Agricultural Policy and Market Situation Newsletter

Volume I, Issue 2

House and Senate Pass Farm Bills

On its second attempt, the House of Representatives passed H.R. 2, the Agriculture and Nutrition Act of 2018, by a party-line vote of 213-211. In order to secure extreme conservative members of his own party, House Ag Committee Chairman Conaway (R-TX) added tighter work requirements to the nutrition component of the bill in an effort to solidify additional votes needed for passage.

In the Senate, a much different political dynamic occurred. Senate Ag Committee Chairman Roberts (R-KS) and Ranking Member Stabenow (D-MI) worked to pass a bipartisan bill out of committee (20-1 vote) while thwarting efforts to mean-test crop insurance subsidies. The Agricultural Improvement Act of 2018 (S. 3042) was approved 86-11 by the Senate; the widest margin of victory for a Senate farm bill since 1973. The changing politics on the Ag Committee reflect the realization that Democratically held seats in North Dakota and Indiana face competition from Republican challengers in the November elections-all states that Trump carried.

The bills are now headed to Conference Committee where differences will be reconciled. Conference expected to commence after the July 4th recess.

The 2018 farm bill represents an evolution of farm commodity policy and not a revolution of policy; such as the program mechanics and policy changes that were ushered in with the 2014 bill. Commodity program remain relatively unchanged, as does crop insurance. However, the biggest difference to be reconciled in conference is the partisan ideology surrounding the nutrition title. Welfare reform is also expected to paly a partisan role. There are also differences over funding for conservation programs. Outside of debate regarding the nutrition title and work requirements, Senator Grassley (R-IA) proposed stricter definitions for *family members* and lowering the adjusted gross income (AGI) for eligibility. HR-2 also proposes changes to existing laws on payment limits and AGI eligibility requirements.

What's inside this issue ?

Farm bills headed to conference; trade tensions persist; global soybean outlook; domestic market outlook; seed cotton program update; and more!

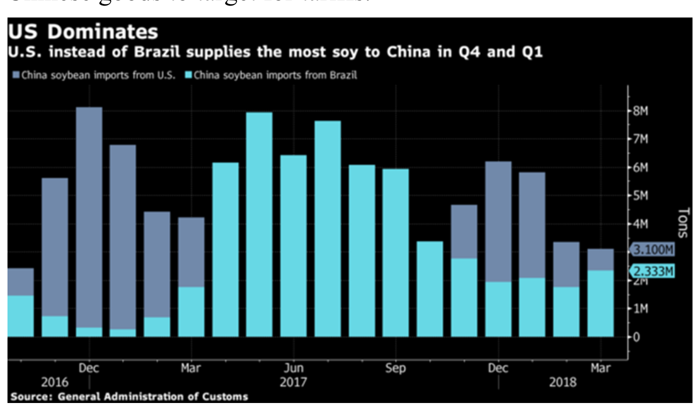
Trade Tensions: The rhetoric becomes reality

Soybean futures tumbled late June, early July 2018 to near-decade lows as trade anxiety weighs on the market. November soybean futures prices dropped to $8.61 in midday trading July 5th. Producers are no doubt concerned about the intermediate and long term effects the imposition of tariffs imposed both by the U.S. and China. Given the downturn in the futures market, evaluating just how much of that effect is due solely to trade uncertainty with China is hard to tell. Some market analysts would attribute this decrease in soybean futures to ample carry-over stocks, large soybean plantings, and the potential of accelerated crop development. Such market fundamentals of carry-out coupled with the possibility of reduced exports could lead to domestic stocks being built in the 2018/19 marketing year.

The U.S. released a list of Chinese products that would be subject to an additional 25% tariff as a result of the intellectual property theft probe. In response, China levied a 25% tariff on 261 different agricultural products. China, on average, imports annually roughly $20 billion of U.S. agricultural commodities. The group of 261 agricultural commodities that are targeted comprises 90% of total U.S agricultural exports to China. In response, the U.S. announced plans to identify $200 billion in Chinese goods to target for tariffs.

