

# Topics to be discussed.....

- 1) U.S.-China Trade & Other Key Grain Market Factors
- 2) Grain Market Analysis & Outlook
  - Corn & Grain Sorghum
    - Wheat
      - Soybeans
- 3) Economic "forces at work" in the grain markets & where they are taking us...

## **Unpredictable Grain Markets in 2018-19**

- ☐ The "Ups & Downs" of U.S. Trade Tensions
  - U.S. Abandonment of the Trans Pacific Partnership (TPP)
    - Potential impact on U.S. wheat exports vs TPP Countries
  - U.S. vs China
    - Soybeans & Sorghum (Need of both "With" & "Without" Scenarios)
  - NAFTA (U.S.-Mexico-Canada)
    - Mexico grain purchases from the U.S.
    - Canada grain export competition vs U.S. (Wheat, Oilseeds)

## **USDA Market Facilitation Payments (MFP)**

- A. Direct payments to farmers of <u>soybeans</u>, <u>sorghum</u>, <u>corn</u>, <u>wheat</u>, <u>cotton</u>, dairy & hogs.
  - Soybean MFPs = \$1.65 /bu x 50% of production (\$3.700 bln)
  - Sorghum MFPs = \$0.86 /bu x 50% of production (\$156 mln)
  - Wheat MFPs =  $$0.14 / \text{bu } \times 50\%$  of production (\$119 mln)
  - Corn MFPs =  $$0.01 / \text{bu } \times 50\%$  of production (\$ 96 mln)
  - Cotton MFPs = \$0.06 / lb x 50% of production (\$277 mln)

## Market Facilitation Payments (MFP) more

- A. Direct payments to farmers of soybeans, sorghum, corn, wheat, cotton, dairy & hogs.
  - Hog MFPs = \$8.00 /head x 50% of production (\$290 mln)
  - **Dairy MFPs** = 0.12 /cwt milk x 50% of MPP Production (127 mln)
- ☐ No Adjustments for Low Yields in 2018

"The aid is based on this year's production. It will not be adjusted for those who suffered low yields due to factors such as drought."

DTN Chris Clayton 8/27/2018

## **USDA Market Facilitation Payments (MFP)**

- 2) Purchases of foods including fruits, nuts, rice, legumes, beef, pork & milk for distribution to food banks & nutrition programs.
  - Pork purchases = \$ 558.8 mln
  - **Dairy purchases** = \$ 84.9 mln
  - **Beef purchases** = \$ 14.8 mln
  - **Apple purchases** = \$ 93.4 mln
  - Other purchases = \$ 578.1 mln
  - Total purchases = \$1.238 bln

## **USDA Market Facilitation Payments (MFP)**

#### Farmers apply after harvest is 100 percent complete

- 1) Eligible applicants must have an ownership interest in the commodity, be actively engaged in farming.
- 2) Adjusted Gross Income (AGI) limit is \$900,000.
- 3) \$125,000 payment limits (separate \$125K limits for crops & livestock)

## Economic Impact of U.S.-China Tariffs (Hayes, Hart ISU)

- ▶ The U.S. will continue to export soybeans to China, BUT this means that a 25% wedge will exist (i.e., 25% Tariff = 25% "Wedge)
  - o IF the U.S. was equal to 50% the World Soybean Production, THEN the U.S. Soybean price should fall by 12.5% (1/2 of 25% "wedge")
  - o **BUT** the **U.S.** *only* produces 33% of <u>World Soybean Production</u>, *SO* the <u>U.S. Soybean price</u> will be down  $\approx $1.75$  /bu
  - o IF Soybeans are \$1.75 *lower THEN* <u>U.S. Corn</u> will be \$0.70 /bu *lower*

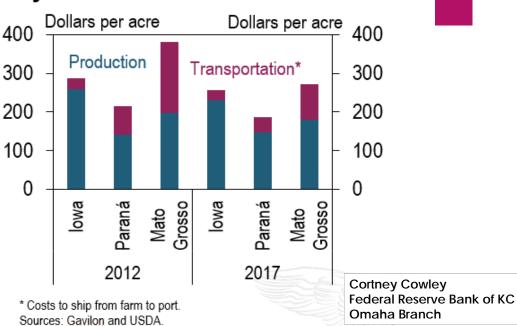
## MFP Questions at this time....

- 1. Will MFP be paid on bushels indemnified for price loss?
- 2. Is conservation compliance required? YES
- 3. Is the \$125,000 payment limit a new limit? Some farmers will have already hit the limit via other programs. (*Likely separate limit for MFP only*)
- 4. Will payments be made on minor oilseeds (Sunflower, Canola, Dry Beans)?
- 5. Can farmers wait until 2019 to file the MFP claim?
- 6. With the low corn yields in Eastern Kansas this year, it will cost more to cut the check than the face value of the check. A penny payment will generate some *very small* payments for a large number of corn producers. (Barnaby<sup>KSU</sup>)

### Economic Impact of U.S.-China Tariffs (Hayes, Hart ISU)

- ▶ Based on "old crop" MY 2017/18 Ending Stocks, <u>U.S. Corn \$s</u> are now \$0.50 /bu lower than they would usually be (Down \$0.25-\$0.60 /bu KSU)
- **▶** U.S.-China Possible Impact on U.S. Export Competitiveness
  - US soybean producers do not have a 25% cost advantage over Brazil
  - If this "*Trade War*" between the U.S. & China goes on long enough, the U.S. will *likely* need to downsize U.S. soybean production by 30%
  - As a result "IF Soybeans are \$1.75 lower THEN <u>U.S. Corn</u> will be \$0.70 /bu lower." (because U.S. Corn Acres-Production will have increased)

