January 2017 – Crop Market Update

Public Policy Department

Budget & Economic Analysis Team

Winter Wheat Plantings Lowest in More Than a Century – A Clue to 2017/18 Intentions

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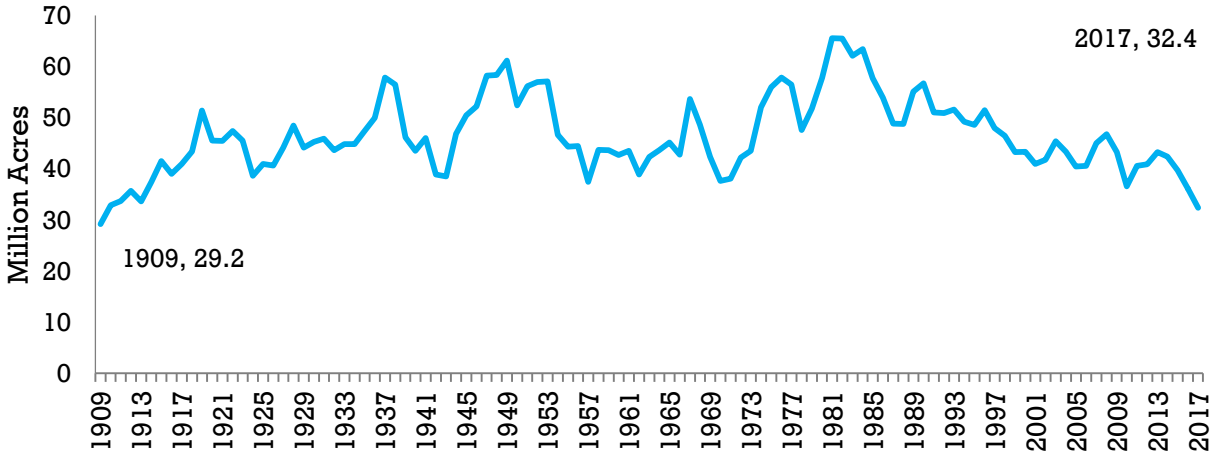
On January 12, 2017 USDA released the much anticipated Crop Production, Grain Stocks, and Winter Wheat and Canola Seedings Reports. Combined, the Crop Production and Grain Stocks reports allow USDA to finalize the 2016/17 marketing year crop sizes for corn and soybeans and update the supply and use balance sheets. The production volume and yields for the 2016/17 corn and soybeans crops were record large. Corn production was announced at 15.148 billion bushels with an average yield of 174.6 bushels per acre. Similarly, soybean production was 4.3 billion bushels with an average yield of 52.1 bushels per acre.

The Winter Wheat and Canola Seeding Report provides the first glimpse into the 2017/18 marketing year by identifying hard red winter, soft red winter, and white winter acreage planted. Marketing year average wheat prices have declined 47 percent from the high of $7.77 per bushel set in 2012. Additionally, global wheat supplies have reached a record 253.3 million metric tons. Now with wheat prices at multi-year lows, and cash prices substantially lower in parts of the U.S., U.S. farmers have responded by dedicating the fewest acres to winter wheat since 1909, Figure 1. Total winter wheat acreage planted for 2017 harvest was announced at 32.4 million acres, down 10 percent or 3.8 million acres from 2016. Winter wheat area was 1.7 million acres below the average trade guess of 34.1 million acres. This is the fourth consecutive year that winter wheat seedings have declined.

