Livestock and Grains
Situation and Outlook

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Wisconsin Ag Outlook Forum

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Key Market Factors

• 2018 crop supplies
• Large meat supplies
• World and US economics
  – Exchange rates
  – Monetary Policy
  – Meat demand
• Exports and trade policy
• New Congress
• Cattle Herd Expansion
• African Swine Fever
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
  – Export Data
Livestock
Meat production was up 2.6% in 2018 and will be up 1.3% in 2019

- Broiler production up 2.6% (+1% in 2019)
- Turkey production down 0.9% (-5% in 2019)
- Pork production up 3.1% (+2.3% in 2019)
- Beef production up 2.8% (+1.9% in 2019)
The RTC BROILER PRODUCTION graph shows the following:

- 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.

The RTC TURKEY PRODUCTION graph shows:

- 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.

Additional notes:

- 2018 production up 2% over 2017.
- 2019 will be up 0.3% over 2018.
- Exports were 3% higher yr/yr in Oct.
• 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%
• 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 4% increase in exports
• Beef
  – Australia will likely decrease exports about 7% in 2019, Brazil will increase about 5%, US exports will increase about 3%

• Pork
  – Increase exports by 4%

• Poultry
  – Increase exports by 3%
Where are we headed?

- Cattle price outlook should be viewed as having potential to be much different than expectations shown here.

- Feeding industry will need to remain current, carcass weights will decrease in the first quarter and then should increase for the remainder of the year
  - Loss in currentness will push feeder and calf prices lower

- Expansion markets favors industry participants closer to the end user

- Retail beef price has not fallen as much as beef production

- Growing beef supplies but limited packer capacity means increased packer bargaining power
Where are we headed?

- Feeders
  - Record profitability in 2017
  - Margins shrank in 2018 and were negative for the last 3 quarters
  - Margins will improve in 2019 and be positive in the latter quarters

- Cow/calf and feeders
  - Profitability will shrink
  - Continued volatility
  - 2019 will see cattle herd stabilize
  - Profitability will decrease in 2019
## 2019 Prices

<table>
<thead>
<tr>
<th></th>
<th>Prod.</th>
<th>Exports</th>
<th>Price Direction</th>
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<tbody>
<tr>
<td>Broilers</td>
<td>Up</td>
<td>Up</td>
<td>Down</td>
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<tr>
<td>Turkey</td>
<td>Down</td>
<td></td>
<td></td>
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<tr>
<td>Pork</td>
<td>Up</td>
<td>Up</td>
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<td></td>
<td>Hog prices</td>
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<td></td>
<td>Q1 - down 7.1%</td>
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<td></td>
<td>Q2 - up 2.5%</td>
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<td></td>
<td>Q3 - up 3.3%</td>
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<tr>
<td></td>
<td>Q4 - down 1.1%</td>
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<tr>
<td>Beef</td>
<td>Up</td>
<td>Up</td>
<td>Finished cattle</td>
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<td>Q1 - down 2.9%</td>
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<td>Q2 – up 1%</td>
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<td></td>
<td>Q3 – up 0.7%</td>
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<td></td>
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<td>Q4 - up 0.5%</td>
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<td></td>
<td>Yearlings</td>
<td></td>
<td>Q1 – down 2.2%</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>Q2 – stable</td>
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<td></td>
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<td>Q3 – down 5.1%</td>
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<td></td>
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<td>Q4 - stable</td>
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<tr>
<td></td>
<td>Calves</td>
<td></td>
<td>Q1 – down 5.6%</td>
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<td></td>
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<td>Q2 – down 1.3%</td>
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<td>Q3 - down 0.7%</td>
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<td>Q4 – down 0.2%</td>
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Soybeans
2019 will have 208 MB increase (a 4.7% increase from 2018)
World Soybean Production

- United States
- Brazil
- Argentina
- China
- Paraguay
- ROW

Thousand Metric Tons

- 2011/12
- 2012/13
- 2013/14
- 2014/15
- 2015/16
- 2016/17
- 2017/18
- 2018/19
• 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
## USDA December Soybean WASDE

