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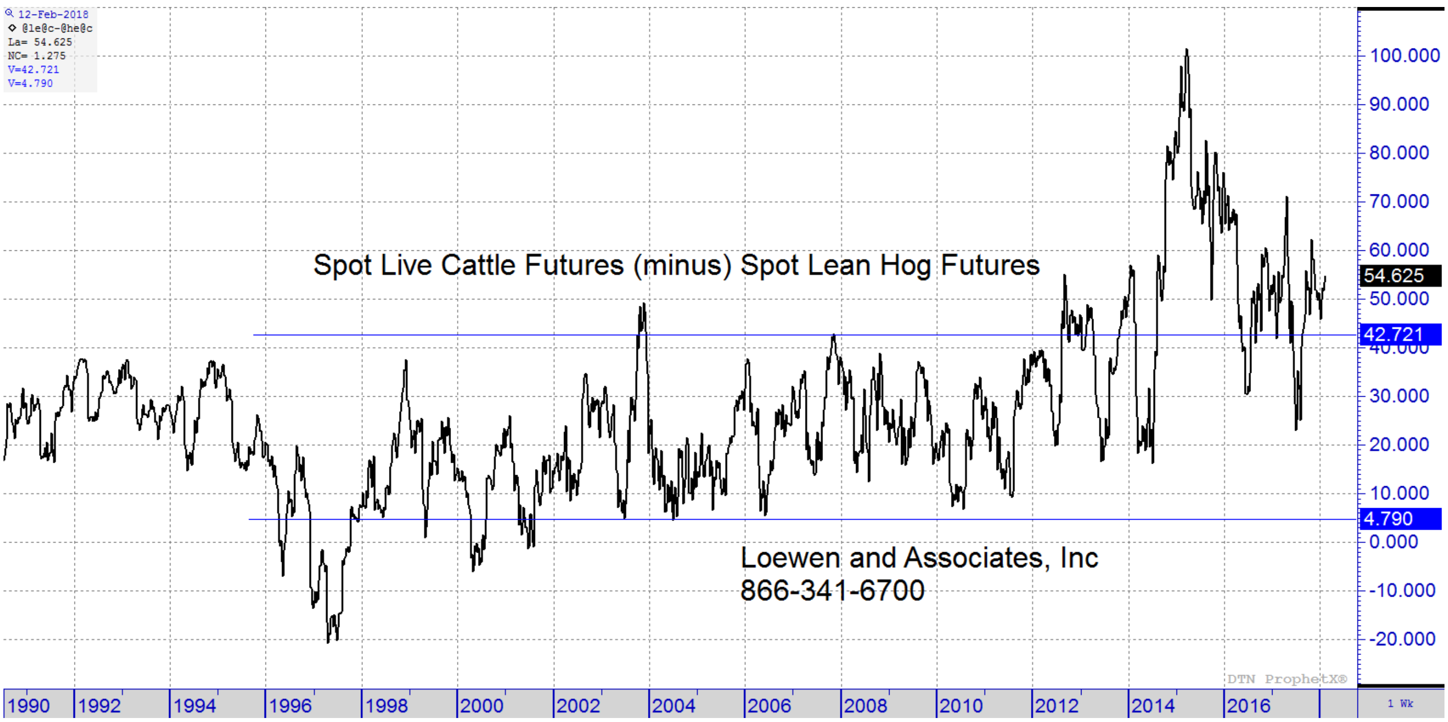
Date: February 13, 2018

Morning Ag Markets

Pete Loewen



Pretty dynamic day for almost the entire ag complex. The meat complex showed a lot of triple digit gains and everything closed nicely higher except the spot month hog contract that's closing in on its last trading day and immune to some of the outside volatility. Grain and oilseed trade was all very stout as well. At one point, all of the major ag contracts were up, except for soybean oil.