## Soybean Costs in the U.S. and Brazil



## **Grain Market Events to Come ....**

- 1) 2018 U.S. Corn & Soybean harvest (Oct-Nov 2018)
  - Corn<sup>2018</sup>
     < 14.8 bln bu?</li>
     ⇒ End Stocks < 1.774 bb?</li>
  - o Soybeans<sup>2018</sup> < 4.7 bln bu? ⇒ End Stocks < 845 mb?
- 2) U.S. HRW Wheat Seedings (Oct <sup>2018</sup>)
  - o **Increase** in response to û HRW wheat \$'s in 2018?
  - o **Profits** for 2018 Kansas HRW Wheat vs Other Crops

## More Grain Market Events to Anticipate....

- 3) 2019 South America Crop Plantings (Nov 2018-Jan 2019)
  - Soybeans So-Am 2019 Up 5-10% ? Texisting or 'New' Acres?
  - Corn So-Am 2019 Down 5% ?  $\Rightarrow$  2nd Crop Impact (Exports)?
  - Argentina politics / export taxes & Brazil domestic issues are a wildcard
- 4) Break Dormancy for 2019 HRW Wheat Crop (March 2019)
  - Uncertain crop conditions affecting Kansas HRW Wheat at that time (?)

## More Grain Market Events to Anticipate....

- 5) 2019 U.S. Fall Harvested Crop Plantings (April-May 2019)
  - Soybeans U.S 2019 Down ≈ 4 mln ac. ? U.S.-China Trade Status?
  - Corn U.S. 2019 Up ≈ 4 mln ac. ? → More if South America ₽
- 6) 2019 U.S. HRW Crop Development (April-June 2019)
  - Q? What will the <u>protein &/or quality condition</u> of the 2019 crop be?
  - Q? What "cross over" HRS vs HRW wheat market impacts will occur?

## Yet Still MORE Events to Come....

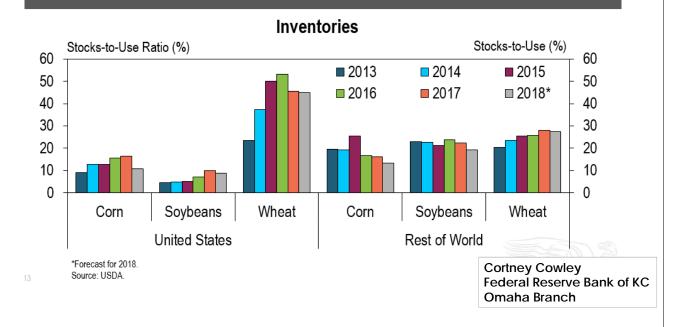
- 7) 2019 South America Crop Development (Jan-May 2019)
  - El Nino forecast <sup>2019</sup> 

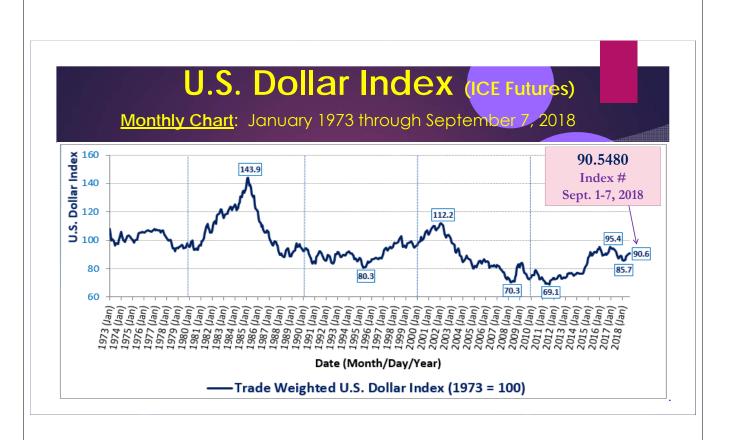
     ⇒ Wetter than normal in Spring-early
     Summer, but NOT a certain impact on their crops
- 8) 2019 U.S. Crop Developments (May-Oct <sup>2019</sup>)
  - El Nino forecast <sup>2019</sup> 
     ⇒ Generally <u>positive</u> for U.S. crops, but also *NOT* a certain effect in the U.S. growing season

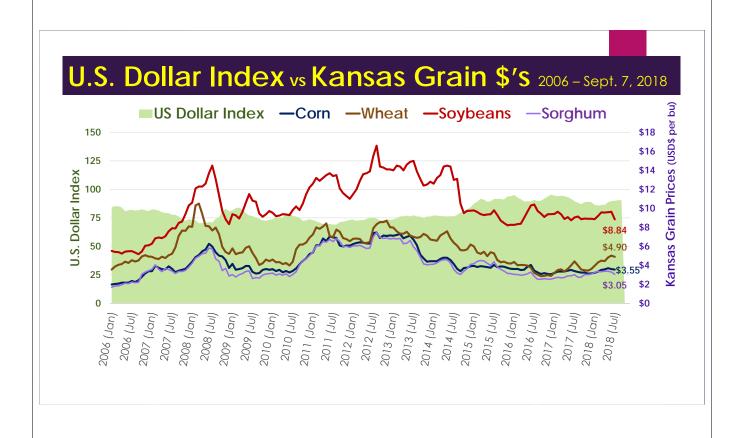
## Yet Still MORE Events to Come....

- 9) 2019 U.S. HRW Wheat Harvest (June-July 2019)
  - Q. <u>Yields</u>: What are the odds of "normal"-"large" 2019 U.S. HRW <u>crop yield & production</u> vs a "short" one ???
  - Q. <u>Protein Quality</u>: What are the odds of a "normal" or "low" <u>protein crop</u> in 2019 for U.S. HRW wheat vs a "high" protein crop ???
  - These outcomes have <u>serious market implications</u> in Kansas!