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

<table>
<thead>
<tr>
<th></th>
<th>2016/17</th>
<th>2017/18</th>
<th>2018/19</th>
<th>%Change vs 17/18</th>
<th>My Forecast 2018/19</th>
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</thead>
<tbody>
<tr>
<td><strong>Acres Planted</strong></td>
<td>83.4</td>
<td>90.1</td>
<td>89.1</td>
<td>-1.1%</td>
<td>89.1</td>
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<tr>
<td><strong>Acres Harvested</strong></td>
<td>82.7</td>
<td>89.5</td>
<td>88.3</td>
<td>-1.3%</td>
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<td><strong>Yield</strong></td>
<td>52</td>
<td>49.3</td>
<td>52.1</td>
<td>5.7%</td>
<td>51.8</td>
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<tr>
<td><strong>Supply</strong></td>
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<tr>
<td>Beg. Stocks</td>
<td>197</td>
<td>302</td>
<td>438</td>
<td>45.0%</td>
<td>438</td>
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<tr>
<td>Production</td>
<td>4296</td>
<td>4411</td>
<td>4600</td>
<td>4.3%</td>
<td>4569</td>
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<tr>
<td>Imports</td>
<td>22</td>
<td>22</td>
<td>25</td>
<td>13.6%</td>
<td>25</td>
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<tr>
<td>Total Supply</td>
<td>4515</td>
<td>4734</td>
<td>5063</td>
<td>6.9%</td>
<td>5032</td>
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<tr>
<td><strong>Demand</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Crush</td>
<td>1901</td>
<td>2055</td>
<td>2080</td>
<td>1.2%</td>
<td>2080</td>
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<tr>
<td>Exports</td>
<td>2166</td>
<td>2129</td>
<td>1900</td>
<td>-10.8%</td>
<td>1800</td>
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<tr>
<td>F/S/R</td>
<td>146</td>
<td>112</td>
<td>128</td>
<td>14.3%</td>
<td>128</td>
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<tr>
<td>Total Demand</td>
<td>4214</td>
<td>4296</td>
<td>4107</td>
<td>-4.4%</td>
<td>4008</td>
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<td><strong>Ending Stocks</strong></td>
<td>302</td>
<td>438</td>
<td>955</td>
<td>118.0%</td>
<td>1024</td>
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<td>Stocks to Use Ratio</td>
<td>7.17</td>
<td>13.20</td>
<td>23.25</td>
<td>76.2%</td>
<td>25.5</td>
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<tr>
<td><strong>Avg. Farm Price</strong></td>
<td>9.47</td>
<td>9.3</td>
<td>8.6</td>
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<tr>
<td><strong>Soybean Oil Price</strong></td>
<td>32.48</td>
<td>31.5</td>
<td>30</td>
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<tr>
<td><strong>Soybean Meal Price</strong></td>
<td>316.88</td>
<td>350</td>
<td>310</td>
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</table>
Bullish Factors

- Brazilian production was cut – may see more
  - Hot dry conditions and early beans yields are disappointing
  - 3 MMT decrease to 116 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 83 Million acres planted (a decrease of 6.1 million acres)
  - Yield of 50 bu/acre
    - Production would be 4.1 billion bushels
    - Increase exports to 1.98 BB
    - S/U would be 21% - carryover of 904 MB
    - Cash harvest price could be as high as $8.70
Where will soybeans go in 2018/19?