Thumbing through some data yesterday regarding US beef and pork exports, there was some interesting information to digest. According to the US Meat Export Federation, last year's US beef exports were up 6% from 2016 and the 4th largest by volume on record and the 2nd largest in the post-BSE era, which is after 2003. USDA's Economic Research Service calculates the data in a different way by using customs data and turning it into a carcass weight equivalten number. Using that method, they pegged export volume at 12% higher than 2016 and the largest on record ever! That's bullish news.

It's also news that we hear quoted over and over again without adding in the other side of the equation, which is the increase in beef production versus year ago levels. 2017 total beef production was up 952 mln lbs from 2016. Exports were up 310 mln lbs from the previous year. That's still a 642 mln lb shortfall that had to be made up by domestic consumption. Now here's the kicker…, 2018 beef production is expected to be up another 1.552 bln lbs from 2017. The question is, can we export our way out of a 1 ½ bln lb increase in production when last year's export increase based on the ERS data was a record and only a 310 mln lb increase in exports?? Only time will tell, but that's a monumental task and one that would be tough to accomplish at higher prices than a year ago.

On the pork side, we face a similar dilemma. 1.3 bln lbs increase in production and a record export total by volume last year. No different than beef, pork exports are slated to increase again this year based on government estimates, but no increase enough to chew through 1.3 bln more lbs in production.

The moral to this story is, there's a wall of meat to work through in 2018 and it's going to take a lot bigger exports and insanely larger domestic consumption to work our way through that wall and bring it down to a manageable level. That's tough to do at higher price levels.

