Corn

Corn markets continue to try and digest a wild growing season and an even wilder demand situation. The United States Department of Agriculture released their August World Agricultural Supply and Demand Estimates (WASDE), which is the first survey-based yield estimate, with a projected national yield of 181.8 bushels an acre. If realized, that would be a new record and more than three bushels higher than the trend line projection made a month earlier. What's interesting to the market, and what has provided some recent support, is that this estimate was based on conditions August 1st. Since that time, the state of Iowa experienced a derecho event over a wide portion of the state, which flattened some areas and damaged others. Typically, weather events of high winds are more isolated. However, estimates of affected area for this event have ranged from 10 to 14 million acres.

Is this enough to support the market? That's a difficult question to answer and its one that probably will remain an unknown until the combines go through. Yes, some areas will be zeroed out. However, other areas, probably much bigger areas, are going to see uneven maturity, tough harvest conditions, difficulty drying down, etc., and the effects of that are nearly impossible to gauge.

Farmers in Iowa, and perhaps even as far north as the very southern reaches of our trade area, are likely to see some basis support. The effect on futures may be less tangible and arrive more likely in the effect of support on the downside rather than pushing an out and out rally. Conditions following the derecho fell 10% in Iowa, extending a decline in condition ratings that started in early July, and left them at the lowest level seen since at least 2016. While it's easy to take this information and want to be friendly at these depressed levels, we'd caution that spread action is not reflecting concern about tightening supplies.

As for demand, this summer has been marked by very sound export sales despite the ongoing trade war. This has had a very noticeable effect on basis in North Dakota, South Dakota and portions of western and northwestern Minnesota as PNW bids strengthen. Much of these sales have gone to China as the country is reported to be replenishing part of their internal stocks. This shouldn't necessarily be read as China seeing a reduction in their stockpile, but rather they seem to be taking this period of historically low prices as an opportunity to rotate out some older supplies. That said, internal auctions have seen nearly 100% absorption lately, so demand is healthy. Further, the pace of sales pushed USDA to raise their export estimate by 75 mbu from July, which was nice to see. Unfortunately, the best way to move excess stocks is low prices, and USDA sees that continuing as production growth outpaces demand growth. The projected average on-farm price for 2020 U.S. corn is now $3.10 a bushel, down 25 cents from the prior month estimate and 50 cents a bushel lower than where the 2019 crop is currently estimated.

One last note on global supplies: USDA's August report increased global production on the back of the higher U.S. yield number as well as a small increase in European Union production estimates. It's interesting to note that while the U.S. export number was raised, and much of those sales have been reported to China, USDA did not raise their expectations for total Chinese imports. Instead, they adjusted import projections for the EU and Southeast Asia. How can that be? Well there's a few different reasons for that but primarily the trade will be waiting to see if these sales 1) actually end up loaded (remember these were reported SALES, not shipments), and 2) continue through the major exporting season this fall or if China was more interested in front loading these sales.

Soybeans

August has seen some interesting price action in soybeans as markets basically rejected a bearish USDA WASDE report and proceeded to lead the grain complex higher in spite of projected balance sheet growth. Numbers are important, but the market's reaction to those numbers is equally important to note. In this case, rallying on the back of bearish news is very likely a sign that the market had already priced that news in. USDA's August numbers showed projected soybean yields up a whopping 3.5 bushel from July (that's a 7% increase in one month, compared to the 1.8% increase projected in corn). USDA's current projection of 53.3 bushels, if realized, would be a record by nearly a full bushel and a half. Further, it would be the 3rd highest upward deviation from the trendline yield in the past 20 years - exceeded only by 1994 and 2016. All that's a mouthful, but the short answer is it looks like the potential is there for an exceptional soybean crop. We do still have to make it through the month of August, which is a major point in the U.S. soybean production season. Weather forecasts currently look dry and rather warm. If those forecasts materialize, the 53.3 bu print is likely to be a high mark.

Regionally, through mid-August, both South Dakota and Minnesota were showing crop conditions that beat previous ratings for this time of year going back to at least 2016. Further, they were not showing the typical decline that naturally takes place through a production season. Wisconsin conditions remained slightly below the 2016 crop but were very strong and actually trending slightly higher. North Dakota soybean conditions were midline and consistent with normal seasonal patterns, indicating a likely average crop in most of that state.

Demand-wise, crush remains the strong point with USDA bumping estimated crush demand up another 20 million bushels from July. That industry remains at near max capacity, but with the major crush season still ahead. USDA also managed to add 75 mbu of export demand to the balance sheet, but like corn, the rising production outpaced demand. Projected carryout of the 2020 crop is still well below the peak of the 2018 crop year but is now nearly flat with estimated carryout for 2019. Projected price levels fell 15 cents from July to $8.35, also 20 cents less than the average projected for 2019 crop.

