Crop market outlook, trade disputes and policy issues

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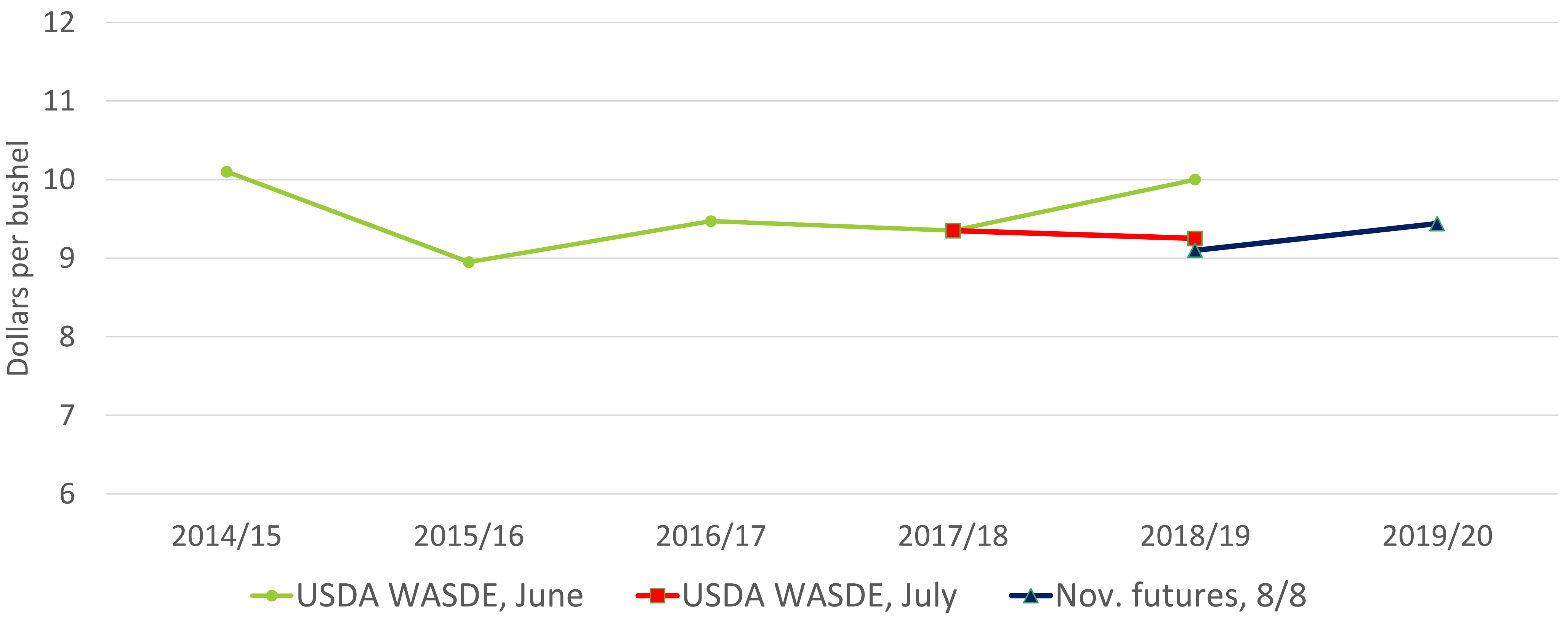
Agenda

- Crop market outlook and impacts of trade disputes
  - Soybeans
  - Corn
  - Wheat
  - Cotton
  - Rice
- Policy issues
  - Trade dispute relief package
  - Farm bill

Soybean price outlook: USDA projections and November futures market prices



Overview of trade disputes

China

- U.S. has put in place tariffs on $34 billon of Chinese products in response to China's intellectual property practices and other policies
- China has retaliated with 25% tariffs on U.S. soybeans and other products with a combined value of $34 billion
- Tariffs on an additional $16 billion in goods from both sides are scheduled to go into effect Aug. 23
- More measures threatened (President: 25% tariffs on additional $200 billion; China: we would respond)

Steel and aluminum

- U.S. put in place tariffs on steel and aluminum imports citing national security concerns
- Trading partners from Europe to Mexico to China have responded with tariffs on U.S. goods, including pork, cheese, and other agricultural products