Cattle slg.___110,000 -4k wa   -1k ya

Choice Cutout__208.24 +1.72

Select Cutout___203.97 +1.23

Feeder Index:___147.63 +.06

Lean Index.__74.72 -.66

Pork cutout___ 76.71 +2.27

IA-S.MN direct avg__69.16   -.94

Hog slg.___ 462,000 +1k wa +21k ya

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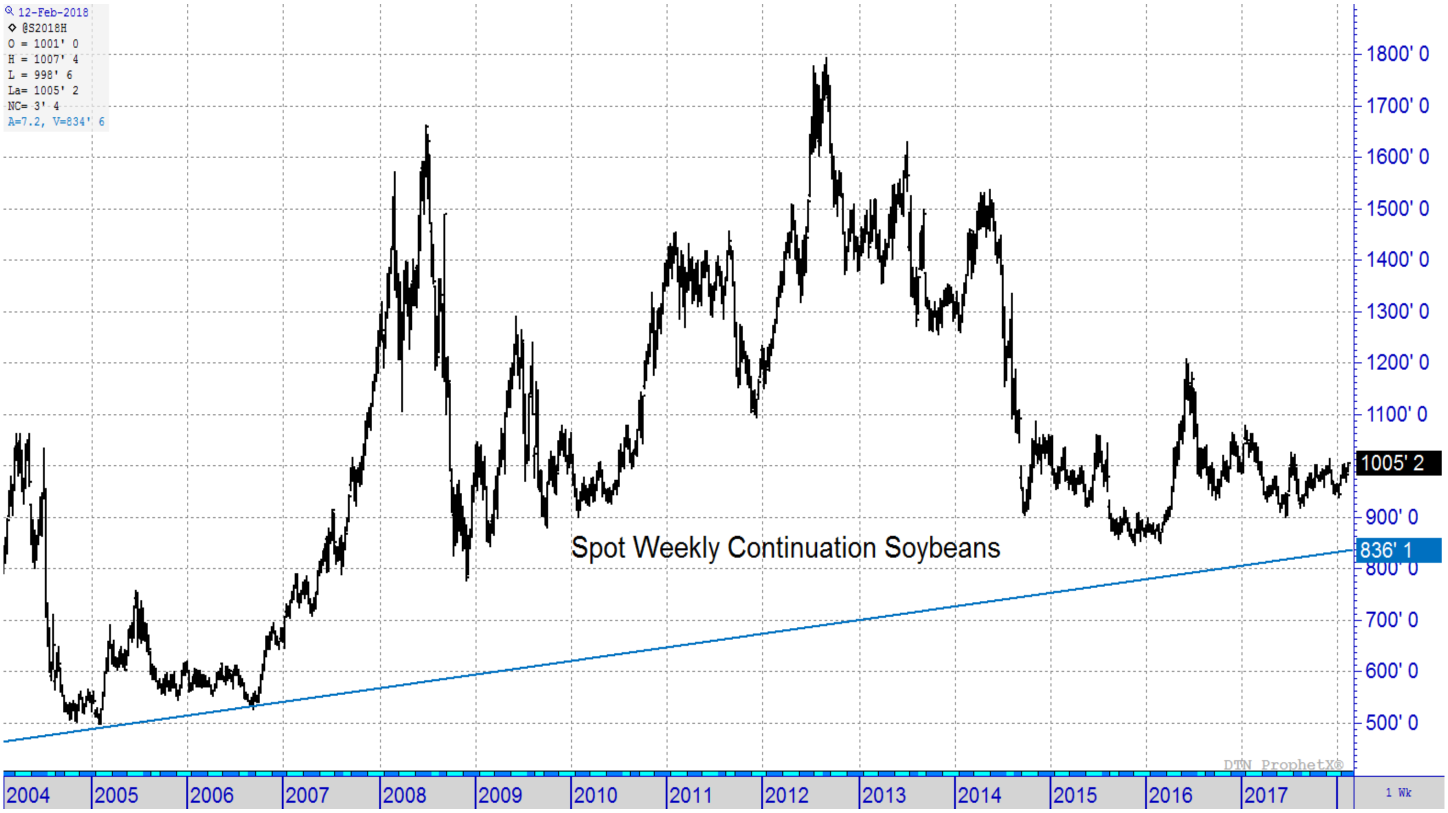
The grain and oilseed trade put on a great performance yesterday. Front end beans were almost 20 higher at the close and finished up over the $10 mark. Wheat was up double digits and closed solidly over the $5 mark in new crop Kansas City wheat. Dec corn traded up to the highest price level it has been since all the way back in October.