On July 6th, the U.S. imposed $34 billion tariffs on Chinese imports. Chinese officials indicated that they will place tariffs on U.S. goods immediately thereafter. Policymakers in Washington are bandying the idea about using the Commodity Credit Corporation to administer aid to farmers should they be negatively impacted by Chinese tariffs. Nothing is set in stone at this time as there would be a large legislative effort needed.

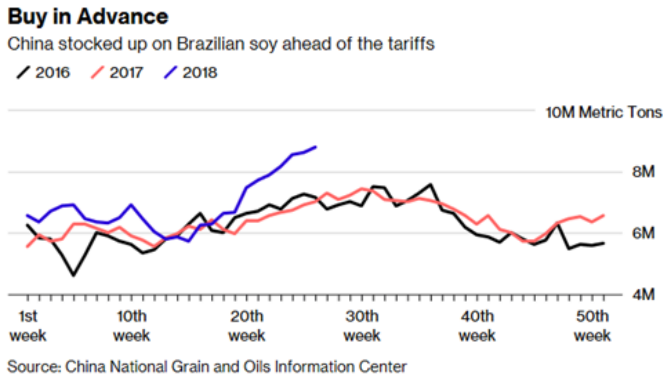
Will China cancel most of the soybean sales by the end of the August 31st marketing year in response to the July 6th 25% tariff rate on U.S. soybeans? Some trade analysts think so. (Cont'd)



Source: Bloomberg News.

Trade Tensions (Cont'd)

In the meantime, China has contracted to increase purchases from Brazil. However, there will be a supply deficit for the fourth quarter as Chinese crush facilities will not have enough supplies should they not source U.S. soybeans. Brazilian supplies annually fall to seasonal lows in the first and fourth quarters-a period when the Chinese import market for soybeans are normally dominated by the U.S. One way Brazil may potentially counter lower soybean supplies is to increase imports of soybean meal from Argentina for domestic needs in a bid to enable the export of nearly all Brazilian soybeans to China. Brazil is also reaping a benefit over U.S. beans in the futures market and possibly may import beans from Paraguay and other regional partners to take full advantage of their current market position.



Interestingly enough, should Brazilian imports of Argentine soybean meal reach higher than expected levels, Argentina, currently suffering drought conditions, may be forced to import U.S. soybeans to meet this demand.

Nearly 60% of total U.S. soybean exports are bought by China. The share of soybeans exported from Louisiana to China mirrors national levels with 57% of the state's soybeans going to China. It has been reported that Chinese inspectors are currently touring U.S. rice mills, a possible signal that the decades-long process of the U.S.'s bid to gain access to the Chinese rice is moving forward. However, given the trade anxiety that is looming, the imposition of tariffs poses a major concern to all those involved in agricultural commodity production and trade negotiation.

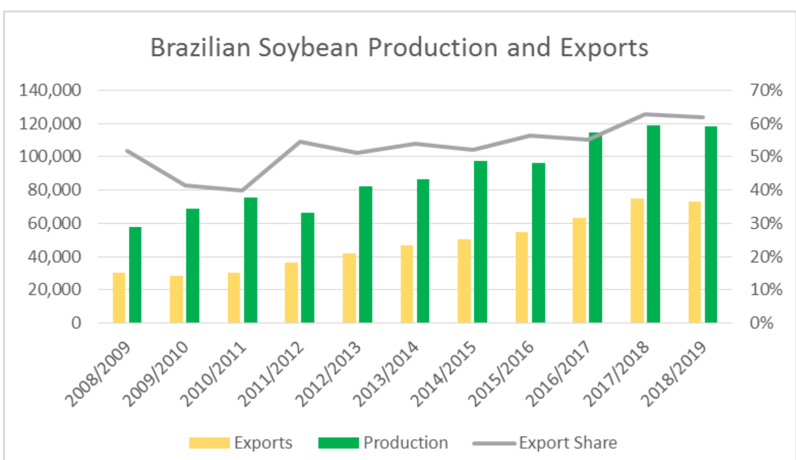
Trade anxiety is not only limited to China as Mexico has already levied tariffs on U.S. steel and aluminum and has indicated their willingness to impose new tariffs on agricultural products including pork hams and shoulders, apples, cheese and dairy products. Mexico purchases roughly a quarter of all U.S. dairy exports and the U.S. enjoys roughly an 87% market share for those products that are potentially under threat.

