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Official offers reassurances on trade talks

BY DIRCK STEIMEL

Despite the current turbulence in international agricultural trade, the Trump administration's work to hammer out better trade deals with China, Mexico, Canada and other key importers will solidify export demand over the long term and improve farmers' global market access, a Trump administration official said recently during a visit to Iowa.

Gregg Doud, chief agricultural negotiator for U.S. Trade Representative (USTR), said he understands and appreciates that farmers are very apprehensive now about the future of trade with China, Mexico and other prime markets. "But we want to get this right for the long term," he said.

Doud, who grew up on a farm in Kansas, held a roundtable discussion about trade issues with Iowa Gov. Kim Reynolds, Iowa Agriculture Secretary Mike Naig and representatives of the state's ag groups. He also made a presentation at the World Pork Expo in Des Moines and visited Couser Cattle Company in Story County.

The roundtable at the Iowa Farm Bureau Federation (IFBF) was organized to voice Iowa farmers' and state leaders' concerns about the unsettled trade climate, said Craig Hill, IFBF president. "We want to keep delivering the message to the Trump administration that agriculture is concerned about the current instability and lack of predictability in trade," he said.

Trade concerns, Reynolds said, are heightened by the overall downturn in the ag economy. "We have a pretty fragile economy in agriculture right now," she told Doud. "That makes trade all the more critical for our farmers."

Issues complex

Doud said the problems that the Trump administration is working to remedy are complex, entrenched and will take time to fix.

Many of the big issues with China are over intellectual property and the future of high-tech, Doud said. That's why the administration is targeting very specific high-tech sectors with tariffs, he said. "It is multi-faceted and complicated and doesn't have anything to do with agriculture," Doud said. "But unfortunately, agriculture gets dragged into it."

In addition, Doud said, it's important for the United States to work to end China's trade distorting practices in agriculture policy. Those practices, such as heavily subsidizing its farmers, building big commodity stockpiles that depress world prices and using non-scientific barriers to block imports, need to be changed, he said.

"We have got to have discipline to keep working to push China to change its ag policy, if we have any long-term hope of bettering our ag prices here in the United States," Doud said. "I understand the nervousness and sensitivity around China. But I want you to understand that we have to look at this from three, five or 10 years down the line. If we don't get more discipline in what's going on in Chinese agriculture, the cancer is going to spread."

Pork industry officials said they felt like the industry was at the "tip of the spear" when it came to recent trade retaliations.

Gregg Doud, chief agricultural negotiator for U.S. Trade Representative, makes a point to Iowa Gov. Kim Reynolds during a roundtable discussion at the Iowa Farm Bureau Federation. PHOTO / DIRCK STEIMEL

"It's very painful for us. We're the biggest single sector in the United States that's right now taking it on the chin," said Nick Giordano, vice president and counsel of global government affairs for the National Pork Producers Council (NPPC).

U.S. pork producers have lost $2.2 billion on an annualized basis due to events leading up to and following China's 25 percent punitive tariffs alone, according to Iowa State University economist Dermot Hayes.

A focus on NAFTA

Trump administration trade officials, Doud said, are also working hard to renegotiate the North American Free Trade Agreement (NAFTA) with Canada and Mexico. Continued disagreements over autos appear to be the biggest issue holding up the NAFTA renegotiation, he said.

Doud downplayed concern expressed by some members of Congress about finalizing NAFTA so it can be considered before the end of 2018.

"The president has said he will take however long it takes to get it right," he said. "There is no panic about NAFTA, but everyone is in the trenches trying to get it worked out."

The USTR is also working on bilateral trade agreements with key importers, especially Japan, Doud said. "That is a critical market for agriculture, and we need to get to work to get an agreement done."

In addition, the USTR is starting work on agreements with Vietnam, the Philippines and nations in Africa, Doud said. Another key opportunity will be the United Kingdom, once the Brexit process is completed, he said.

By Mike Sila
Senior Vice President, Beef Division
Producers Livestock Marketing Association

Research cattle marketing opportunities

BY MIKE SILA

With last year's calves now being finished, we continue to market our way through the wall of cattle that everyone expected for this summer.

We have seen the weekly slaughters running between 650,000 to 664,000 head allowing us to work through these large numbers.

Now it is time to look ahead to see what opportunities might be available for this fall. The video auctions have begun to offer calves for fall delivery, and the ranchers have also started to price some calves in the country.