#### Inventories have been record large, but are expected to decline in 2018.









## U.S. Corn & Sorghum Supply-Use

- 2018 U.S. Corn & Sorghum Production ≥ 2017 Crops
- Large Corn Stocks are limiting Feedgrain Price\$'s
- Low Price\$'s supporting "New Crop" MY 2018/19 Corn Use

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• Ethanol ^{2018/19} = 5.650 bln bu (Record high – vs 5.600 bb last year)
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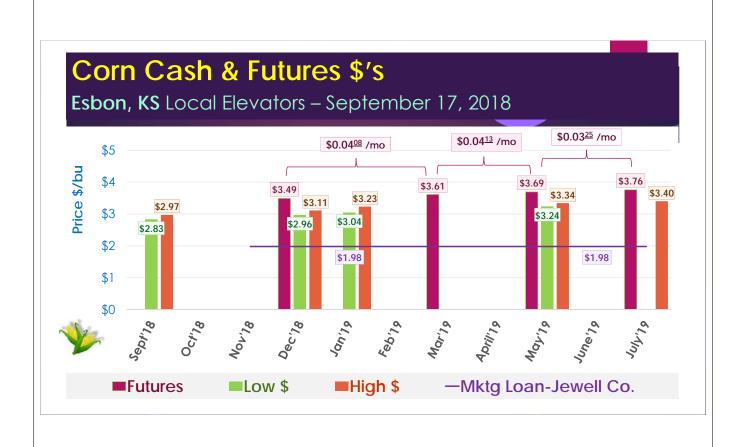
- Livestock Feed  $^{2018/19} = 5.575$  bln bu (10 year high vs 5.858 bb in 2007/08)
- o Exports  $^{2018/19}$  = 2.400 bln bu (vs 2.425 bb in '17/18 & 2.294 in '15/16)
- Other FSI <sup>2018/19</sup> = 1.480 bln bu (*Record high* vs 1.460 bb in 2011/12)

## U.S. Corn & Sorghum Stocks.....

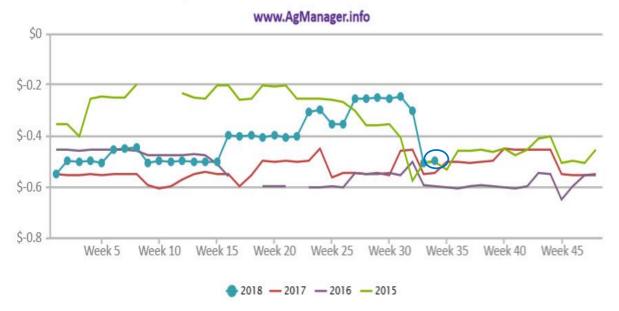
- Corn: "Moderate" Stocks & % S/U
  - o End Stocks <sup>2018/19</sup> ⇒ 1.774 bln bu (*vs 2.002 bb last year*)
  - o % Stocks/Use <sup>2018/19</sup> ⇒ 11.7% S/U (vs 13.4% S/U last year)
- Grain Sorghum: "Low" Price\$'s (Hurt by trade issues)
  - o **End Stocks** <sup>2018/19</sup> ⇒ 46 mln bu (₹ *Exports* & 1 *Ethanol Use*)
  - o % Stocks/Use 2018/19 ⇒ 12.1% S/U (\$\Pi\$ vs 14.0% S/U last year)