NAFTA renegotiation

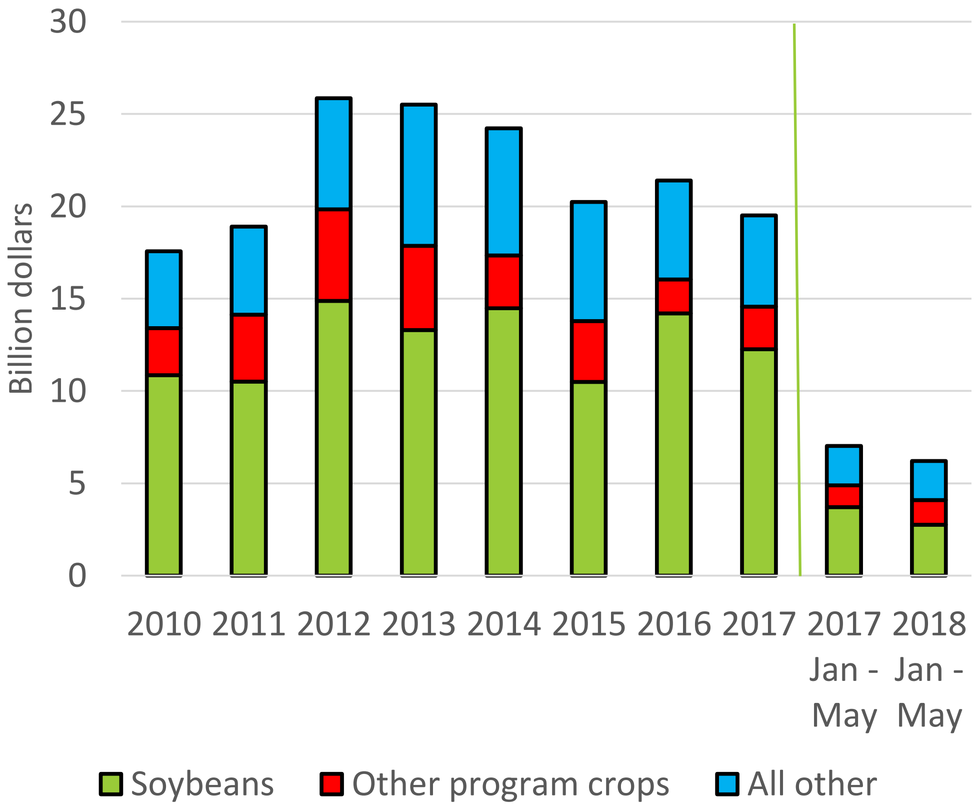
- Discussions with Mexico and Canada continue

China’s agricultural imports from the U.S.

Between 2010 and 2017, China’s imported an annual average of:

- $21.6 billion of U.S. agricultural products
- $12.6 billion of U.S. soybeans (58% of total)
- $3.2 billion of U.S. cotton, sorghum, corn, wheat, rice, and other program crops (15%)
- $5.8 billon of other U.S. agricultural products, including pork, dairy products, distillers grains and much more (27%)

The value of U.S. agricultural exports to China is down 11% for the first five months of 2018 vs. the same months in 2017



Source: USDA FAS GATS, accessed Aug. 1, 2018

Implications of China’s soybean tariff

New 25% tariff on imports of U.S. soybeans…

- Pushes up prices of U.S. soybeans delivered to final users in China
- Pushes down prices of soybeans in the U.S.

These changes in U.S. and Chinese soybean domestic soybean prices…

- Discourage sales of U.S. soybeans to China
- Encourage sales to China of soybeans from Brazil, Argentina and other exporters

Soybean prices in other exporting countries…

- Probably will increase with Chinese prices and certainly will not fall as much as U.S. prices
- Which will discourage competitor sales to the EU and other importers
- And encourage U.S. exports to those same destinations

Thus, much of the effect will be to rearrange global soybean trade patterns

How big are the U.S. soybean market effects likely to be?