Global Soybean Perspective: Brazil

Brazilian truck drivers held a nationwide strike in protest of fuel costs, which have soared this year due to rising international prices, a weakening exchange rate, and a withdrawal of domestic subsidies. Since Brazil is highly dependent on truck deliveries, the work stoppage severely disrupted supply chains.

Despite road blockages that also stalled deliveries to ports, Brazilian soybean shipments in May proceeded to a record high. Uninterrupted exports were made possible by an accumulation of soybean stocks at ports prior to the strike. Supply positioning had already been initiated by further depreciation of Brazil's currency (down 20 percent since January 1) and poor prospects for Argentine exports. Lengthening ship queues suggest that even more soybeans could have been shipped in the absence of disruptions to port deliveries.

For Brazil, a higher yield raised the 2017/18 soybean production estimate this month by 2 million metric tons to a record 119 million. Backed by a bigger harvest, Brazil's soybean exports for 2017/18 are forecast up 1.35 million tons this month to 74.65 million. This year's successful outcome justifies an increase in next season's expected yield trend. Brazil's 2018/19 soybean crop is projected up 1 million tons from last month's projection to 118 million tons. Total soybean supplies for 2018/19 may climb with a larger October stocks carryover and slightly higher output. Although USDA sees Brazilian soybean exports for 2018/19, at 72.95 million tons, declining from the current year, they are 650,000 tons above last month's forecast.



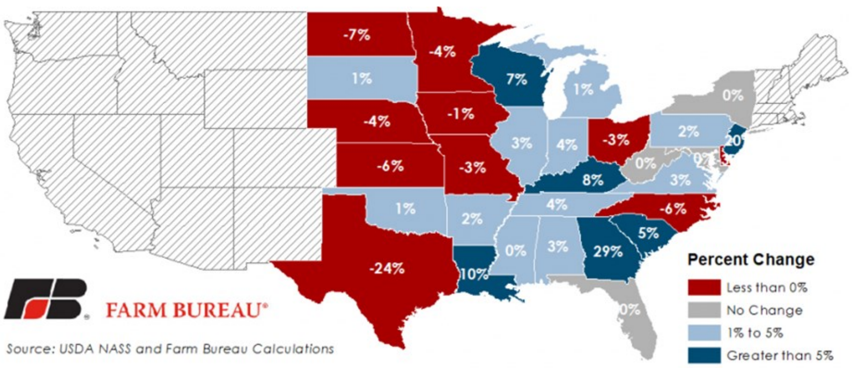
Despite the prospect of Brazil clearing out the 2018 crop this year, limited year-over-year growth in Brazil's soybean production, rising global demand, and smaller supplies in Argentina and Uruguay following this year's drought should sharply curtail exportable supplies in the latter half of 2018. Despite a weak Real, this should reduce competition in the global soybean market, boosting U.S. exports in 2018/19.

USDA June Acreage Report

Soybeans are king. That's the latest from the USDA NASS June *Acreage Report.* Since 1983, 2018 marks the first year that producers in the U.S. will plant more soybean acres than corn acres. U.S. soybean plantings are down 1% from last year, with reduced plantings (to include no change) reported in 14 of the 31soybean producing states . Corn acres are down (or unchanged) in 31 of the 48 corn producing states. The American Farm Bureau figure below illustrates the year-to-year change in soybean acreage.

U.S. Crop	2013	2014	2015	2016	2017	2018 June Report
Corn	95,365,000	90,597,000	88,019,000	94,004,000	90,167,000	89,128,000
Cotton (upland)	10,206,000	10,845,000	8,422,000	9,878,000	12,360,000	13,275,000
Rice (LG)	1,781,000	2,211,000	1,879,000	2,442,000	1,811,000	2,132,000
Rice (S/MG)	709,000	743,000	746,000	708,000	652,000	708,000
Soybeans	76,840,000	83,276,000	82,650,000	83,433,000	90,142,000	89,557,000
Wheat (all)	56,236,000	56,841,000	54,949,000	50,119,000	46,012,000	47,821,000

