total commitments down 42%
Bearish Factors

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

Bullish Factors

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

• 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
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

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

Source: LMIC email
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
• 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?

- 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

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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?