Feeder cattle prices continue to see support from feedlot profits, feed costs and availability. The first large video auction of the season also showed this strength with cattle of comparable classes being mostly $2 to $7 per hundredweight (cwt) higher than last year's auction.

Steer calves in the north central states of Montana, Wyoming, North Dakota, South Dakota, Colorado, Nebraska and Iowa averaged $159.55/cwt at 667 pounds FOB the ranch or nearby scale. The range on these steer calves was from $150.00 to $167.50/cwt weighing 650 to 690 pounds. At these levels profitable hedging opportunities are non-existent, and live cattle futures continue to see pressure from placement numbers and talks surrounding the issues that tariffs may have on exports. Feed cost might be the most optimistic part of the feeding phase with December corn futures being at or near contract lows.

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At the close

Cattle inventory sets new high

In its monthly cattle on feed report, the U.S. Department of Agriculture (USDA) said the U.S. cattle inventory was up 4 percent from one year ago.

Cattle and calves on feed for the slaughter market in the United States for feedlots with capacity of 1,000 or more head totaled 11.6 million head on June 1, 2018, the USDA said. The inventory was 4 percent above June 1, 2017, and the highest June 1 inventory since the series began in 1996, the USDA noted.

There were 720,000 cattle on feed in Iowa feedlots on June 1, the USDA said. This was up 6 percent from June 1, 2017.

Placements in U.S. feedlots during May totaled 2.12 million head, slightly above 2017. There were 80,000 head placed on feed in Iowa feedlots during May, down 6 percent from May 2017.

Marketings of U.S.-fed cattle during May totaled 2.06 million head, 5 percent above 2017, the USDA said. There were 87,000 head marketed from Iowa feedlots during May, up 6 percent from May 2017, the USDA said.

Seaboard adding shift

Seaboard Triumph Foods announced it has targeted mid-October 2018 to begin second-shift pork processing at its Sioux City facility, Meatingplace reported.

Since May 2018, the new pork processing plant has been running limited operations on the second shift while hiring and training for the second shift, Meatingplace said.

Record meat production

U.S. red meat production — including beef, pork, veal, lamb and mutton — set a record in May, the USDA said last week in a report. Commercial red meat production for the United States totaled 4.5 billion pounds in May, up 5 percent from the 4.28 billion pounds produced in May 2017.

Record pig inventory

The U.S. inventory of all hogs and pigs on June 1, 2018, was 73.5 million head, up 3.4 percent from last year and up 1 percent from March 1, 2018, the USDA said in its recent report. This is the highest June 1 inventory of all hogs and pigs since estimates began in 1964, USDA said. Analysts had expected a 3 percent increase in the inventory.

Milk production rises

Milk production in the 23 major states during May totaled 17.9 billion pounds, up 0.9 percent from May 2017, the USDA said in its report. Dairy cows in Iowa produced 451 million pounds of milk during May, up 1.1 percent from May 2017, the USDA said. There were 220,000 dairy cows in Iowa during May, the report said.

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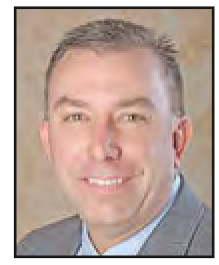
Practical economics and the livestock industry

BY TIM MEYER



I like to stay current with the world around me. I follow industry news, political news and enjoy numerous magazines and other literature. I find myself being turned off more and more by typical news sources as I get older, and maybe a little wiser.

There is so much energy being spent on the message, and that message is being dictated by the ownership of the news organization or publication with a political agenda.

I grew up watching Walter Cronkite and Harry Reasoner (Google them if you are under 45) and I never doubted what they were reporting was true. Today, the news is being presented with a message in hopes of influencing your political bias or consumption habits.

As Washington, D.C., becomes more and more politically polarized, the ongoing debate in production livestock continues to escalate and polarize producers as well. There are many ways to raise livestock and even more opinions on what is considered the "right way" to raise the animals to market weight for human consumption. Debates rage over the welfare of the animals and their care. Consumers are interested in the "story" behind their food. Go to any farmers market in a metropolitan region and listen to the questions asked of the vendors.

I am quite confident that most every livestock producer is doing their very best to raise livestock humanely and efficiently, all in hopes of maintaining their own economic viability. This, my friends, is where the slope gets slippery.

Producing the amount of food to feed the entire world affordably requires economically-efficient production practices. Not just in North America, but in the entire world. For those of us involved in the day-to-day grind of raising livestock to market weights for human consumption, we know all too well the financial challenges that come with feeding livestock. We must use management practices that allow us the best opportunity for profitability. If we cannot be profitable, we will no longer exist.