Figure 1. Winter Wheat Plantings

1909 to 2017



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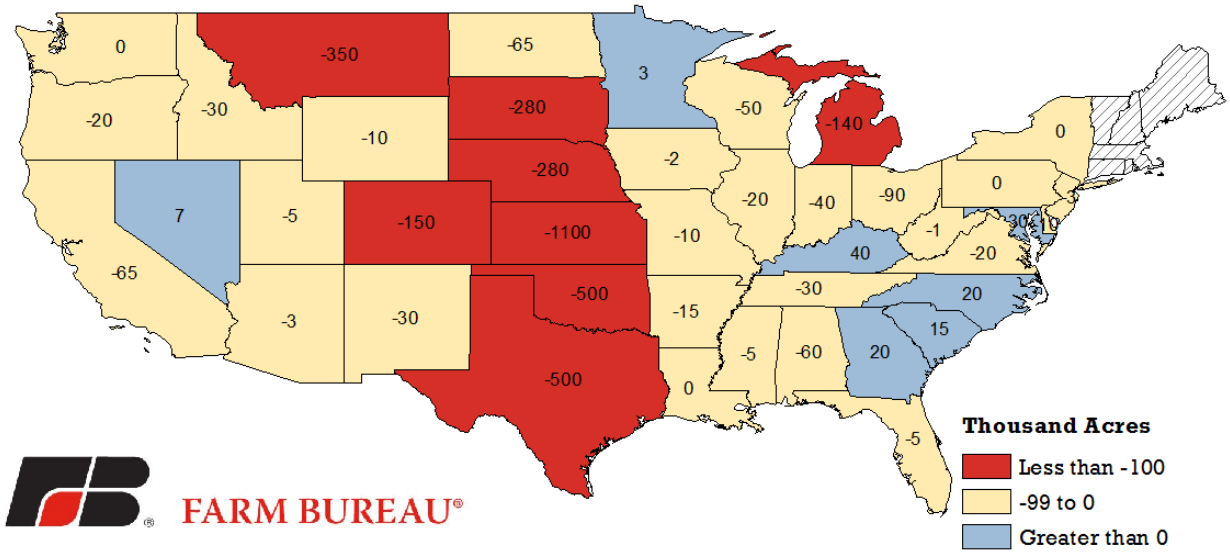
Source USDA

Figure 2. Year-Over-Year Change in Winter Wheat Acres Planted
Source: USDA



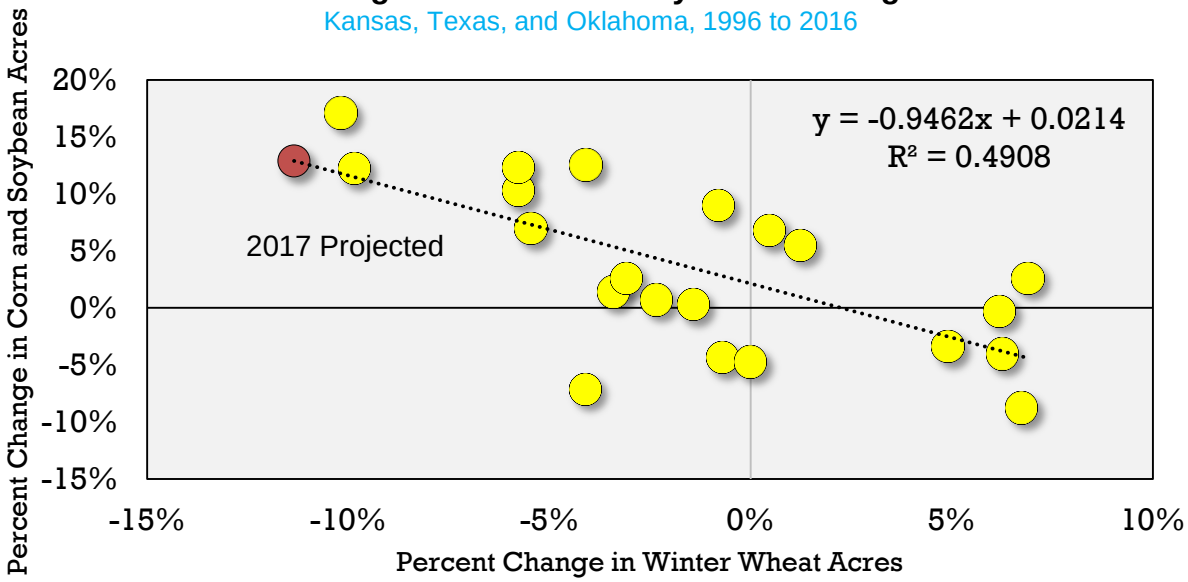
A majority of the decline in winter wheat acreage occurred in the Great Plains where 3.3 million fewer acres were planted in 2017 relative to 2016, Figure 2. Given that winter wheat is typically harvested in the summer or fall of the following year, this acreage decline provides an opportunity to revise expectations on potential corn and soybean acreage in 2017.

Specifically, USDA's Agricultural Projections to 2026 estimated an additional 2.1 million acres of soybeans planted for the 2017/18 marketing year. However, based on projected spring prices for corn and soybeans USDA's acreage projection was viewed by many in the trade as modest. The case for a more substantial increase in soybean acreage was presented in AFBF's December 2016 Crop Market Update. The Winter Wheat and Canola Seedings Report provides additional support that soybean plantings next year could be larger than current USDA estimates and that the decline in corn acreage may not be as sizeable as currently anticipated.