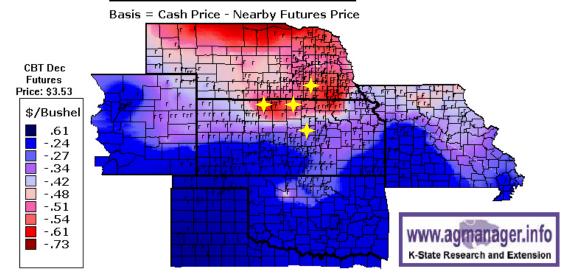








#### Corn Basis, 09-12-2018

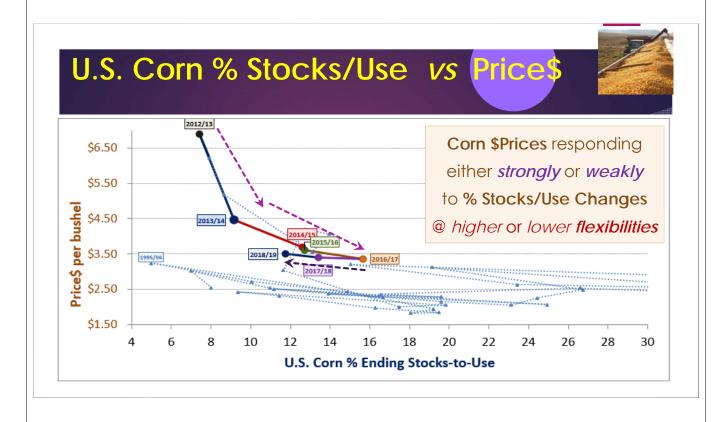


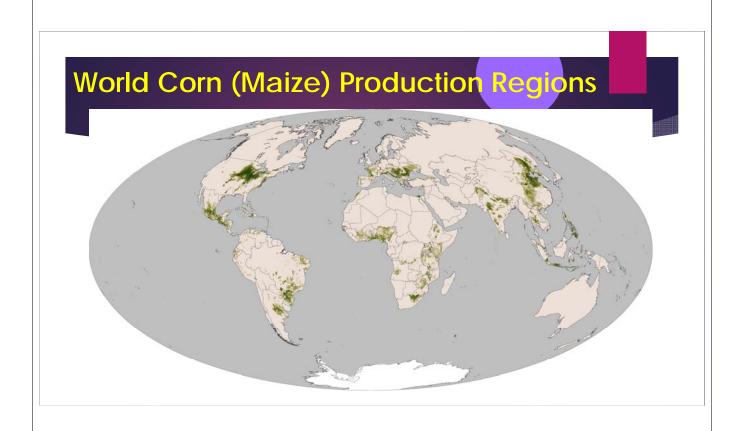


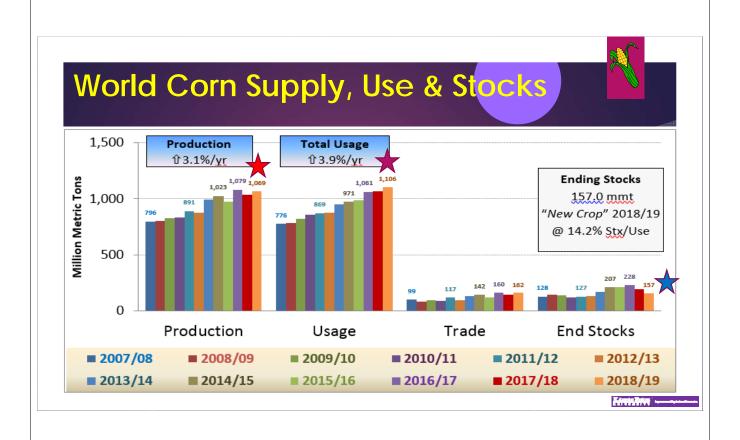


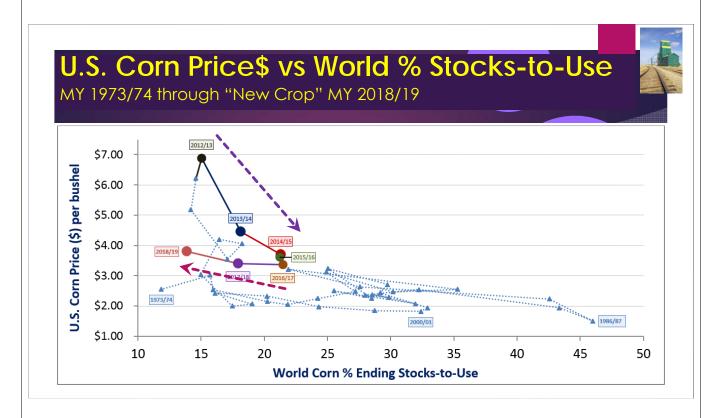
## U.S. Corn % Stocks/Use vs Price\$

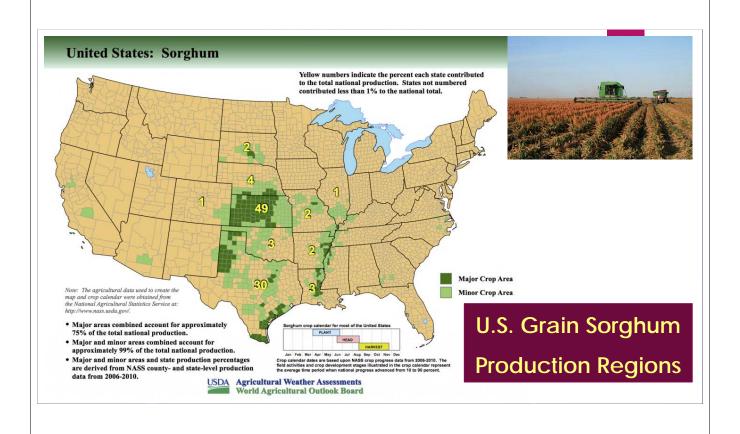


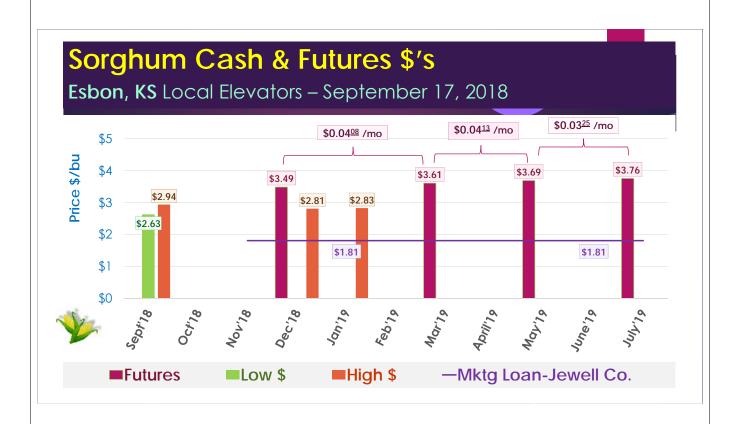


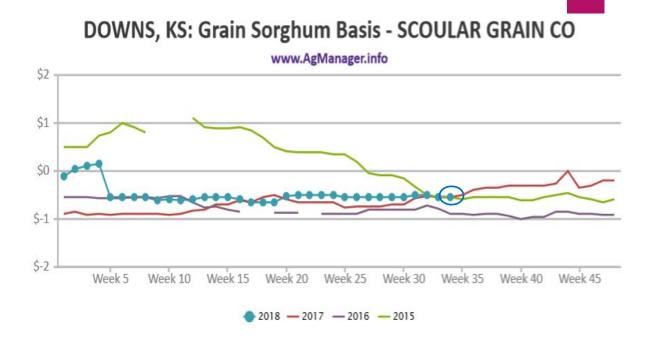




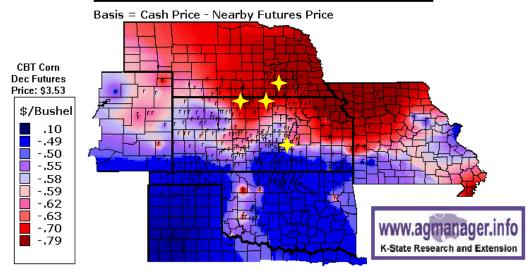


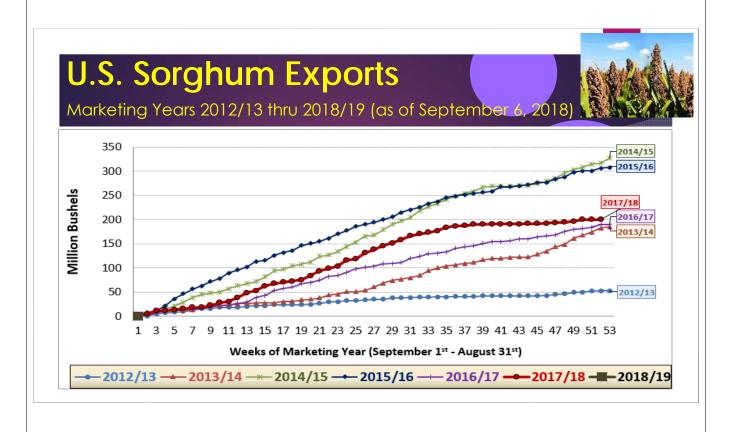


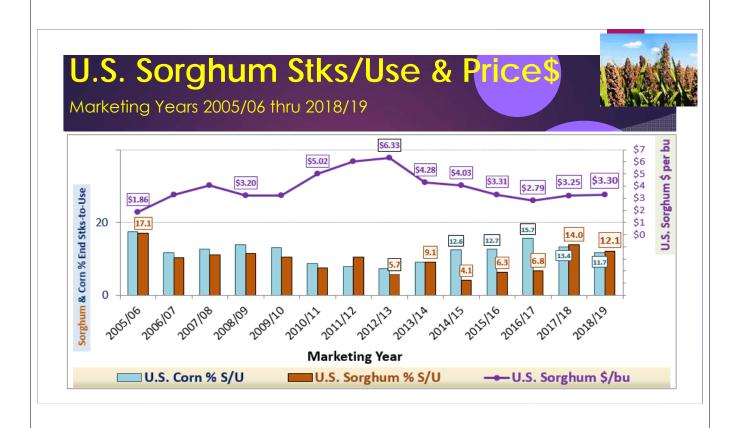




#### Grain Sorghum Basis, 09-12-2018









## U.S. Wheat Supply-Use

- Market support from World crop problems & higher protein in the 2018 U.S. HRW crop
  - Anticipating *lower* U.S. & World Wheat Stocks
- Markets expect <u>U.S. Wheat Exports</u> to increase

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• Exports <sup>2018/19</sup> = 1.025 bln bu (778 mb - 1.291 bb range since 2008/09)
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 $\circ$  Food Use <sup>2018/19</sup> = 970 mln bu (Level Use since MY 2012/13)

o Feed Use  $^{2018/19}$  = 120 mln bu (Down from 228-365 mb in 2012 - 2013)

o **HRW Exports** <sup>2018/19</sup> = 375 mln bu (*vs* 371 mb & 455 mb last 2 years)