Louisiana Crops	2013	2014	2015	2016	2017	2018 June Report
Corn	680,000	400,000	400,000	620,000	500,000	430,000
Cotton	130,000	170,000	115,000	140,000	220,000	180,000
Rice (LG)	396,000	396,000	355,000	413,000	370,000	380,000
Rice (MG)	22,000	70,000	65,000	24,000	30,000	30,000
Soybeans	1,130,000	1,410,000	1,430,000	1,230,000	1,270,000	1,400,000
Wheat	265,000	160,000	110,000	25,000	20,000	15,000



U.S. Seasonal Farm Price Outlook

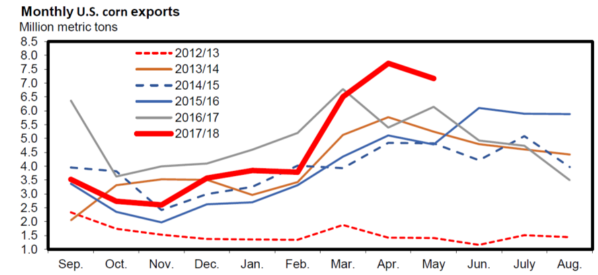
The following table represents seasonal average farm prices ($/unit), as per the 2018 USDA WASDE reports. Note, the May WASDE report contains the first estimates for the 2018/19 crop year.

Crop	2017/18 Estimate*	2018/19 May	*2018/19 June Range*	June Midpoint	*2018/19 July Range*	July Midpoint
Corn	**$3.25-$3.55**	$3.80	*$3.40-$4.40*	$3.90	*$3.30-$4.30*	$3.80
Cotton	**$0.68**	$0.65	*$0.60-$0.80*	$0.70	*$0.68-$0.82*	$0.75
Rice (LG)	**$11.60**	$11.50	*$11.00-$12.00*	$11.50	*$10.70-$11.70*	$11.20
Rice (Southern MG)	**$12.00**	$11.70	*$11.20-$12.20*	$11.70	*$11.00-$12.00*	$11.50
Sorghum	**$3.10-$3.30**	$3.60	*$3.20-$4.20*	$3.70	*$3.10-$4.10*	$3.60
Soybeans	**$9.40**	$10.00	*$8.75-$11.25*	$10.00	*$8.00-$10.50*	$9.25

Crop Market Highlights

Information presented in this market update reflects current USDA information as of July 12, 2018.

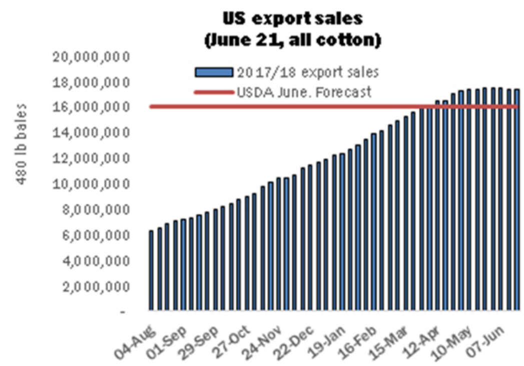
Corn



Source: USDC, U.S. Census Bureau, May 2018 *Grain Inspections.*

U.S. corn use in 2018/19 is raised due to higher corn demand for ethanol. With carry-in down, ending stocks are projected to be at their lowest levels in five years. Through April, corn exports totaled 1.351 million bushels, moving at a robust pace with record-high exports during April leading to an increase in projected exports for 2017/18. The projected average farm price received for 2018/19 ranged between $3.30-$4.30 per bushel, based on tightened stock levels relative to use.