Our "friends" who suggest that we are not treating our animals humanely have more than likely never set foot on a livestock farm. They have formed this opinion from the news sources they choose to listen to. They have bought into their message.

As livestock producers we need to spread our own message. We need to share our compassion we have for our livestock and explain the reasons that guide how we raise them.

If we fail to do this, the wrong message is conveyed and we as producers suffer. If we don't stand up for ourselves soon, we may suffer to the point of non-existence. We can't allow that to happen. I encourage you to get vocal with your message and spread the word that livestock production is an honorable way to make a living and provide a safe, reliable product for all consumers to enjoy.

Meyer is senior vice president of Producers Livestock Credit Corporation.

Election results

Results of the 2018 election for the Term 2018 to 2020 saw incumbent Dave Lamb of Anselmo, Nebraska, re-elected for a third term to the Western Nebraska/Colorado/Wyoming Region, and Gregg Bartak of Ewing, Nebraska, newly elected to the Eastern Nebraska Region. Congratulations to both of these directors.

Elections for directors of the Producers Livestock Board are held annually in February. Directors are elected by Region for a three-year term. To run for director, a person needs to be an active member/customer of Producers Livestock Marketing Association. If you, or someone you know, are interested in running for or need more information about running for the board, please contact either Rick Keith or Deb Engler at 800-257-4046.

Regions up for election/re-election in January 2019 are South Dakota/North Dakota/Montana Region and Southern Iowa Region.

By Rick Keith
President, CEO
Producers Livestock Marketing Association

Varying views on NAFTA, trade deals

I thought it would be interesting to write about the North American Free Trade Agreement (NAFTA) negotiations and the differences between the National Cattlemen's Beef Association and R-CALF USA. In an article written by the BBC "The World" the author interviews two South Dakota cattlemen: Kenny Fox and Eric Jennings.

The two men have both been busy vaccinating and branding their calves, and preparing to get hay ready for winter. Fox is in his 60s; Jennings is in his 50s. Their lives, jobs and outlooks have a lot of overlap. Where the two men differ sharply, however, is on trade.

"We have people who have lost jobs because of NAFTA," says Fox.

On the flip side, Jennings says, "We're very happy with NAFTA. It has opened up our borders tremendously."

At a crossroads

The North American Free Trade Agreement is at a crossroads, renegotiations for the 24-year-old trade deal started last August. The three parties — the United States, Canada and Mexico — have made some progress, but don't appear close to an agreement, with President Donald Trump continually threatening to walk away from the trade pact if he can't get a better deal.

NAFTA is generally seen as positive for most segments of U.S. agriculture. For beef, the pact got rid of tariffs and quotas between the three nations. Since NAFTA came into effect in 1994, U.S. beef exports to Mexico have increased by more than 450 percent, while exports to Canada have more than doubled.

But sales are going in every direction. Beef, and live cattle, imports to the U.S. from Canada and Mexico have also risen sharply in the time of NAFTA. During that time, the U.S. has accumulated a $32 billion trade deficit for beef products. During the last three months, Mexican feeder cattle imports are up sharply. And that's why Fox, the farmer opposed to NAFTA, doesn't like the trade deal.

"I don't think we need as many cattle coming into this country as there is," says Fox. "That is causing people to go out of business. It is causing young people not to go in because it costs so much money to get started."

Economists say trade deficits don't really matter; they're simply a reflection of products going from where they're most efficiently produced to where there's demand. And since NAFTA came into effect, beef production is up in all three nations. Still, for established cattlemen like Fox, more competition can often mean more work for less money.

"We repair what we got instead of buying new. We don't build new fences. We just kind of limp along and hope for the best," says Fox.

These days, however, he's got more hope that things will change.

"President Trump is the only ally that we really have in Washington," says Fox. "And I feel that he has done more in the short time he's been there than any president that I know of in my lifetime."

Fox is a member of R-CALF USA, a nationwide organization of cattle ranchers. Bill Bullard, the organization's CEO, says since NAFTA came into effect, imports of Mexican and Canadian products have taken a toll.

"Since the 1994 implementation of NAFTA, we have lost 20 percent of all of our beef cattle operations in the United States," says Bullard.

There have also been other factors at play during that time: droughts, technological advances and consolidation of farms.

