Daily Livestock Report

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In its latest WASDE report (issued yesterday at noon), USDA lowered its earlier forecasts for the 2018 corn and soybean crops. Corn yield is now pegged at 178.9 bu/acre compared to 180 that analysts were expecting and 180.7 that USDA presented in October. The yield adjustment removed about 152 million bushels from the production number. Some of the reduction in supply was offset in the USDA balance sheet by a 50 million bushel reduction in feed use and a 25 million bushel reduction in exports. Ending stocks for the 2018-19 marketing year are now projected to be 1.736 billion bushels and, more importantly, the stocks to use ratio is now projected to be 11.5%. If this ends up being correct, it would be **the lowest stocks/use ratio in five years**. USDA also trimmed its estimate of soybean yields by 1 bushel (52.1 vs. 531 previously). Analysts on average forecast soybean yields at 52.9 bu. The reduction in yields and lower production did little to impact ending stocks for the 2018-19 marketing year. The deterioration in US trade relations with China has caused USDA to steadily reduce the export potential for the new crop and more beans are now expected to sit in storage. Ending stocks **for the 2018-19 marketing year are now expected to be a mammoth 955 million bushels** compared to 438 million bushels a year ago and 302 million bushels two years ago. **The stocks/use ratio for soybeans is now forecast at 23.3%, the highest since 1985/86**. Given the uncertainty with regard to exports and impact this may have on soybean sales, USDA is forecasting a fairly wide price range between $7.60 and $9.60 per bushel. It would seem to us that if the +23% stocks/use ratio comes to pass, even lower prices may be required.

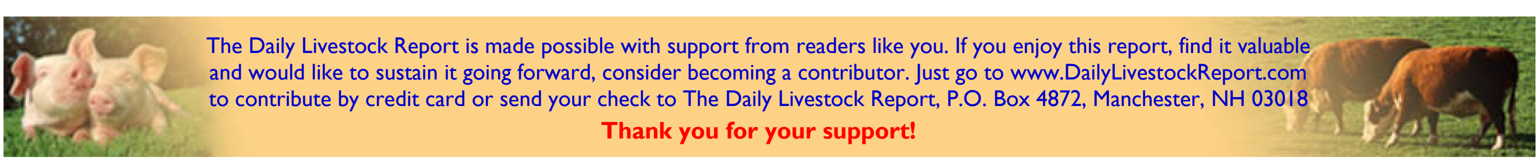
The table to the right offers a summary of key supply/demand numbers for beef and pork in 2018 and 2019. With 9 months of actual supply numbers fort his year, analysts have a much better handle of supply/demand conditions for this year. We thought it would be interesting to compare the current forecasts for 2018 with what USDA was expecting at the start of the year. The point is not so much to measure accuracy but rather to understand what has transpired this year and the related price effects. One thing that we hear often in discussions of current beef prices is how great beef demand has been this year. While we do not disagree that beef demand has been quite robust, it is important to also recognize that production numbers this year have been much smaller than many expected. Back in January USDA expected beef production to be 27.827 billion pounds, 6% higher than the previous year. The 6% growth possibly implied a 1 - 1.5% gain in carcass weights and 4.5-5.% higher slaughter. **The most recent beef production forecast is about 3.1% lower than what was presented in January**. Additionally, US beef exports have been about 205 million pounds or 6.9% higher than what was earlier expected. The result is **a per capita consumption number that is only marginally higher than what it was in 2017**. The choice beef cutout for this year is on track to average around $214/cwt, about 2% higher than a year ago. A 2% gain in the cutout as the per capita consumption number increased 0.2% does suggest better demand. However, it appears to us that a key factor in pricing this year is the fact that supply availability in the domestic market fell well short of expectations. And those big promos over the spring and summer were predicated on significant supplies coming to market. At this time end users are in the process of recalibrating their supply expectations for next year, something that will be reflected in menu prices and the price of retail features. Pork production numbers have also been notably lower than previously expected, causing per capita pork consumption for 2018 to increase just 1% compared to a year ago. **The pork cutout is currently on track to average $76/cwt for the year, 9% lower than a year ago. Pork demand appears to have lost a step due to more competition from chicken and because higher incomes encourage more beef consumption**

USDA Supply/Demand Projections in Jan. 2018 & Nov. 2018

Source: USDA - WASDE Report

Beef		Prod.	Imports	Exports	Dom. Cons.
		--- million pounds ---			lb./pp
2017	Actual	26,250	2,993	2,860	56.9
2018	Jan 2018 Fcast	27,827	3,030	2,985	59.4
	Nov 2018 Fcast	26,977	3,014	3,190	57.0
	variance	(850)	(16)	205	(2)
	variance	-3.1%	-0.5%	6.9%	-4.0%
2019	Nov 2018 Fcast	27,873	3,060	3,265	58.5
	% ch. vs. 2018	3.3%	1.5%	2.4%	2.6%

Pork		Prod.	Imports	Exports	Dom. Cons.
		--- million pounds ---			lb./pp
2017	Actual	25,598	1,116	5,632	50.1
2018	Jan 2018 Fcast	26,976	1,000	5,900	52.0
	Nov 2018 Fcast	26,333	1,059	5,984	50.6
	variance	(643)	59	84	(1)
	variance	-2.4%	5.9%	1.4%	-2.7%
2019	Nov 2018 Fcast	27,729	1,060	6,200	52.8
	% ch. vs. 2018	5.3%	0.1%	3.6%	4.3%



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