The question becomes "How many of these wheat acres will move into corn or soybeans?" Kansas, Texas, and Oklahoma represent more than 50 percent of winter wheat plantings in 2017. Evaluating those three states from 1996 to 2017 a significant relationship is observed between the year-over-year change in winter wheat plantings and the subsequent change in corn and soybean planted area, Figure 3.

Figure 3. Scatterplot of Percent Change in Winter Wheat Plantings and Corn and Soybean Plantings

Kansas, Texas, and Oklahoma, 1996 to 2016



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For Kansas, Texas, and Oklahoma planted area of corn and soybeans reached a record high 13.1 million acres during the 2016/17 marketing year. Historical data reveals that in years where winter wheat seedings have declined planted area of corn and soybeans have increased (on average). In these areas the total planted area of winter wheat in 2017 was 16.4 million acres and was down 2.1 million acres from last year. Based on the relationship identified in Figure 3, the expectation then is to pick up 1.7 million acres of corn and soybeans in 2017. With the corn-soybean price ratio still favoring soybeans the potential exists then for a large portion of these acres to move into soybeans.

Implications

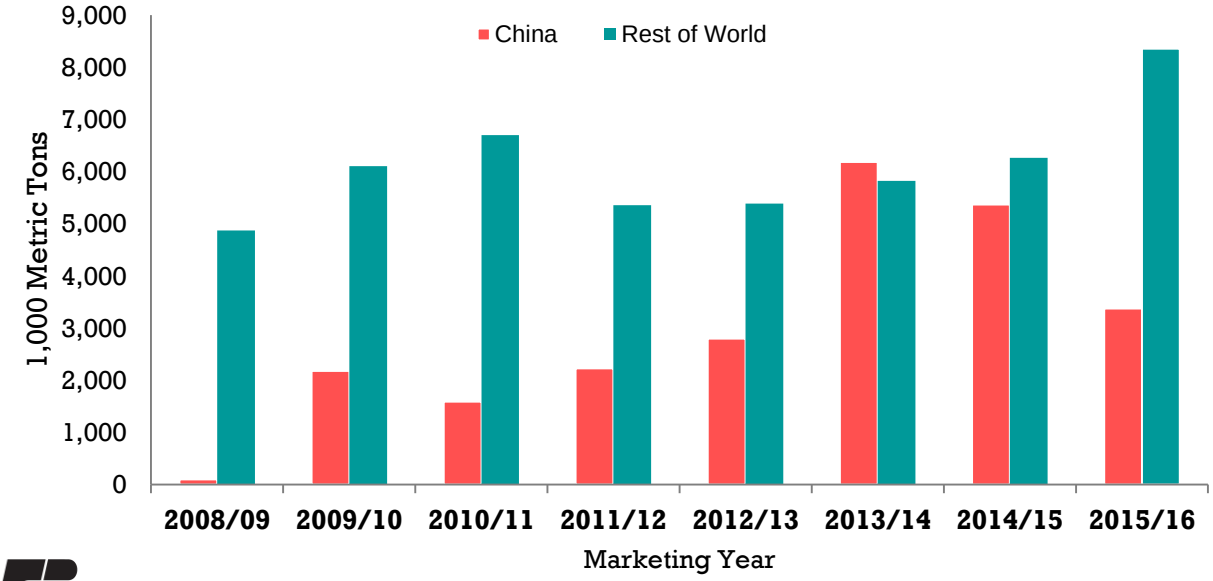
Evidence continues to mount in favor of additional soybean acres in 2017. USDA is currently projecting soybean acres to increase 2.1 million acres in 2017 to 85.5 million acres. While the January 12 World Agricultural Supply and Demand Estimates revised Brazilian and U.S. soybean production to a combined 8.13 billion bushels (both records), domestic and global soybean ending inventories for 2016/17 were revised lower and concerns remain over South American weather – providing a relatively bullish undertone to prices. Viewed alongside a corn-soybean price ratio favoring soybeans, the decline in winter wheat acreage supports a larger expansion in soybean acres for 2017.

Chinese Tariffs Increase Headwinds for Corn By-Products

Last fall the Chinese Ministry of Commerce announced a duty of 33.8 percent on U.S. distillers' dried grains with solubles (DDGs). The tariffs were classified as anti-dumping and anti-subsidy duties. Most recently, in January 2017, China announced that these punitive tariffs on U.S. DDGs would be increased above the level proposed in September of 2016. The punitive tariffs include an anti-dumping duty ranging from 42.2 to 53.7 percent, and an anti-subsidy duty ranging from 11.2 to 12 percent. The goal of the additional duties is to restrict access to the

Chinese market for U.S. corn by-products – and follows a similar announcement of higher tariffs on U.S. ethanol from five to 30 percent.