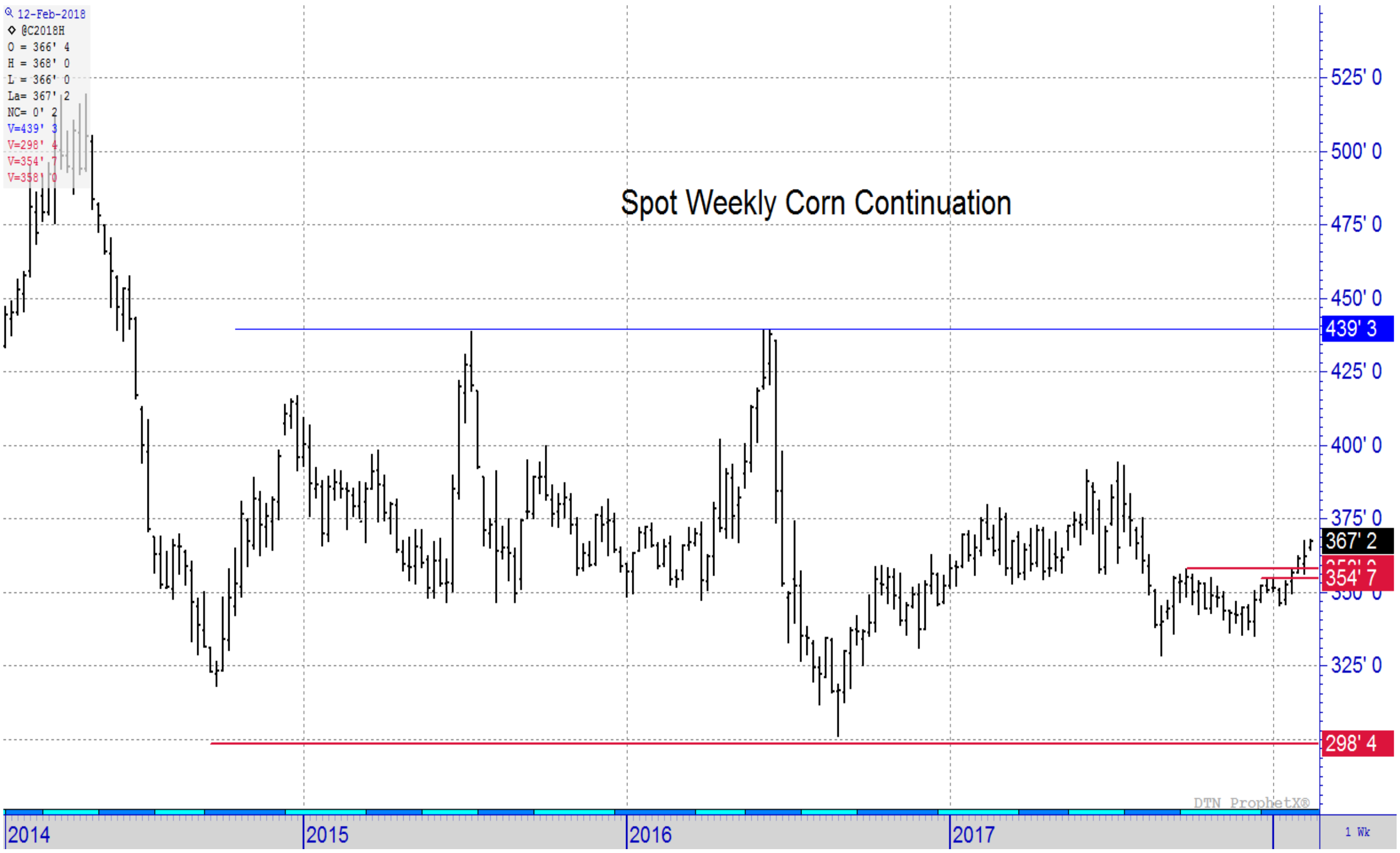
Export inspections data showed 32.9 mln bushels of corn loaded for the week ending February 8th. That was below last year's 49.4 mln bushel total for the same week and puts the cumulative pace at 33% below last year. USDA's projection is for an 11% drop this year versus last in exports.