Short answer: we don't know

Comparing pre-tariff and post-tariff estimates for the 2018/19 marketing year from USDA in the June and July WASDE reports:

- U.S. exports are reduced by 250 million bushels
- Total supplies are essentially unchanged (more production, but lower beginning stocks)
- Projected prices are $0.75 per bushel lower, as ending stocks are 195 million bushels higher

Note that China's tariffs are not the only reason for these changes—but it seems likely that they are the single largest factor

2018 U.S. soybeans	June USDA estimate	July USDA estimate	Difference
Production (mil. bu.)	4,280	4,310	+30
Beginning stocks	505	465	-40
Exports	2,290	2,040	-250
Domestic use	2,135	2,180	+45
Ending stocks	385	580	+195
Farm price ($/bu.)	8.75-11.25	8.00-10.50	-0.75

Some soybean market issues

What will happen on the trade front?

- Short and long-run market responses to current tariffs
- Future policy responses here and abroad (will return to U.S. compensation package in later slides)

How big will this year's U.S. crop be?

- First USDA survey-based estimate tomorrow
- Market anticipates bigger crop than trend-line yields used in July WASDE projections

How about the Missouri crop, especially in drought-affected regions?

U.S. corn market at a glance

In July, USDA projected a slightly smaller crop in 2018 than in 2017

Domestic use was forecast to be flat in 2018/19

Exports were expected to be strong, but not as high as in 2017//18

Combination would have led to a drop in U.S. ending stocks and an increase in the midpoint of projected MYA prices ($3.80 vs. $3.40)

Market anticipates a larger crop--$3.85 Dec. 2018 futures on Aug. 8 suggest an MYA price around $3.60 or so, given typical basis

USDA, 7/18 estimates	2017/18	2018/19
Area planted (mil. a.)	90.2	89.1
Yield (bu./harv. a.)	176.6	174.0
Production (mil. bu.)	14,604	14,230
Feed & residual use	5,450	5,425
Ethanol & coproduct use	5,600	5,625
Exports	2,400	2,225
Ending stocks	2,027	1,552
Marketing year avg. (MYA) price ($/bu.)	$3.30-$3.50	$3.30-$4.30

One positive piece of news: U.S. corn exports stronger than expected

U.S. corn exports in the current marketing year have been much stronger than anticipated in early 2018

Main reason: reduced exports from Brazil and Argentina because of drought there

This has boosted U.S. exports in 2018—but also means that U.S. exports might fall back if South America harvests a larger crop in early 2019

Corn market	Jan. USDA estimate for 2017/18	July USDA estimate for 2017/18
U.S. corn exports (mil. bu.)	1,925	2,400
(U.S. change)		(+475)
Argentina exports	1,142	945
Brazil exports	1,339	1,024
(S. Am. change)		(-512)
2017/18 MYA price (midpoint, $/bu.)	$3.25	$3.40

Some corn market issues

How big will this year's crop be? Watch tomorrow's report

USDA says China has been reducing stocks

- Is this correct?
- What about China's plans to sharply increase ethanol production?
- Might China readjust domestic subsidies to encourage or discourage corn production?
- More production would mean less need for corn imports; adjusted subsidies could encourage soybeans

What's in the cards for the RFS, E-15 and other biofuel market and policy issues?

U.S. wheat market at a glance

A larger expected spring wheat crop meant USDA projected an increase in 2018 wheat production