Bullard says they're not opposed to competition, just unfair competition. He says stricter American regulations make it more expensive to produce beef in the United States than in Canada or Mexico. And his organization argues that Canadian and Mexican cattle ranchers get more help from their respective governments.

Bullard says NAFTA needs some key revisions to protect American cattle ranchers.

"If Mexico can produce cattle far cheaper than the United States, then we should add tariffs to that product coming into this country so that our beef produced under the U.S. production regime can compete with the Mexican cattle," says Bullard.

His organization also wants other issues addressed by American trade negotiators, like restoring country-of-origin labeling for beef and implementing stricter food safety standards. And Bullard says if NAFTA can't be fixed: "We should rip it up."

Then there is the other U.S. perspective on NAFTA coming from The National Cattlemen's Beef Association. The headline of their one-page summary reads: "U.S. Beef Under NAFTA: An Export Success Story."

Choosing a side

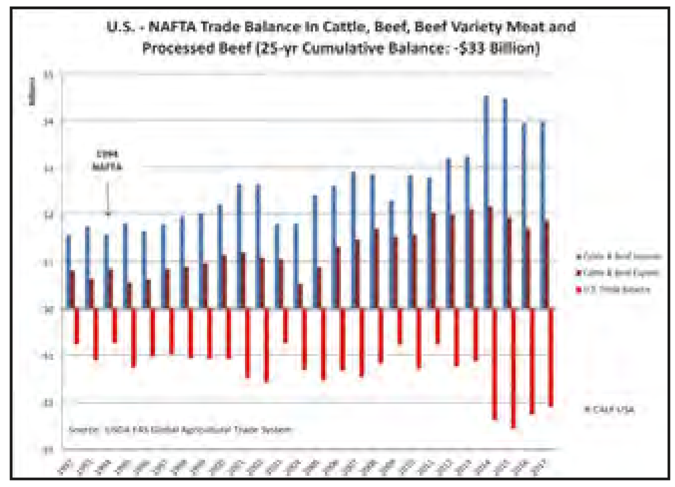
As a cattle rancher, you kind of have to choose sides, like going with the Mets or the Yankees; it's hard to support both. Jennings, the rancher who supports NAFTA, chose the National Cattlemen's Beef Association, but he's a fish out of water in South Dakota.

"I'm surrounded with R-CALF members," says Jennings. "I know their position, and they know my position. We all get along, we all work together. We respectfully disagree with each other. We know that we're not going to change each other's minds."

The import/export equation of beef is complicated, it's essentially the trade of animal parts and Jennings says since NAFTA came into effect, his cattle have actually become more valuable.

"We sell a lot of round cuts, that's a rump cut off of a steer that go down to Mexico. They also take a lot of tongue. We don't eat a lot of tongue in America," says Jennings.

He says exporting tongues and livers, and not just to Mexico and Canada, gets him an extra $150 to $180 per head of cattle. And he says a lot of Mexican and Canadian beef imports get mixed in with American hamburger meat, which frees him up to export higher-value cuts, like flat iron steaks, to other nations. Accepting imports in return, that's just part of free trade.



Jennings doesn't want to go back to the way things were before NAFTA.

"It takes a long time to build relationships for trade and it doesn't take very long to get rid of them, to destroy that relationship," says Jennings. "It's a competitive world and there's other countries looking to move in on the markets that America has right now."

Trump has recently said that if the U.S. can't get a better NAFTA, he'll pursue separate trade agreements with both Canada and Mexico. The two nations have both rejected that idea.

So where does that leave us? I don't like governments subsidizing farmers and ranchers in Mexico and Canada. I don't like tariffs that much, either. People need to get along. That is easier said than done. As you can see fair trade is a very tough subject.

Have a wonderful summer.

CATTLE

▶▶ FROM PAGE 1

As we proceed through the summer and early fall, there will continue to be buying options available on video auctions and off the ranch. Now is the time for many cattle feeders to figure out what that opportunistic feeder price is going to be. The included breakeven chart is based on the price of a 650-pound steer calf, gaining 3.25 pounds/head/day for 215 days, and being sold at a pay weight of 1,350 pounds. The horizontal line across the top of the chart is the delivered price of a 650-pound steer per cwt. The cost of gain per cwt is along the vertical side of the chart. As you follow the line across the price through the cost of gain, this will give you the breakeven price. These breakeven prices are cash market prices. For those who are hedgers, you will need to include the basis for the marketing month.