## U.S. Wheat Stocks.....

- All U.S. Wheat: "Declining" Stocks
  - End Stocks  $^{2018/19}$   $\Rightarrow$  935 mln bu (1.100 bb last year)
  - o **% Stocks/Use** <sup>2018/19</sup> ⇒ 43.0% S/U (55.6% Stx/Use last year)
- <u>U.S. HRW Wheat</u>: "Still Large" Carryover (also declining)
  - $\circ$  End Stocks <sup>2018/19</sup>  $\Rightarrow$  409 mln bu (581 mb last year)
  - o **% Stocks/Use** <sup>2017/18</sup> ⇒ 48.8% S/U (76.0% Stx/Use last year)



## 2018 U.S. Wheat Quality & Grades



- HRW Wheat <sup>2018</sup> = 12.3% protein 61.1 lb test, 1.2% defects
   Versus 11.4% protein, 60.8 lb test wt, 1.1% defects in 2017
- SRW Wheat <sup>2018</sup> ⇒ 10.1% protein, 57.5 lb test, 1.3% defects of Versus 9.5% protein, 58.8 lb test wt, 1.7% defects in 2017
- Soft White Wheat <sup>2018</sup> ⇒ 9.3% protein, 61.7 lb test, 0.6% defects
   Versus 9.6% protein, 60.9 lb test wt, 0.6% defects in 2017
- HRS Wheat <sup>2018</sup> ⇒ 14.7% protein, 61.7 lb test, 0.8% defects
  - o Versus 14.6% protein, 61.2 lb test wt, 1.0% defects in 2017

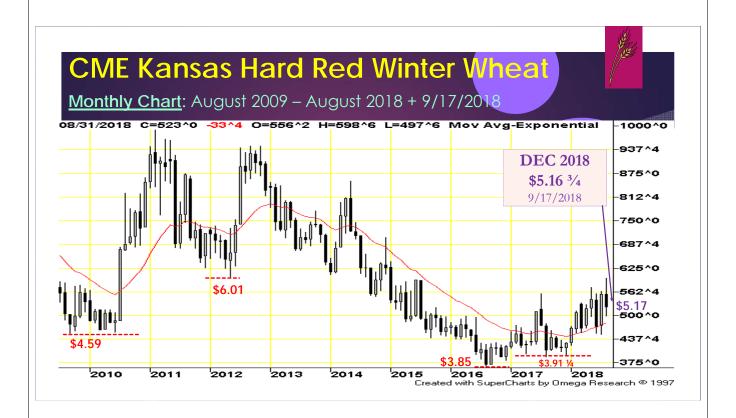
EASTER STATE

## World Wheat Market Prospects:

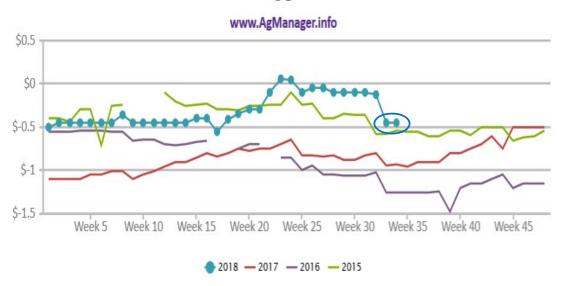
Large Supplies ⇒ Less of a "Buyer's Market