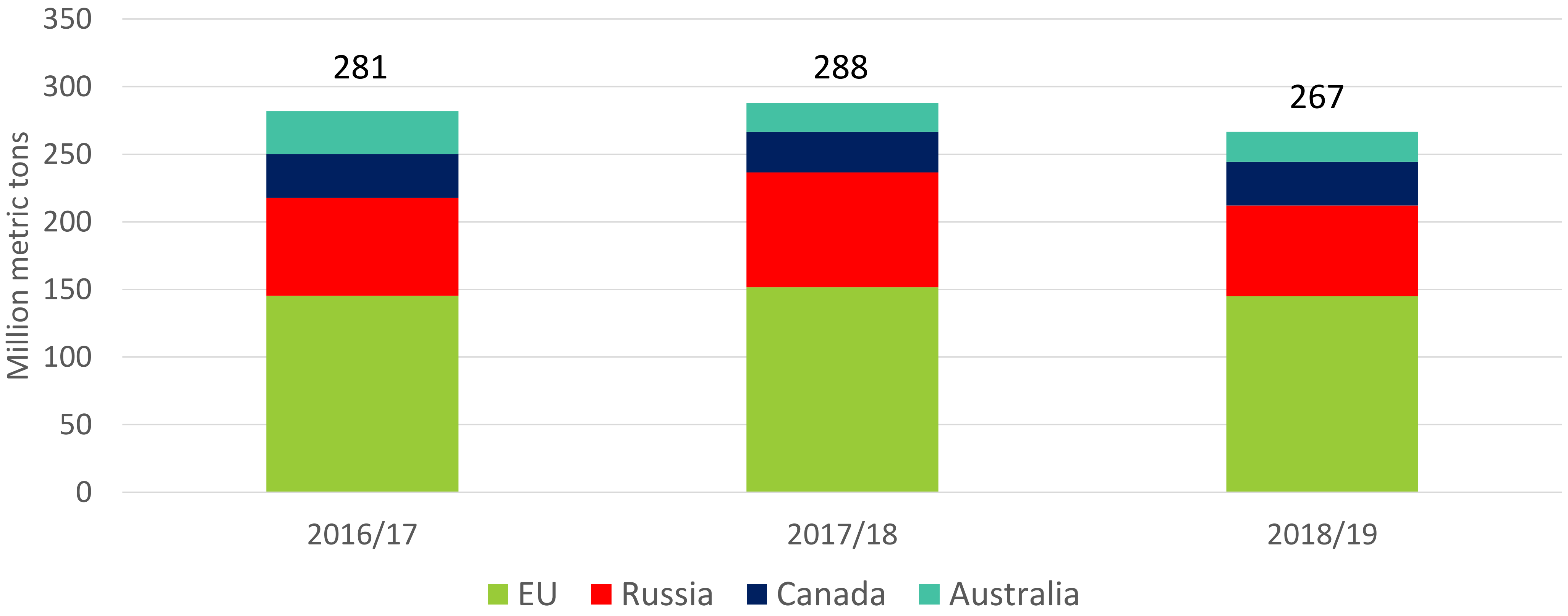
Higher feed use and exports allow projected stocks to decline

But those stocks remain very high by historical standards

The midpoint of USDA's July price forecast suggests a slight increase in 2018/19

USDA, 7/18 estimates	2017/18	2018/19
Area planted (mil. a.)	46.0	47.8
Yield (bu./harv. a.)	46.3	47.5
Production (mil. bu.)	1,741	1,881
Feed & residual use	50	130
Food & industrial use	963	965
Exports	901	975
Ending stocks	1,100	985
Marketing year avg. (MYA) price ($/bu.)	$4.73	$4.50-$5.50

Wheat production in some major exporters



U.S. cotton market at a glance

Higher-than-expected prices and policy changes contributed to an increase in 2018 cotton area planted

But drought in Texas could result in fewer acres harvested and reduced production

July USDA estimates suggest lower exports will result in flat ending stocks

Prices are nevertheless projected to be higher in 2018/19

Futures prices have been even higher, in part because of strong export demand

USDA, 7/18 estimates	2017/18	2018/19
Area planted (mil. a.)	12.6	13.5
Area harvested	11.1	10.5
Yield (lbs./a.)	905	845
Production (mil. bales)	20.9	18.5
Domestic mill use	3.4	3.4
Exports	16.2	15.0
Ending stocks	4.0	4.0
Marketing year avg. (MYA) price (cents/lb.)	68	68-82

U.S. rice market at a glance

Rice area increased this spring, as rice prices were higher than a year earlier

With normal yields, 2018 production could far exceed the 2017 level

Even if exports rebound, the result could be higher ending stocks and lower prices

Check tomorrow's WASDE for any changes in U.S. production or the global situation

USDA, 7/18 estimates	2017/18	2018/19
Area planted (mil. a.)	2.46	2.84
Yield (lbs./harv. a.)	7,507	7,599
Production (mil. cwt)	178.2	213.0
Domestic use	129.0	128.0
Exports	90.0	102.0
Ending stocks	32.3	42.3
Long grain rice, MYA price ($/cwt)	11.70	10.70-11.70