- If have 83 Million acres planted (a decrease of 6.1 million acres)
  - Yield of 50 bu/acre
    - Production would be 4.1 billion bushels
    - Increase exports to 1.98 BB
    - S/U would be 21% - carryover of 904 MB
    - Cash harvest price could be as high as $8.70

- If have 85 Million acres planted (a decrease of 4.1 million acres)
  - Yield of 50 bu/acre
    - Production would be 4.2 billion bushels
    - Increase exports to 1.98 BB
    - S/U would be 24% - carryover of 1 BB
    - Cash harvest price could be as high as $7.70
• 2019 MY production will have 14626 MB (a 1.5% increase from MY18)
• Stock/Use between 11.8% - down from high of 15.9% in MY17
## Corn December WASDE

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<td><strong>Acres Planted</strong></td>
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<td></td>
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</tr>
<tr>
<td>Acres</td>
<td>Mil. A</td>
<td>94</td>
<td>90.2</td>
<td>-1.22%</td>
<td>90.2</td>
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<tr>
<td>Yield</td>
<td>Bu/A</td>
<td>174.6</td>
<td>176.6</td>
<td>1.30%</td>
<td>177.2</td>
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<tr>
<td><strong>Stocks</strong></td>
<td>Mil. Bu.</td>
<td>1,737</td>
<td>2293</td>
<td>-6.67%</td>
<td>2140</td>
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<tr>
<td><strong>Production</strong></td>
<td>Mil. Bu.</td>
<td>15,148</td>
<td>14604</td>
<td>0.15%</td>
<td>14,477</td>
</tr>
<tr>
<td><strong>Imports</strong></td>
<td>Mil. Bu.</td>
<td>57</td>
<td>36</td>
<td>25.00%</td>
<td>45</td>
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<tr>
<td><strong>Total Supply</strong></td>
<td>Mil. Bu.</td>
<td>16,942</td>
<td>16,934</td>
<td>-0.73%</td>
<td>16,662</td>
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<tr>
<td><strong>Residual</strong></td>
<td>Mil. Bu.</td>
<td>5,472</td>
<td>5,298</td>
<td>3.81%</td>
<td>5,525</td>
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<tr>
<td><strong>Fuel</strong></td>
<td>Mil. Bu.</td>
<td>5,432</td>
<td>5,605</td>
<td>-0.09%</td>
<td>5,550</td>
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<tr>
<td><strong>Exports</strong></td>
<td>Mil. Bu.</td>
<td>2,293</td>
<td>2,438</td>
<td>0.49%</td>
<td>2,450</td>
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<tr>
<td><strong>Total Useage</strong></td>
<td>Mil. Bu.</td>
<td>14,649</td>
<td>14,793</td>
<td>1.60%</td>
<td>15,005</td>
</tr>
<tr>
<td><strong>Carryover</strong></td>
<td>Mil. Bu.</td>
<td>2,295</td>
<td>2,140</td>
<td>-16.78%</td>
<td>1,657</td>
</tr>
<tr>
<td><strong>Avg. Farm Price</strong></td>
<td></td>
<td>3.36</td>
<td>3.36</td>
<td>3.6</td>
<td></td>
</tr>
<tr>
<td><strong>Stocks/Use</strong></td>
<td></td>
<td>15.67</td>
<td>14.47</td>
<td>11.85</td>
<td>11.0</td>
</tr>
</tbody>
</table>
• 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 since December

Graph showing total corn export commitments from July to August, with data points for 2017-18, 2018-19, and USDA data.
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
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
• Least amount of drought in very long time
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
• In spring dependent on acreage and mother nature
• Likely see an increase in acreage
Where will corn go in 2019?

- Yield of 176 bu/acre
- Demand of 15 BB
  - If have 89 Million acres planted
    - S/U would be 8.1%
    - Cash harvest price could be as high as $4.10
  - If have 92 Million acres planted
    - S/U would be 11.1%
    - Cash harvest price could be as low as $3.40
Watch List for 2019

• Trade
  – How long with trade war with China last?
• Energy Policy
  – RFS waiver allowance
• Consolidation
  – Farms to coops
Watch List for 2019

• Trade
  • Need for bilateral agreement with Japan
  • How long with trade war with China last?

• Economy
  • Recession?

• Lab-created meat
  • Regulations on synthetic meat will be implemented in 2019

• Immigration Reform
• Regulations
  • WOTUS
Thank you!

• Any Questions?
• Brenda.Boetel@uwrf.edu

Sources

› Graphs: LMIC – www.lmic.info
› Data: LMIC, USDA-NASS