By Richard Ellinghuysen
Senior Vice President, pork division
Producers Livestock Marketing Association

More pigs, tariffs, fake meat: Brave new world?

The USDA federally inspected slaughter of hogs has set a number of new highs this year, and while at the time of this writing the seasonal summer downturn in numbers and upturn in prices is evident, most pundits project between 4 and 5 percent additional pigs on the market by the fourth quarter.

Price pressure likely

That probably means price pressure. Producers who scaled-up sold the futures early this year are glad they did, but wish they'd done more. Producers who waited for new highs have been disappointed. Some are now looking to control major downside risk using options on futures. Many have their fingers crossed, and are hoping cash will pull futures higher into summer and provide another forward pricing opportunity for the back-end of the year. As of this writing (mid-late/June) recent tariff talk has damaged that likelihood, but time will tell.

Strong demand

Seaboard-Triumph Foods, LLC, the new hog plant in Sioux City, Iowa, has announced that they plan to begin their second shift in October of this year. That pulls forward an announcement from this spring indicating that they were pushing off a spring 2018 second shift into the first quarter of 2019.

This announcement is providing hope that the fourth-quarter hog market may not be "as bad" as anticipated, but total production numbers are still likely to be record setting. The hope that the second shift will help generate aggressive completion is muted, but I suppose possible. Demand for product remains of critical importance – and tariffs play a role in that. The market clearing pork price typically has something to say about hog prices.

As of this writing, Mexico and China have implemented, or are in the process of implementing new tariffs against U.S. pork products in retaliation for the U.S. placing tariffs on some of their products.

Ag in the crosshairs

It appears that a form of tit-for-tat "trade war" may be in the offing. Our trading partners are targeting political blocks that have been supportive to President Donald Trump and they hope to ramp up internal political pressure. That puts U.S. agricultural geography in the crosshairs. By the time this is published the tariff issue may be better, worse or solved in some fashion. But regardless the outcome, pork exports are critical to hog prices and that's not changing. This issue will have to be resolved, one way or another.

Still battling fake meat

Meanwhile, fake meat is going mainstream.

An article on Forbes.com in June said fast food firm White Castle has rolled out Impossible Burger sliders in New York, New Jersey and Chicago - representing 140 of the company's 385 restaurants. The author quoted White Castle VP Jamie Richardson who said it was going "exceedingly well."

Impossible Foods, maker of the Impossible Burger, says their fake burger is made from wheat protein, coconut oil, potato protein and heme.

The company says it manufactures "heme" using a fermentation process involving yeast that they've genetically engineered. They say it's the key ingredient to make their fake meat seem more like real meat. Impossible Foods asked the U.S. Food and Drug Administration (FDA) to declare it safe to eat but the FDA wouldn't do it. Apparently FDA has some reservations about the production process.

The fake meat company says it's all good and they continue to sell it. FDA recently announced a public hearing scheduled for July to discuss the fake meat issue.

Plant-based list growing

Forbes says the plant-based food category grew 8.1 percent last year and surpassed $3.1 billion in sales. They say plant-based proteins specifically grew at a rate of 6 percent, and according to some estimates, the "plant-based meat market" is set to make up one-third of the market by 2050. Companies such as Memphis Meats are growing meat by culturing animal cells, though it could be years before such products are on the shelves. Meat producers like Tyson Foods and Cargill Inc. are among Memphis Meats' investors.

It appears that competition inside the meat case has now been expanded to include fake meats placed right alongside beef, pork and poultry - in addition to appearing on fast food menus known for featuring real meats.

In February, the U.S. Cattlemen's Association filed a 15-page petition to the U.S. Department of Agriculture (USDA) to reserve the terms "meat" and "beef" for products that were "derived directly from animals raised and slaughtered."

A recent article in a UK publication called Geographical printed: "In the U.S., livestock producers are fiercely defensive of their terms, particularly those pertaining to specific animals such as 'pork' and 'beef,'" says Edward Mills, professor of meat science at the Pennsylvania State University. "The producers are going to get out ahead of this to reduce the use of those words."

Mills predicts that the USDA will begin to set significant restrictions on the definition of meat. "That being said," he adds, "these restrictions may loosen over time when the cultured meat companies have products they feel confident fighting for."

Brave new world?

The Geographical article went on to say: meat processing companies, on the other hand, are more flexible about their definition of meat. Processing giants Cargill and Tyson are investing millions into the cultured food start-ups, putting them at odds with their traditional producers. "Some farmers see that as a betrayal," says Mills. "As the new products get closer to release, this is a debate that is going to get more intense and complex."