Trade relief overview

On July 24, the Administration announced it would implement 3 programs to provide up to $12 billion to offset the “impact of the unjustified retaliatory tariffs on U.S. agricultural goods”

1) Market facilitation program

- FSA will make payments to producers of soybeans, sorghum, corn, wheat, cotton, dairy and hogs
- Payments will be based on actual 2018 production
- Rates have not been announced

2) Food Purchase and Distribution Program

- AMS will purchase surplus commodities, such as “fruits, nuts, rice, legumes, beef, pork and milk for distribution to food banks and other nutrition programs”

3) Trade Promotion Program

- FAS will administer program “with the private sector to assist in developing new export markets”
- According to Reuters, Secretary Perdue indicated $200 million will be spent on this program

Source: https://www.usda.gov/media/press-releases/2018/07/24/usda-assists-farmers-impacted-unjustified-retaliation

Market Facilitation Program (MFP): What we know and do not know

Secretary Perdue has indicated payments will be based on actual 2018 production

- Farmers will likely be required to report their production when they sign up
- He has also said this program is only for this year—farmers should not assume a similar program in 2019

Payment rates have not been announced

- We do not know how these will be set, but they may be based on estimates of how much the trade measures have affected trade and prices

Some more things we do not know (for sure) as of August 8, 2018

- Will any special provisions be made for producers affected by drought, such as those in NW Missouri, who will not have much crop to market in 2018?
- Will payment rates in any way be adjusted to reflect likely payments under other government programs, such as ARC, PLC and crop insurance?
- Will there be any legal challenges to the program that might affect whether or when payments are made?

How big might Market Facilitation Program payments be?

Short answer: we don't know

The Secretary has indicated $7-$8 billion in total payments are likely

Seems reasonable to assume soybeans will account for a significant share of the total

Table shows what costs for soybeans would be at different payment rates assuming 2018 production of 4.31 billion bushels (the July WASDE estimate)

I do not know what the payment rate will be (and if I did, I probably couldn't tell you)

Soybean payment rate	Total payments
$0.25 per bushel	$1.08 billion
$0.50 per bushel	$2.16 billion
$0.75 per bushel	$3.23 billion
$1.00 per bushel	$4.31 billion

What about MFP payments for other products?

Short answer: we don't know

Consider corn

- As indicated earlier, the direct impact of China's tariffs on U.S. corn are likely to be small
- However, lower prices for soybeans and other directly affected crops like sorghum have spillover effects on the corn market
- Why? Lower soybean prices mean more 2019 corn plantings; lower sorghum prices mean less 2018/19 corn feed use
- If USDA considers these spillover effects, there could also be significant payments to corn producers, given a projected 14.2 billion bushel corn crop

Corn payment rate	Total payments
$0.00 per bushel	$0.00 billion
$0.05 per bushel	$0.71 billion
$0.10 per bushel	$1.42 billion
$0.15 per bushel	$2.13 billion

Farm bill overview

Both the House and the Senate have passed their versions of a new farm bill and agreed to go to conference to resolve differences

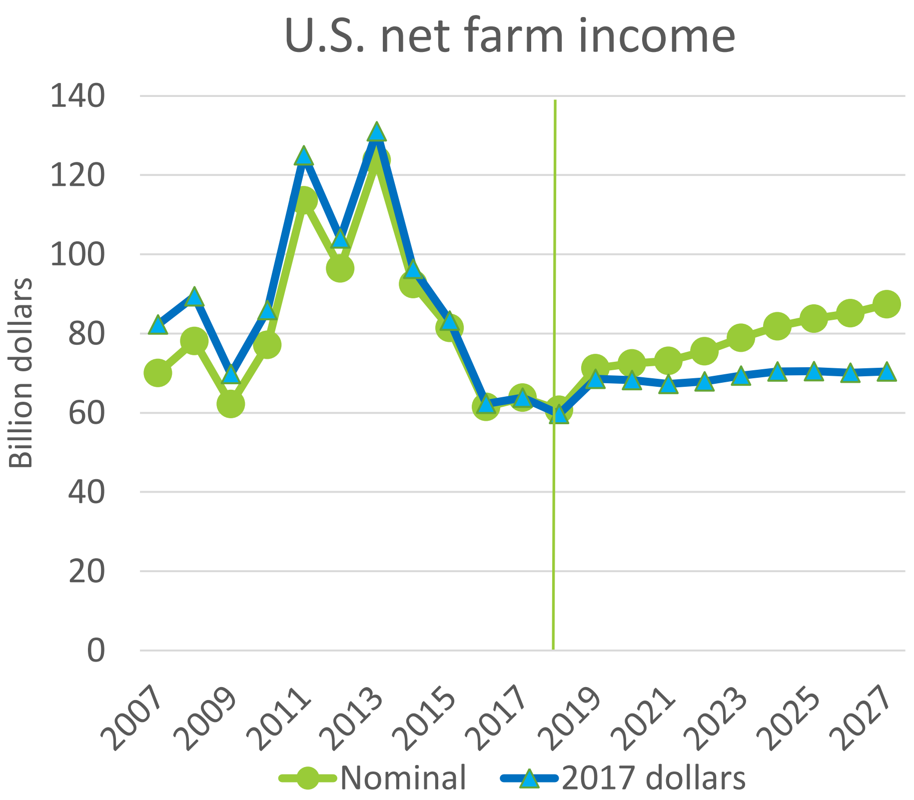
The bills have much in common, especially with respect to commodity programs

