

Corn

While the U.S. Corn market has shown some positive signals in the past month, there remain significant challenges. The first “victory” for the corn market in 2020 was the June 30 United States Department of Agriculture (USDA) Final Planted Acreage Report, which reflected U.S. producers having put in 92 million acres of the commodity rather than the 97 million that had been estimated as “intended” back in March. Given the high nature of those expectations, and the subsequent price meltdown brought on by the COVID-19 outbreak, the loss of some potential acreage was expected. What was not expected was the volume of that loss, which removed roughly 890 million bushels from the supply side of the balance sheet, assuming a trendline yield.

The high (and stable) crop condition ratings through July would indicate that trendline is very achievable and would even be somewhat disappointing in some areas. That loss was partially offset by larger than expected quarterly stocks, but there’s no doubt the reduction of planted acres helped remove some of the downside potential for the corn market.

The other half of this equation is demand. There are still struggles on this front as evidenced by the 2.6 billion bushel estimated carryout for the 2020 crop. We are seeing ethanol grind slowly start to pick back up and it may approach 2019 levels in 2021. Further, the month of July has seen a nice pick up in export demand with the week of July 17th seeing the largest single week sales number on record and the first three weeks of July blowing other previous July sales out of the water. Totals for the month to that point came to 4.05 million metric tons compared to the next closest 742,000 metric tons back in 2014. U.S. corn is not typically dependent on exports to support demand; however, it’s nice to see that sales are stepping in when ethanol could not. With most areas appearing on track for a good crop, attention will increasingly turn to demand. Minus weather issues in August, that’s where the market is going to have to do its work. While low prices are painful to producers, the fact that demand is entering the market means they’re working. Producers need to continue watching for any potential pricing opportunities as harvest is quickly approaching.

Soybeans

Soybean markets have held up better than corn through this year’s challenges, but that is perhaps a bigger reflection of where they were to start. Even with the tremendous loss of corn acres compared to expectations, soybeans didn’t gain much compared to initial estimates. USDA-NASS reported 83.8 million acres of 2020 soybeans, which is well above last year’s 76.1 million but also well below the peak 89.2 million in 2018. As of this writing, it’s too early to make much of a judgement call on soybean yield potential. Given a trendline situation, World Agricultural Supply and Demand Estimates (WASDE) is estimating a total crop of 4.135 billion bushels compared to 3.552 billion in 2019.

As for the demand, it’s the yearly export sales for the 2020 crop that remain the big question. Crush levels have been consistent and are exceeding the trade’s expectations, but exports account for most of the other half of demand for U.S. beans. There is good news to report here as well. USDA is looking for 2020 exports to top 2019 by 400 million bushels leaving us very close to levels seen in 2015 and 2016. Getting there will be a challenge but is achievable. South America looks tapped out on soybeans until winter, the U.S. dollar is finally showing some signs of weakening while the Real is strengthening, and Chinese demand appears healthy. Our major export season is ahead of us and fall sales/shipments are when we see our largest business.

Wheat

Wheat harvest is in full swing with reports of spring wheat starting to come off in parts of South Dakota. So far yield reports have been mixed with the Southern Plains seeing some very dry weather through parts of their growing season. Even so, yields in Oklahoma and Kansas were not a disaster and quality appears to be decent. Tests from U.S. wheat associates reflected a heavy crop averaging around 63 pounds with protein close to 12%. Further north, yields increased and weight moderated but still no problems to report. The soft red winter crop is struggling a bit more in terms of quality with rains moving through Missouri and Illinois just as harvest rolled around. Even so, given sizeable old crop stocks there will be plenty to blend up. This is, however, at least a small part of the reason we've seen Chicago wheat gain on the other classes and at times come very close to an inversion.

As for spring wheat, it's been an odd weather year to say the least. Crops in the eastern third of North Dakota and Northwestern Minnesota were delayed due to spring rains and flooding while the western two-thirds or so of North Dakota moved into a drought. Rains have been moving through the western areas a little bit better than they were as we approached July, which is creating some late tillering in areas. How this plays out yield-wise remains to be seen but it really looks like a tale of two crops (early planted vs late planted). Cooler temperatures in June should keep protein levels somewhat suppressed in areas of Montana, while vomitoxin could become an issue in eastern North Dakota and northwestern Minnesota where temperatures were warmer than normal and moisture was exceptional. WASDE balance sheets aren't calling for a lot of change on the All Class side (and haven't for a few years, really), while spring wheat balance sheets are calling for a small decline in carryout. Overall, the price outlook remains stable

Sugar

It has been an interesting year for the sugar industry with several issues affecting both the supply and demand sides. On the supply side, it's a good news/bad news situation depending on what part of the world you sit in. U.S.-originated sugar in the 2020 crop year is expected to be much higher than last year and climbing. Beet sugar production is estimated at 5.00 million short tons, up 17.5% from the disastrous 2019 season. Cane sugar production is also expected to rise 9.1% to 4.09 million short tons, largely in Louisiana and Texas. On the import side of things, USDA was forced to make some complicated adjustments with the allowance of additional Mexican-originated sugar during the 2019 crop year. Further, all parties signed the USMCA trade pact on July 1st, which meant the reallocation of the tariff-rate quota (TRQ) was recognized on the official balance sheet. This was not really a market mover since the agreement had been made, in theory, a few months ago. However, we now see its "official" effects. Bottom line: total U.S.-originated supply is higher, total foreign-originated sugar is lower than 2019 (close to 2018), but total supply is up significantly from the prior month.