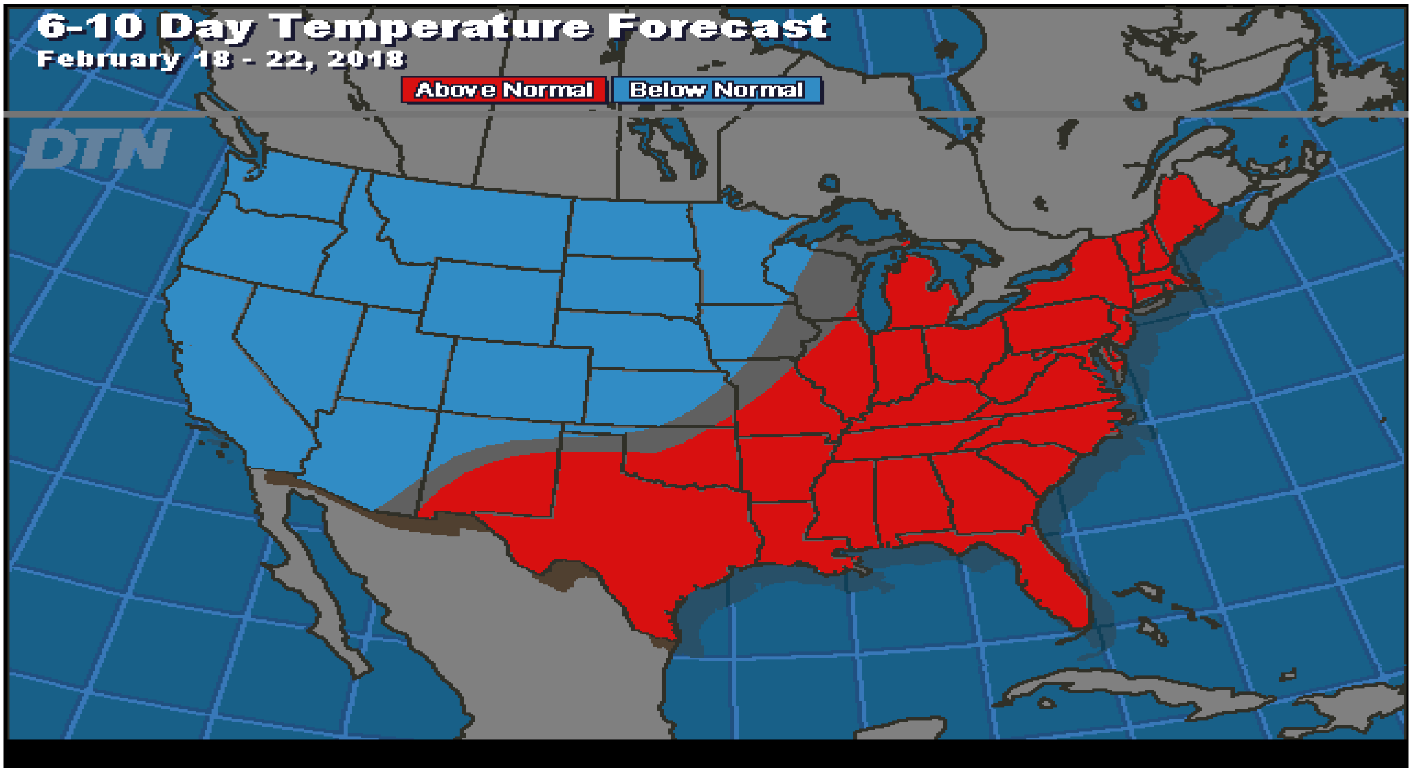
Soybean inspections came in at 48.5 mln and that's slightly larger than last year's 42.2 mln at the same time. Cumulative exports are sitting at 13% below last year and the projection that was revised in last week's report is for a 3.5% drop. We're below the pace needed in beans, just like the corn.