- Lower Supplies BUT Record Usage Forecast for 2018/19
  - 1st year lower after 4 consecutive record high World wheat crops
- Poorer 2018 crops: E.U. France-Germany, Australia, & Russia
- More "competitive buying pressure" in World Trade
  - <u>"Tight" supplies</u> among Top 7 World Wheat Exporters
  - NOT MUCH evidence "YET" of "stronger" U.S. wheat exports

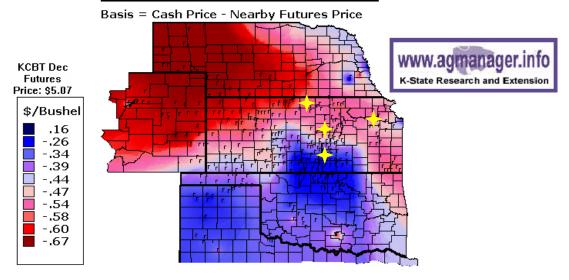
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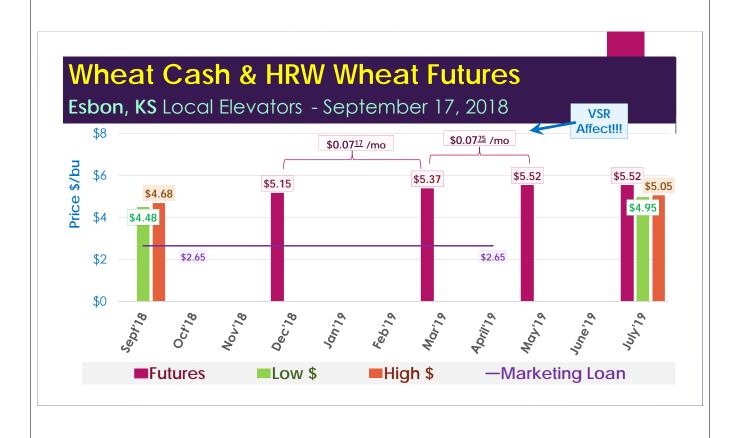