Whether it's a "brave new world" or just another chapter in the book of food product competition across the ages, the new versions of fake meat have improved to the point where mainstream meat purveyors are taking them seriously and adding them to their offerings.

We're used to Pig Crop Reports, Broiler Hatchery Reports and Cattle on Feed Reports giving us some indication of competition between the meats.

How are we going to factor fake meat production into the mix now that it's being added to the meat case? Or does it matter? Here's another question: what happens to the USDA Food Pyramid? Red meat took a lot of shots during the last dustup over the Food Pyramid update. Expect an even bigger fight next time around.

Risk management critical

Markets will continue to be volatile in the future. Looking ahead, it's apparent that price risk management will remain critical. Whether market uncertainty is driven by tariffs, politics, disease or fake meat, it's important that you manage your income margin. Our agents can help. Keep in touch with them and let them help you protect your price margins.

Thank you for your business, and have a safe summer!

Traders watching relative strength index

BY JOHN NELSON

Next in my series of technical analysis of futures markets we will discuss Relative Strength Index (RSI).

There are a number of studies of oscillators that measure the strength in the movement of a market, with RSI being one of the more common oscillators that traders watch.

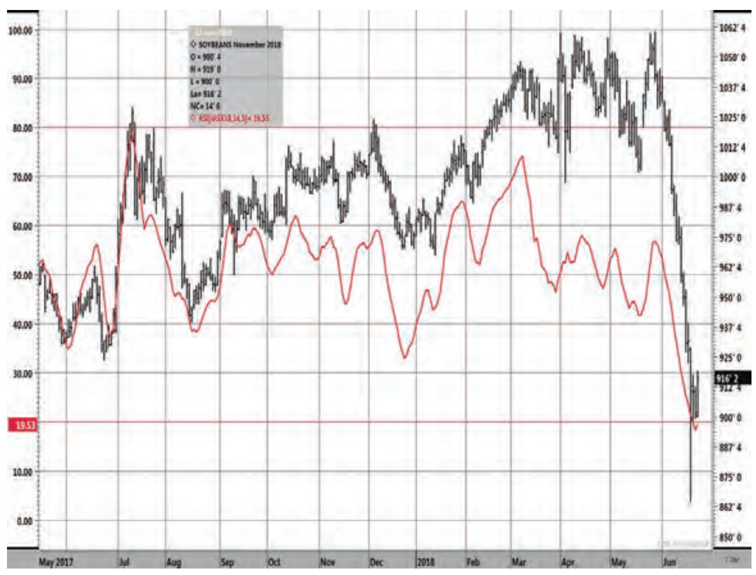
I'm not going to get into the mathematical formula used to arrive at a daily RSI number, but generally speaking it is a measurement of the number of traders that are bullish or bearish a specific futures contract.

Another way to look at this would be the "theory of contrary opinion." In other words, if too many people are bullish, the market is due a correction to the down-side. Or if too many traders are bearish, the market is due to rally.

The parameter used to measure RSI is the 70/30 rule. If the RSI goes above 70, that would suggest that 70 percent or more of the trade is bullish, meaning the market may be due a correction lower. If the RSI goes below 30, that suggests that only 30 percent or less of the trade is bullish and the market is due to rally.

Above 70 and the market becomes "over-bought," below 30 and the market becomes "over-sold."

That doesn't necessarily mean that the market will correct immediately. The market could actually work sideways for a week or so which could correct the "over-bought" or "over-sold" condition. But more likely than not, the market will make a correction.



Included here is the November 2018 soybean contract. The black lines are the daily open, high, low and close measured on the right axis. The red line is the daily RSI, measured on the left axis.

The reasons for the big drop in price are both fundamental and technical in nature. First, tariffs and trade concerns seem to be a topic of conversation almost every day. In addition, weather has been mostly favorable (generally speaking) across the cornbelt, allowing a good start to the growing season.

To top it off, managed money traders (funds) liquidated their long position and are now net short, selling a whopping 130,000 contracts since the end of May. This caused the November contract to drop nearly $2 per bushel from May 29 to June 19.

At the same time, it turned the RSI indicator into an extremely "over-sold" condition, suggesting maybe the market has gone down enough for now.

It doesn't have to happen today, tomorrow or this week, but the RSI doesn't usually stay below 20 for long. We can only hope.

Nelson is the senior vice president of commodity services. Trading futures and options involves risk of loss.