Figure 4. U.S. Exports of Distillers' Dried Grains
2008/09 to 2015/16 Marketing Years



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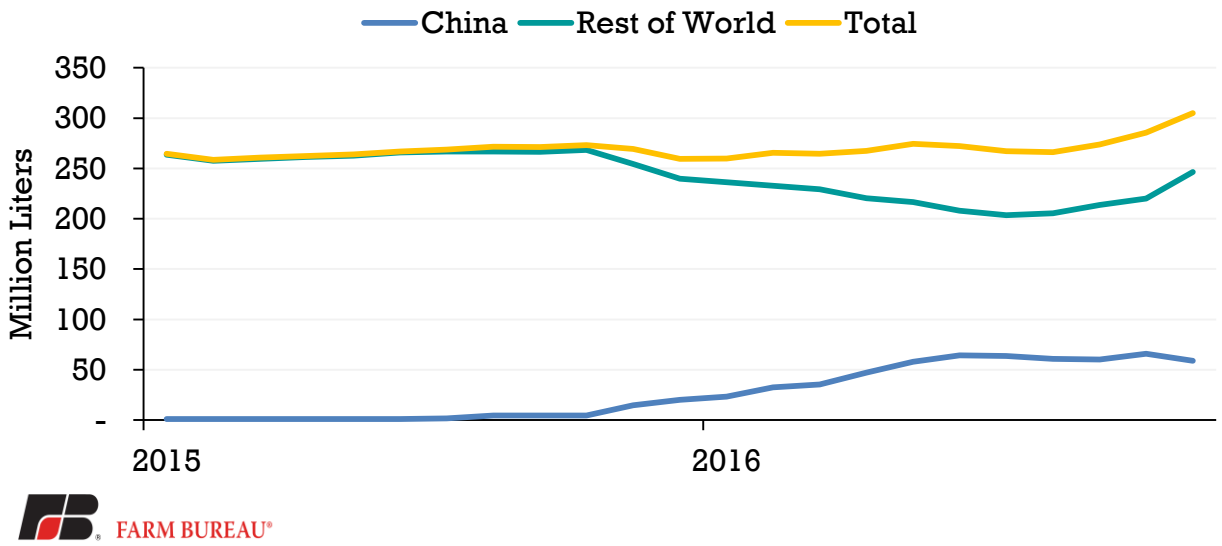
Source: USDA FAS

Up until recently China was the largest importer of U.S. DDGs. For DDGs the additional duties have been in effect since September 2016. As a result of the duty, U.S. DDGs exports to China declined by 70 percent during September to November 2016, Figure 4. However, lower DDG prices have increased the competitiveness of DDGs as a feedstuff and exports to the rest of the world have increased to offset the lower Chinese demand. September to November 2016 exports of DDGs totaled 3 million metric tons and was down only 4 percent from prior year levels.

For the 2015/16 marketing year China was the second largest importer of U.S. produced ethanol. This is a relatively recent trend. Prior to the 2015/16 marketing year China had not imported more than 55 million liters of ethanol. Imports during 2015/16 jumped to 721 million liters and likely contributed to the higher import tariffs being levied, Figure 5. USDA Foreign Agricultural Service trade data reveals September to November 2016 ethanol exports to China at 185 million liters, down 2 percent from prior year levels. However, these volumes predate the announcement of punitive tariffs on U.S. produced ethanol.

Figure 5. U.S. Exports of Ethanol
(12-Month Rolling Average)



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Implications
DDGs are used in the feed ration as an energy and protein supplement and lower prices for DDGs have made them competitive with other feed grains such as corn, wheat, and soybean meal in the livestock and poultry ration. As the world largest pork producer China was an attractive market for U.S. DDGs. Similarly, the U.S. ethanol industry viewed the Chinese as an important market for growth.

The higher anti-dumping and anti-subsidy tariffs make U.S. produced DDGs and ethanol less competitive with locally sourced products in China. As a result, DDGs and ethanol exports to China will face substantial headwinds during the current marketing year. This is a substantial blow long-term for corn by-products and may result in higher inventory levels and lower prices if other export markets do not offset the loss of the Chinese market.