# DOWNS, KS: Hard Red Winter Wheat Basis - SCOULAR GRAIN CO

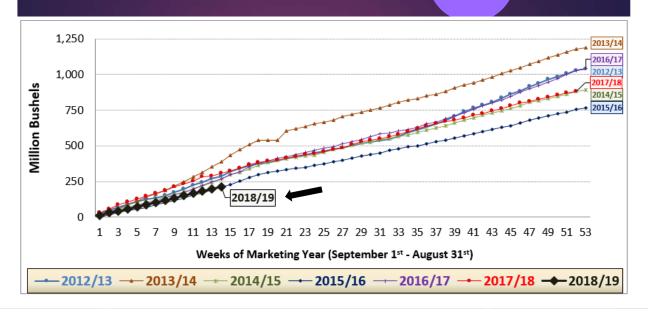


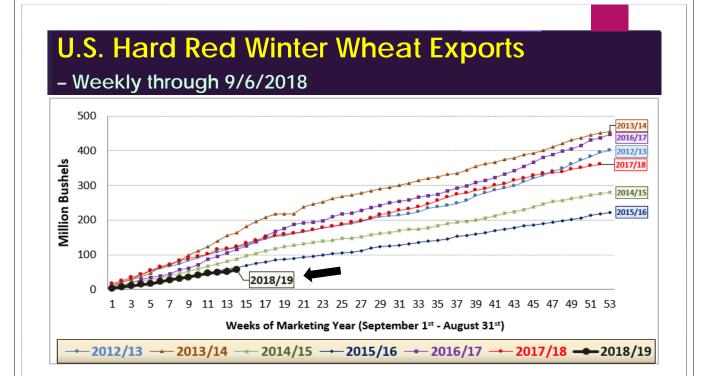
#### Wheat Basis, 09-12-2018





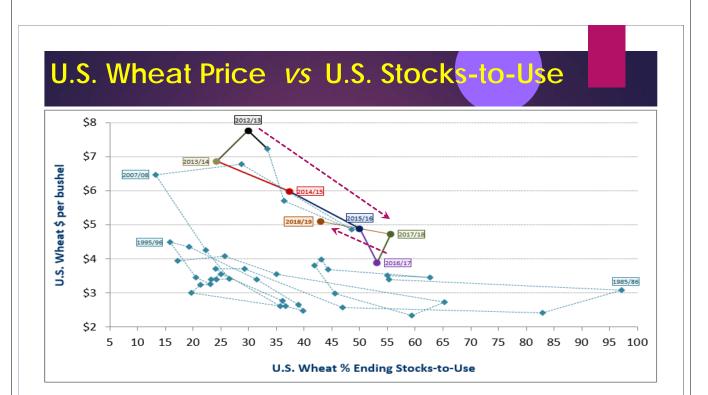


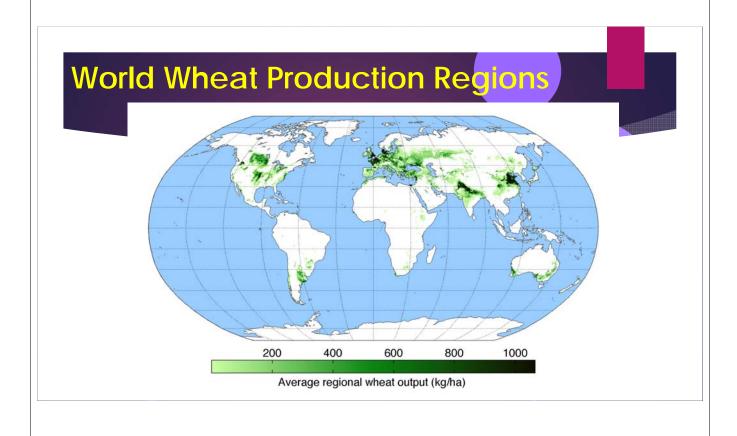


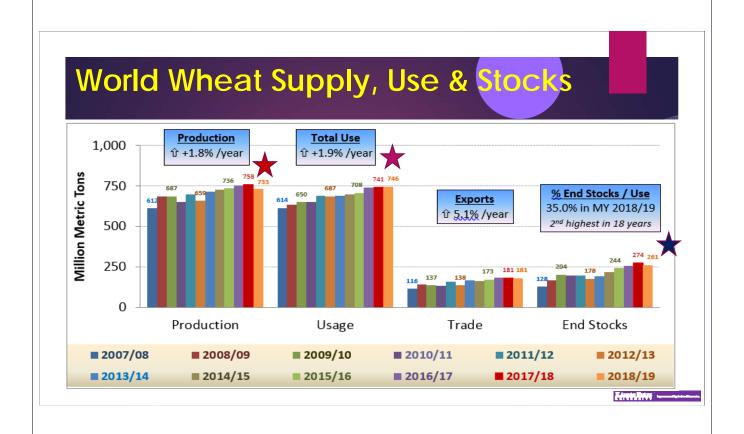




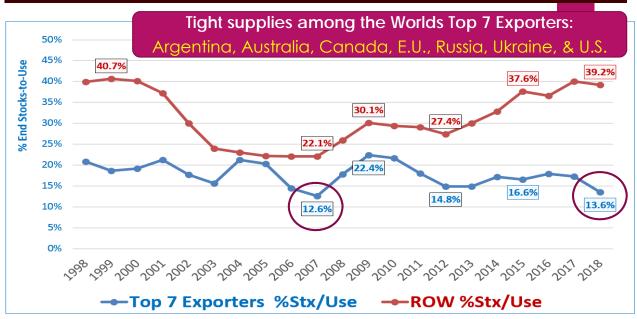


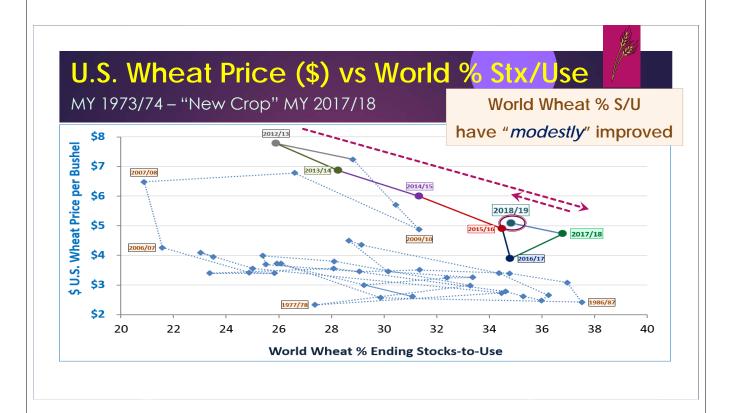


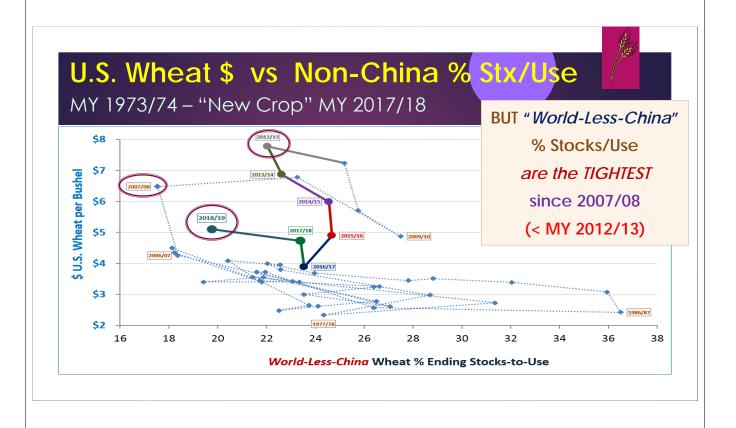














# U.S. Soybean Market Prospects in 2018-19

#### A. <u>U.S.-China Trade Dispute</u>

- HAS affected U.S. Soybean <u>prices</u>, but so far LIMITED EFFECT on U.S. export <u>shipments</u> & <u>forward purchases</u>
- B. <u>USDA forecasts U.S. Exports</u> to be *large* <u>despite</u> Tariffs
  - Foreign buyers "switching" between U.S. & South America
- C. Market Focus in Fall-Winter 2018-19
  - So. America crop prospects their response to high 2018 \$'s



## U.S. Soybean Supply-Use

- Soybean crop record high in September Crop Report
- Large Global Soybean Stocks limit Price\$'s
- Low Price\$'s DO support "New Crop" MY 2018/19 Use \*\*\*

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o Soy Crush ^{2018/19} = 2.070 bln bu (Record – vs 2.055 bb last year)
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o Exports ^{2018/19} = 2.060 bln bu (Down – vs 2.130 & 2.166 bb last 2 years)
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- o Total Use 2018/19 = 4.268 bln bu (Down vs 4.321 bb last year)
- o SBM Exports  $^{2018/19} = 13.500$  mln tons (vs 14.4 & 11.6 mln tons last 2 years)