Globally, soybean trade flows have been a tough battle for a few years now and that doesn't look like it's about to change. USDA added 1 mmt of exports out of Brazil and 2 mmt of U.S.-originated exports compared to last month. Both of those appear to be headed to China, which isn't shocking. Like corn, soybeans have seen a big run in sales recently with the major sales season still ahead. Part of this was due to the U.S. Dollar finally weakening against the Real through the summer, although the past month has really reversed a lot of that benefit. Regardless, it's going to be tough for Brazil to compete through the U.S. harvest season and PNW bids remain firm, benefitting producers throughout AgCountry's trade area.

Wheat

Wheat markets and spreads, not unlike corn, have been on a wild ride this summer. For the purposes of this writing we are going focus primarily on the Hard Red Spring (HRS) market. Harvest started off decently, if not a bit late because of slow plantings in eastern North Dakota and northwestern Minnesota. Rains during the mid-portion of August further slowed things and while quality is exponentially better than last year, there are pockets beginning to see the first signs of declining falling numbers, etc. It appears unlikely to be a widespread issue, but some of those areas will overlap with areas heavily affected last year, and for those producers, it's certainly going to present a financial strain. Going forward, for areas that weren't delayed at one of the most inopportune times, weather looks conducive to progress and the vast majority of areas are seeing decent quality. Samples collected by U.S. Wheat Associates indicate that at the halfway point of harvest, bushel weight ran between 58 to 63 pounds with protein anywhere from 13% to 16% plus. In a bit of good news, later planted wheat is reported to be fairing better yield wise than some of the fields that were put in on time.

As for the WASDE report mid-August, the total U.S. carryout remains fairly flat. That's consistent with what we've seen for the past several years and is a reflection of the U.S. place in the global wheat trade, as well as rather inelastic demand. On the production side, USDA lowered the winter wheat production estimate due to somewhat disappointing yields out of the Southern Plains and portions of Soft Red Winter Wheat county but raised the estimate for both HRS and durum. USDA's monthly report raised the average estimated U.S. HRS yield to 49 bushels compared to 46.6 the prior month (28 million bushels, total), and also raised the estimated national durum yield by a whopping 4.3 bushel to 42.8 bu/ac, which remains slightly less than last year. Overall, total U.S. wheat production increased by 14 million bushels compared to July.

The increased supply allowed USDA some flexibility in the demand column with projected 2020 wheat imports declining by 10 million bushels. Further, continuing low prices have made the U.S. slightly more competitive, and just like corn and soybeans, we've seen an uptick in export activity allowing for another 25 mbu of demand. USDA is now down to a 925 mbu projected carryout. However, being only two months into the marketing year that number is fluid. Projected average marketing price for 2020 wheat is $4.50/bu, down 10 cents from the July and down 8 cents from the final 2019 price.

Sugar

USDA WASDE reports for August reflected conditions that have been reported throughout much of the Red River Valley. Beet originated sugar production was raised by 198,840 short tons while cane originated sugar production increased by 30,000 short tons. As of this writing, two hurricanes are headed to the gulf which have the potential to affect cane production before the September WASDE is issued. While the increased production was mostly anticipated, there were some adjustments that moderated the effect. Carry in from 2019 was reduced (less sugar carried forward from 2019 than had been projected) and import projections were slightly reduced as sugar shipped in the 2019/2020 year was reallocated under the newly signed USMCA.

As for demand, no changes were made compared to the July estimate, leaving projected carryout at 1.788 million short tons. That's up 44,000 short tons from the 2019 crop year and up 123,000 short tons from the July estimate. Current stock to use ratio of U.S. sugar is very similar to the final 2018 position

Dry Beans

Dry beans were included as part of the August crop production report released August 12th and will typically be reported every other month until finalized. Total all-class dry bean area for 2020 was reported at 1.6 million acres across the U.S. with North Dakota well into the number one slot with 790,000 planted acres. That's up substantially from the 615,000 planted in 2019, although that number was adversely affected by weather issues during planting. Minnesota dry bean planted area is estimated at 255,000 acres, which is good for third place nationally (just 3,000 acres behind Michigan). Projected abandonment from USDA looks typical with little to report that way at this point.

By class, Pintos remain the number one choice with 532,000 acres planted in 2020, followed by Blacks (126,000 acres) and then Navies (96,000 acres). Minnesota remains dominated by Dark Red Kidneys (81,800 acres) followed by Blacks, (65,500 acres), Navies (46,900) and then Light Red Kidneys (22,000). Other classes were planted in both states but were minimal.