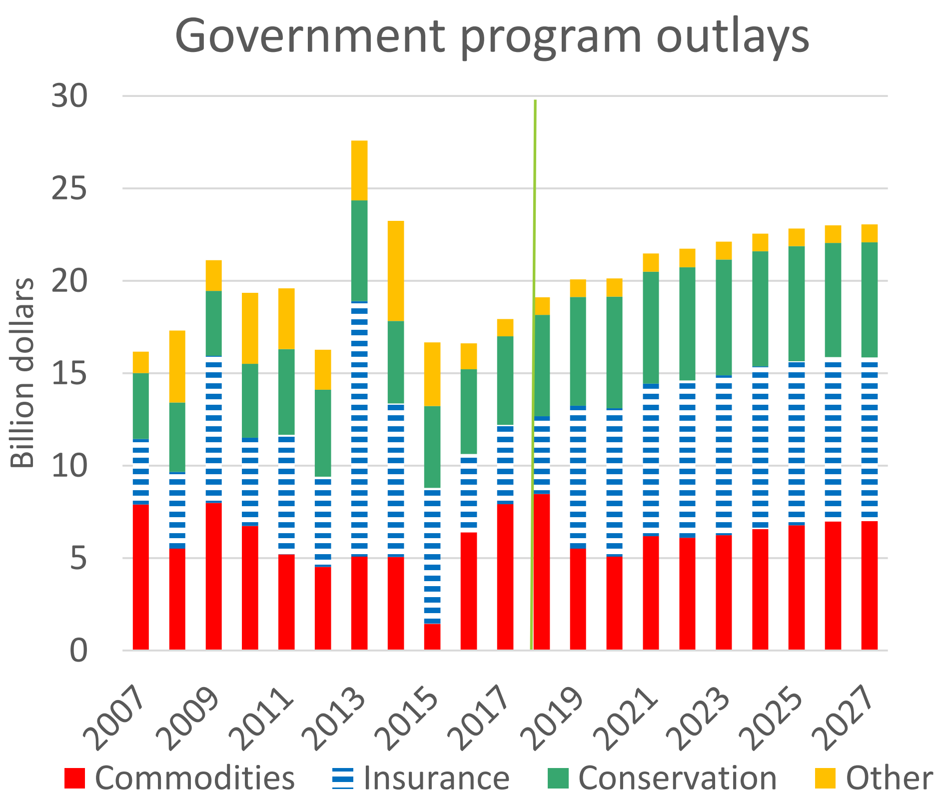
However some important differences need to be resolved

- Biggest is probably SNAP, where the House imposes stricter work requirements and proposes other changes not accepted by the Senate
- Conservation titles include the elimination of the Conservation Stewardship Program by the House and a smaller increase in CRP acres in the Senate bill
- In Title I (commodity programs), important differences include payment limitation rules, with smaller differences in ARC and PLC formulas

Sen. McConnell has indicated he would like a compromise, ready to be voted upon, shortly after Labor Day