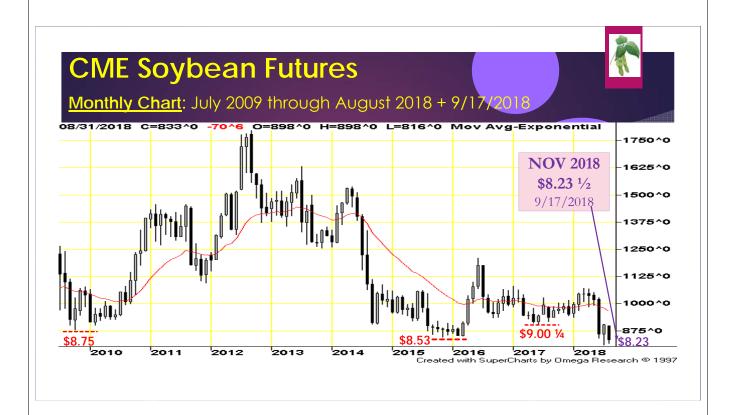


# U.S. Soybean & Cotton Stocks.....

- Soybean: "Large" Stocks & % S/U
  - o End Stocks <sup>2018/19</sup> ⇒ 845 mln bu (High vs 395 mb last year)
  - o **% Stocks/Use** <sup>2018/19</sup> ⇒ 19.8% S/U (High vs 9.1% last year)
- Cotton: "Large" 2018 Crop & "Growing" Stocks
  - o **Production** <sup>2018/19</sup> ⇒ 19.7 mln bales (20.9 & 17.2 mb last 2 years)
  - o **End Stocks** <sup>2018/19</sup> 

    ⇒ 4.7 mln bales (4.3 & 2.75 mb last 2 years)
  - o % Stocks/Use <sup>2018/19</sup> ⇒ 24.6% S/U (22.6% & 15.1% last 2 years)

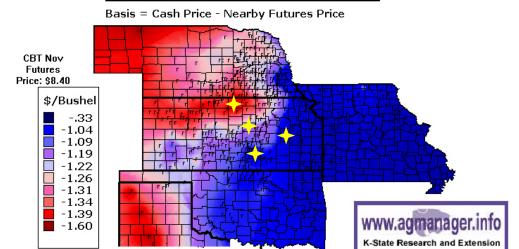


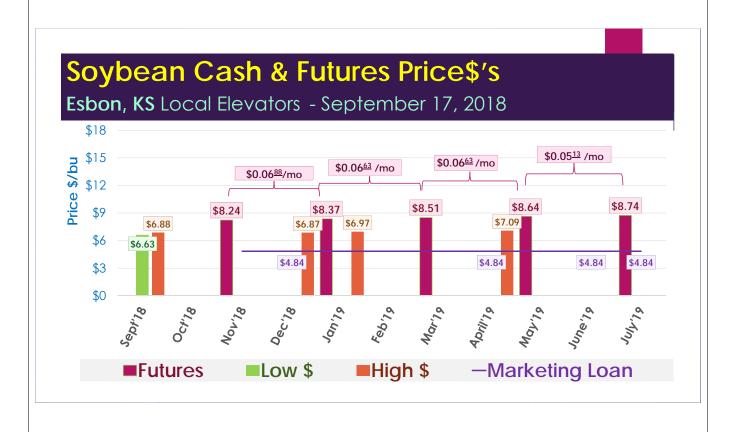


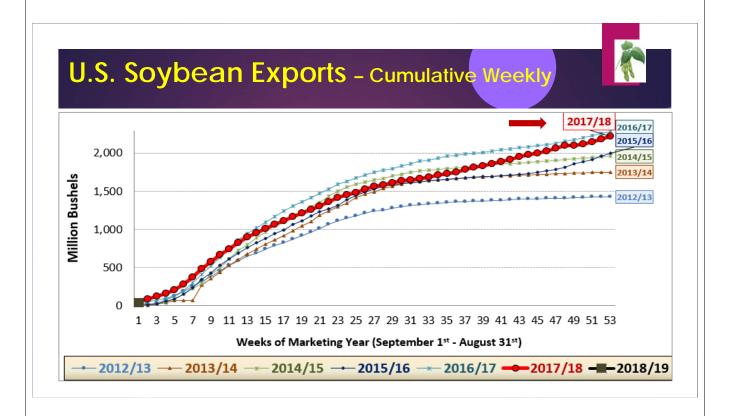
## DOWNS, KS: Soybeans Basis - SCOULAR GRAIN CO

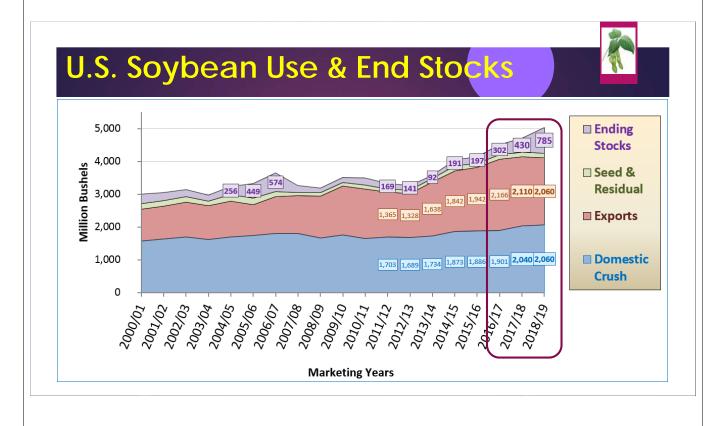


#### Soybean Basis, 09-12-2018









## U.S. Soybean Ending Stocks & % Stx/Use