Unfortunately yields are not projected by class, but the all-class projection by USDA is calling for hefty increases from last year in both states. That's not surprising given the incredibly wet planting and harvest in dry bean areas of those states last year. It is, however, an indication that barring similar issues this fall, contracts offered this winter maybe less attractive. The average all class yield for North Dakota is projected at 1,800 lbs/acre, up 400 lbs from last year. Minnesota's average yield is projected at 2,480 lbs/acre, also up 400 lbs/acre. Nationally, the projected average dry bean yield increased 319 pounds to 2,088 lbs/ac.

There is not much market activity to report, but what has happened in the Minn-Dak region appears steady with July.

Pork

USDA WASDE forecasts for pork production were unchanged from July, which is to be expected since July was just coming out of a Quarterly Hogs and Pigs report. That said, total numbers on the ground and planned for the next year still leaves a lot of variables, including finishing weights. On the whole, weights appear to be heavier than last year at this time by about three pounds, but not rising and certainly not out of line considering we aren't that far out of a massive backup due to plant shutdowns. There remain a lot of questions about how current the U.S. market hog inventory is, but there isn't any one right way to answer that question right now. One item that is providing some hope, at least on the demand side, is the monthly cold storage report

There were a couple interesting notes in this report that would suggest some underlying support for the pork industry – although a return to profitable prices still appears a ways out. Primarily, while production is known to be moving higher, August Cold Storage numbers showed that total pounds of pork in freezers is down 25% from one year ago. That contrasts with just a 3% dip in frozen beef stocks and a 3% rise in frozen chicken. Much of this is a reflection of good demand but also increased export sales, even if China allowing U.S. pork imports didn't result in AS MUCH demand as hoped for. Further, stocks were level with June so we aren't growing stocks. However, summer time is typically one of the better seasons to move product out anyway. The biggest cuts seeing a decline from last year were "other" (down 45% year over year), but also bone in loins and hams. Stocks of variety meats also dipped, but that is more a reflection of export sales than anything. Pork bellies remain a mover as well, with stocks August 1 down 20% from 2019, but also down 21% from July 1, 2020.

There are a lot of good things happening in hogs that the market didn't really expect a few months ago. The U.S. market as a whole appears to be holding less over finished hogs than many thought back in May, and what is in stock is moving quickly. That said, prices still have a ways to go. August saw at least one major sow herd reduction come through the industry but we're likely going to need to see more of that before producers are going to feel comfortable with their margins

Beef

Cattle markets have rallied nicely into the month of August, which is somewhat seasonal. However, more impressive to many analysts is the ability of prices to hang in there despite significant confirmation of growing inventory levels in the U.S. Released on July 24th, USDA- National Agricultural Statistics Service issued their semi-annual cattle inventory report showing total numbers slightly higher than anticipated (although admittedly, not much growth, which was appreciated). Beef cow and heifer inventory was down 1% from the prior year; heifers over 500 pounds were unchanged; bulls over 500 pounds were unchanged; and calves under 500 pounds were slightly lower. The only growth came from the 500 pound plus steer inventory, which was not a major surprise given some early placements in a few areas and the fact that on feed numbers are reported monthly. While probably a bit premature to make the call, it does appear that inventory levels have peaked, at least for the intermediate term.

Now, be careful about reading too much short-to-intermediate-term bullishness into the last sentence. Yes, total herd numbers are leveled off. Unfortunately, the amount of calves going to feedlots has not.

On August 21st, USDA released its monthly Cattle on Feed numbers and feedlot inventories were larger than the trade expected. On feed numbers were 101.5% of the prior year, reflecting both lower marketing in July as well as higher placements (remember the Southern Plains have very dry conditions and have started pulling pairs early). It was also the highest number posted for an August on Feed report. Regionally, Minnesota showed the largest percentage growth in on feed numbers, at 110,000 (+14%). Obviously, this is a drop in the hat compared to the big feeding states of Nebraska, Kansas, and Texas. But it does have implications for cow/calf growers needing to sell this fall as lots are likely to be less hungry for inventory.

Timing is everything and cattle marketing is no exception. Cattle on Feed more than 120 days remains high, reinforcing that U.S. feedlots are perhaps not totally current. They are, however, headed in the right direction. Further, the slight decline in cow numbers, along with tough drought conditions in parts of Kansas, Oklahoma and Texas, would fuel ideas that the 2021 calf crop will be smaller. Until then, we have plenty of supply to be worked through.

Dairy

August WASDE numbers for milk production were slightly discouraging with average projected prices for the last half of 2020 and the first half of 2021 being reduced. The changes aren't large but they are consistent across classes and products. USDA is projecting the average Class III price for the whole of 2020 will be $17.40/cwt, down 60 cents/cwt from the July estimate. Class IV projections fell 40 cents from the prior month. The outlook for 2021 also moderated with Class III projections down 10 cent/cwt.