On the consumption side, there is very little change in usage aside from the food category. Exports remain steady, and small, at 35,000 short tons. Food usage, however, rebounds to 12.23 million short tons (also similar to 2018). The ending stocks to use ratio ends up at 13.5%, down 1% from where we ended both the 2018 and 2019 crop years.

Dry Beans

Dry bean markets have been decent, at least since this spring. Like several other staple food sources, dry beans have seen increased demand during the COVID-19 shutdowns as consumers turned to more “storable” foods. While much of this year’s crop was already contracted prior to that outbreak, prices offered to the grower of pintos and navies have increased substantially over last year at this time while prices on blacks are firm. Garbanzo beans saw earlier price increases and have levelled off. Other classes haven’t had published quotes.

USDA released their final planting estimates on June 30th. In that report, USDA estimates that total U.S. dry bean acres for the 2020 crop year will total 1.588 million acres, up from 1.287 million in 2019. This is not shocking as prices of soybeans and a few other competing crops remained unattractive. The biggest planted acreage increases outside of North Dakota came in Colorado (+16,000 acres), Michigan (+35,000 acres) and Nebraska (+30,000 acres) while Minnesota saw a small decrease of 10,000 acres. North Dakota remains the largest producer by far having planted 810,000 acres, up 195,000 from the year before.

Pork

Pork producers continue to experience the toughest prices in years. Growing hog numbers coming into 2020 combined with the severe interruptions of COVID-19 on processing capabilities proceeded to create an unprecedented set of events. The good news is that plants are back up to basically full speed and hog weights have come back into the realm of “normal”. One point that needs to be made is that plants “full speed” pre-COVID-19 and post-COVID 19 are not the same thing. The installation of protective equipment and the spreading out of workers to maintain some semblance of social distancing is limiting total processing capabilities. The U.S. simply cannot process the same number of hogs it did before, even with the same amount of shackle space. The result is that pigs are still backed up, but producers have also done a good job of switching to maintenance diets. The weight issue didn’t get as out of control as it could have. That’s actually a pretty amazing testament to producer’s management capabilities, although its undoubtedly stressed income statements.

This ugly combination of events is having an effect. Sow slaughter rates are creeping higher but it’s going to be a long time before hog barns are deemed current. It’s also likely to be a significant amount of time before hog producers recover financially. An Iowa State study indicate that through June, hog finishers have seen losses in eight out of ten months. Further, the latest available numbers from Iowa State suggest losses of \$23.30 per head. For a typical 1,200 head finisher, that’s a total loss of just under \$28,000 per turn. The good news is that demand is there, exports are growing, but this is simply one of those situations that is going to take time to turn and will leave lasting effects on the industry.

Beef

Cattle markets were not immune to the effects of COVID-19 on processing and saw several of the same challenges as hog producers. Processing did back up and prices did drop substantially, although the longer production cycle meant feedlots could avoid the euthanasia that was necessary for some hog

growers. Just like in hogs, packing plants, while operating well, cannot process at the same rate. Retail prices of both pork and beef rose sharply in May and June as packing capacity became the pinch point. Beef, however, is typically seen as more of a “luxury” product. Even ground beef, which is the more everyday product, saw prices that were simply unaffordable for consumers. That spike has since moderated but beef remains relatively high priced compared to other proteins. That’s especially true with high unemployment and is a hurdle that will be difficult to overcome in the immediate future.

Feeder cattle prices have shown some recovery in July and drought conditions in the Southern Plains mean we’ve seen some cattle come off pasture early. This action increases the likelihood that feeder cattle sales will be stretched out over a little bit longer timeframe and there’s a chance to moderate some of the seasonal pressures. That’s both good and bad news: stressed feedlots may not see as big of a drop as they may have hoped for on the fall run but at the same time cow/calf producers should see some moderate relief. Overall, however, pressures will remain on the livestock industry.

Dairy

Dairy markets have finally seen some relief after a tough spring for U.S. producers. Class III milk prices have risen dramatically since the end of April, adding nearly \$10/cwt in nearly two months. Prices have since tailed off a bit but remain the best we’ve seen since 2014 and for a brief period at the end of 2019. USDA has also raised its annual price forecasts for Class III, Class IV and All Class milk prices to \$18.25/cwt. That’s up \$1.60/cwt from the June forecast, largely reflecting the strength just discussed. This also relates to actual production increases not meeting what several analysts had anticipated (likely a hangover from pulling back production this spring), as well as an improved export forecast for dry skim milk products and lactose.

It’s not all good news, however, as the boost was primarily seen in the fluid market and not necessarily seen in cheese and butter. USDA did increase price forecasts for these products as well, albeit to a lesser extent, and see cheese and butter products reverting back to Q1 levels going forward. The exception is nonfat dry milk, which saw its peak back in Q1 and is expected to recover only marginally.

Ethanol

Ethanol and gas demand has recovered approximately 37% from the 48% demand destruction caused by COVID-19 in late March. More plants are turning up the production dial producing more ethanol and buying more corn. Demand is projected to steadily increase over the summer driving season with projected 2020 calendar year demand forecasted to decline over 10% from 2019. A return to 2019 demand is projected for 2021. Lingering COVID-19 effects, small refinery exemptions and trade war tariff battles will continue to challenge ethanol demand. Year round E15 or unleaded 88 (88 for increased octane and engine performance) was approved in 2019.