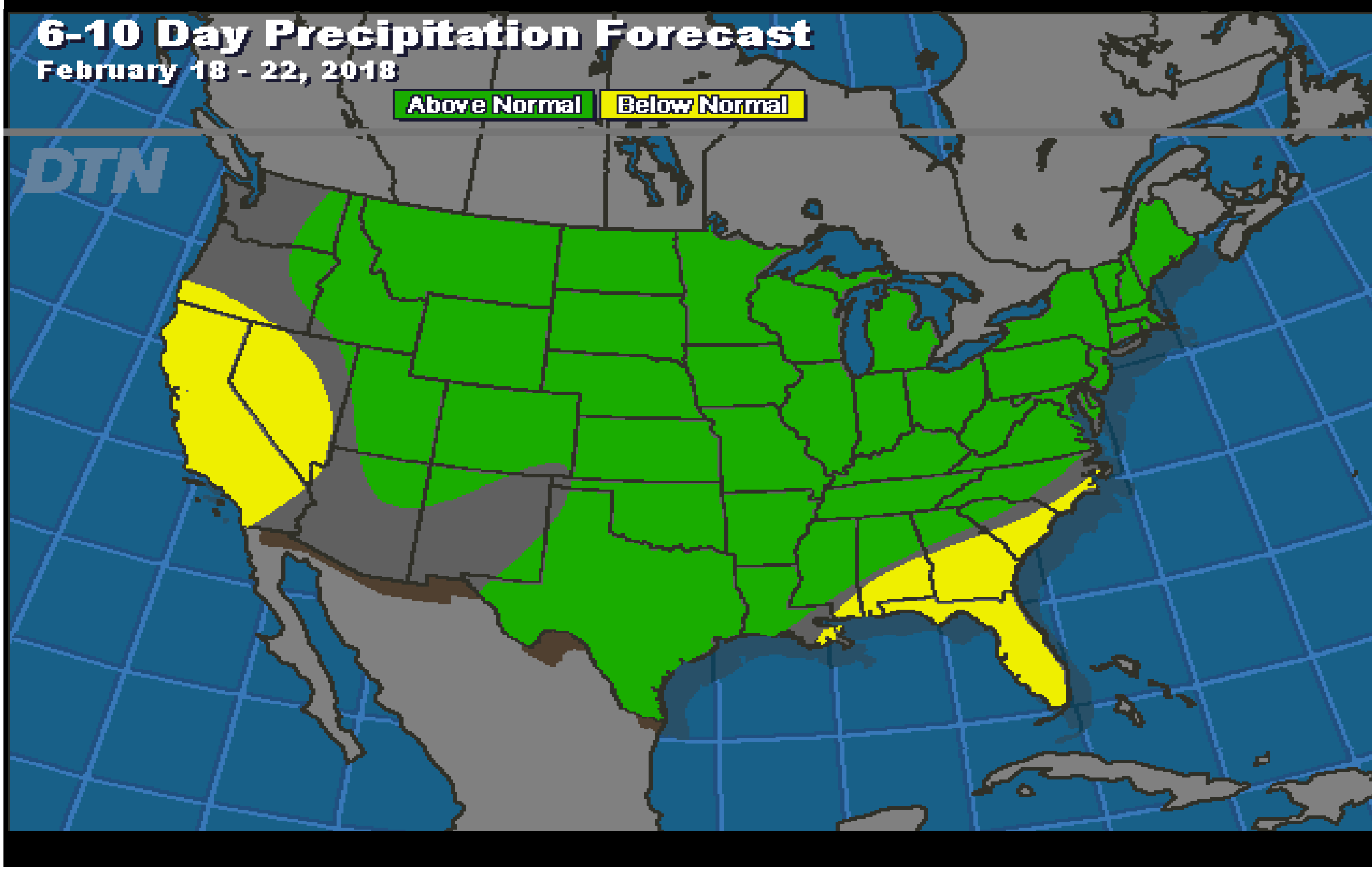
Wheat inspections were 17.9 mln, up from 11.9 mln in the same week last year. For wheat, the current export loading pace is down 4% from last year and USDA has the projection set at a 10% decline. That's friendly from the standpoint of being ahead of the projection, but we also got a nasty wakeup call last week with an ending stocks forecast that is back up on the north side of 1 bln bushels. For months I have been talking about the need to see ending stocks below 900 mln to find any kind of longer term support and ward off the potential for lower prices. We aren't going to get that from old crop ending stocks, but thankfully the reduced production potential in new crop because of the drought across HRW wheat country gives new crop the chance to trim supply. While that's good for price potential, it's unfortunately coming from the prospect of lower yields.