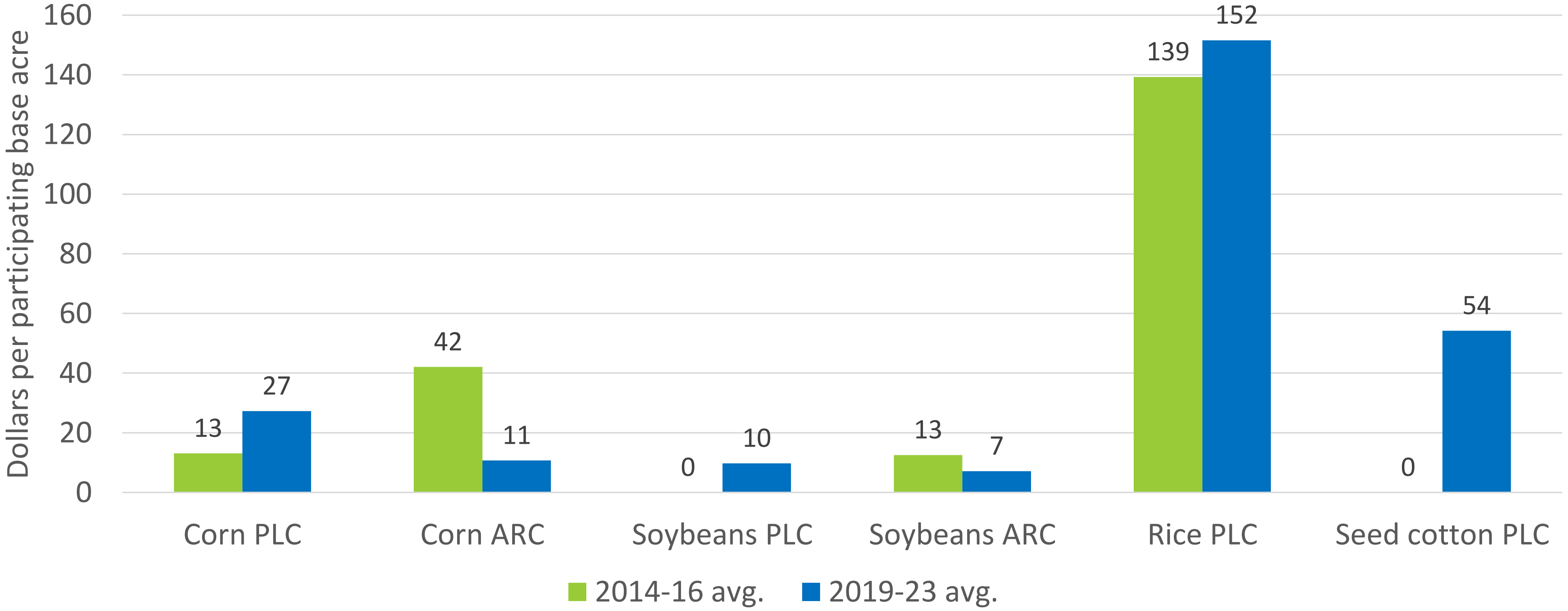
March 2018 FAPRI baseline for farm income and government program costs





Source: FAPRI-MU baseline, March 2018, available at https://www.fapri.missouri.edu/publication/2018-u-s-baseline-outlook/. Projections are averages of 500 stochastic outcomes, assuming continuation of policies in place in January 2018.

U.S. average ARC and PLC payment rates, period averages



Source: FAPRI-MU estimates. 2014/15-2016/17 average based on data reported by USDA. The projected average for 2019/20-2023/24 uses the FAPRI-MU March 2018 stochastic baseline adjusted for seed cotton provisions.

Final comments

The farm bill has received less public attention than in past farm bill years

One important reason is that trade issues have been at the center of concerns and debates

Another reason is that neither the Senate nor the House is proposing to make major changes in farm commodity programs or crop insurance

Policy-related uncertainty is especially high right now
- The farm bill, of course
- But probably more importantly, the future of trade disputes and trade relief
- And another topic not discussed today: biofuel policy

FAPRI will be updating its baseline later this month
- Will reflect current market information
- And will assume current policies—including trade measures already in place

Thanks!

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