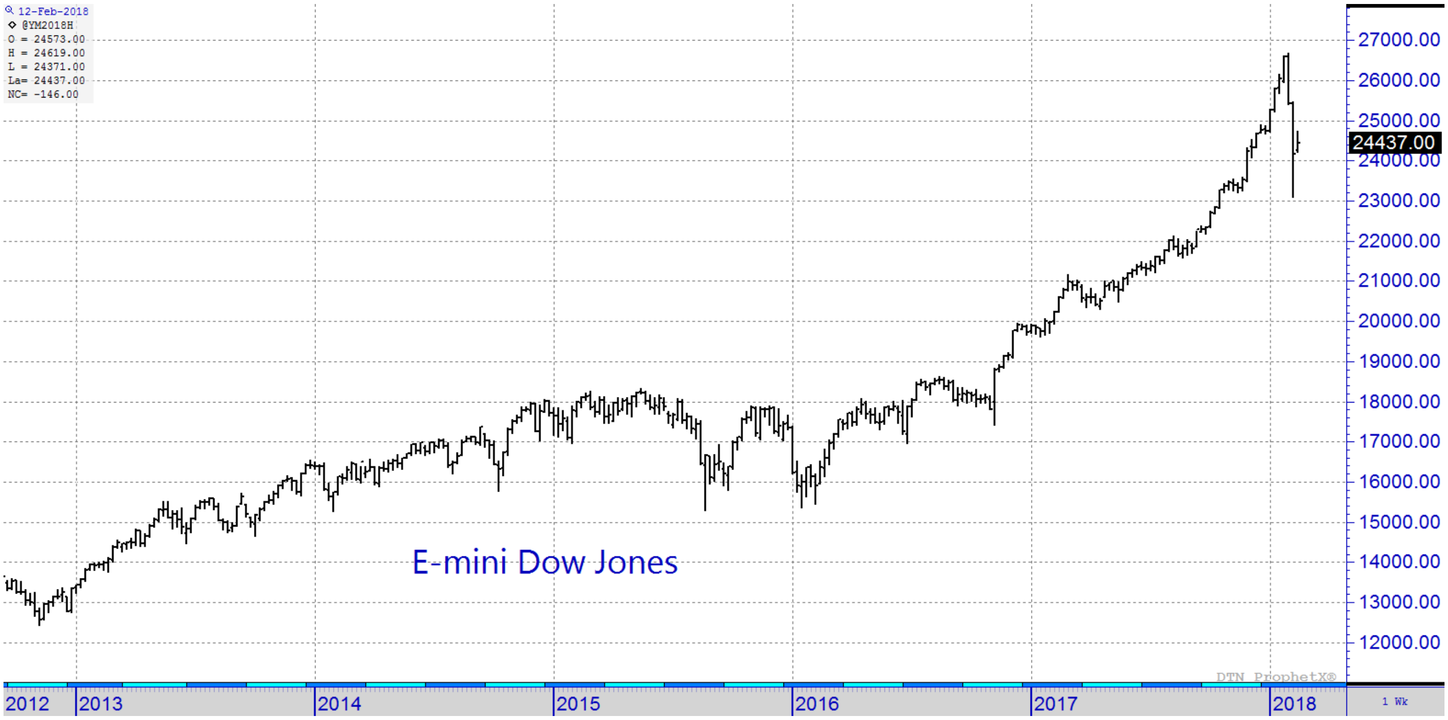
Fund activity yesterday was estimated as buyers of 20,000 corn, 17,000 beans and 9,000 wheat.


12-Feb-2018
@S2018H
O = 1001' 0
H = 1007' 4
L = 998' 6
La= 1005' 2
NC= 3' 4
A=7.2, V=834' 6
Spot Weekly Continuation Soybeans
1800' 0
1700' 0
1600' 0
1500' 0
1400' 0
1300' 0
1200' 0
1100' 0
1005' 2
900' 0
836' 1
700' 0
600' 0
500' 0
DTN ProphetX®
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015
2016
2017
1 Wk


12-Feb-2018
@C2018H
O = 366' 4
H = 368' 0
L = 366' 0
La= 367' 2
NC= 0' 2
Spot Weekly Corn Continuation
525' 0
500' 0
475' 0
450' 0
439' 3
425' 0
400' 0
375' 0
367' 2
354' 7
325' 0
298' 4
DTN ProphetX®
2014
2015
2016
2017
1 Wk


6-10 Day Temperature Forecast
February 18 - 22, 2018
Above Normal
Below Normal
DTN


6-10 Day Precipitation Forecast
February 18 - 22, 2018
Above Normal
Below Normal
DTN



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