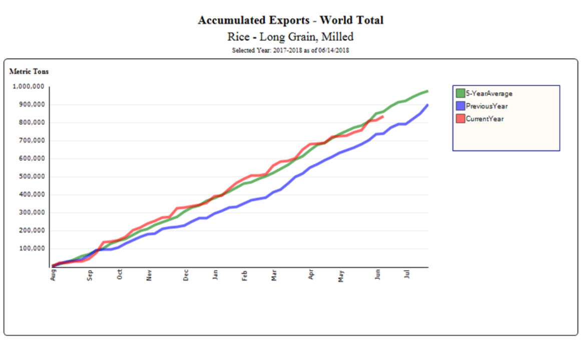
Cotton



U.S. cotton demand is projected at 18.4 million bales. Exports, which contribute over 80% of total demand, account for a slight decline in new crop demand. Stiff competition is expected from Brazil and Australia in 2018/19. Despite this slight decline in exports, U.S. cotton exports are expected to still remain at one of the highest levels on record as global mill demand prospects are forecasted to improve. Ending stocks for 2018/19 were lowered by 700,000 bales to 4 million bales, identical to 2017/18 ending stocks. If realized, U.S. stocks in 2018/19 would be at their highest in a decade; however, with demand strong, the STUR is expected to be only slightly higher in the new crop year. The forecast for the 2018/19 average farm price is projected at $0.75 per pound, above last year's estimate.

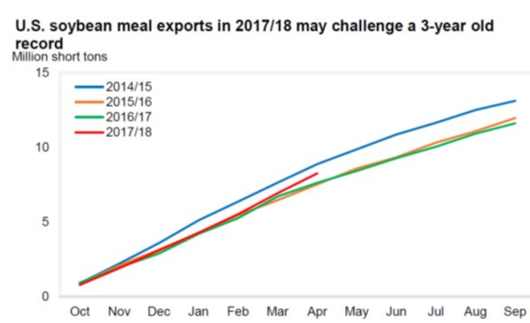
Rice

Two supply-side revisions were made to the 2018/19 balance sheet in the month of June. First, beginning stocks increased slightly due to larger imports/weaker exports in 2017/18. Despite the upward revision, carry-in is still forecasted to be 19% below last year. Second, the 2018/19 U.S. import forecast was increased to 27 million cwt. This was based on the record pace of monthly shipments from August to April for Asian aromatics. U.S. production is expected to be higher, due in part to expanded area up 14%. This will raise ending stocks with the stock situation varying by class. Long grain ending stocks are up 27%, while medium grain ending stocks are down 12% from a year earlier. The USDA raised the 2018/19 use and export forecast. Exports are increased based on expectations that current sales from 2017/18 will not actually ship until early 2018/19. On an annual basis, the expected increase in exports for 2018/19 is based on larger supplies, slightly lower prices for long and southern medium grain rice, and a smaller price difference with major Asian and South American competitors in the global long grain market. The 2018/19 SAFP is projected to be $11.20 per cwt for long grain and $11.50 per cwt for southern medium grain rice.



Soybeans

Soybean crush for 2018/19 is raised to 2.045 billion bushels as a result of increased meal exports. Soybean trade changes reflect the impact of China's recently imposed soybean import duties in addition to other global oilseed supply and demand changes in July. Soybean exports are reduced 250 million bushels to 2.040 billion reflecting the impact of China's import duties. Despite losing market share in China, soybean exports are supported in other markets as lower U.S. prices increase demand and market share. Soybean ending stocks for 2018/19 are projected at 580 million bushels, up 195 million from last month. (Cont'd)



Source: USDA, Foreign Agricultural Service, Global Agricultural Trade System Online.

Crop Market Update (Cont'd)

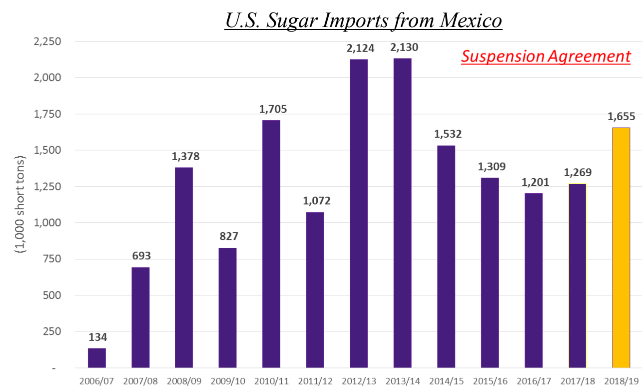
The information that is presented in this market update reflects current information as of July 12, 2018.

Soybeans (Cont'd)

The U.S. season-average soybean price is forecast at $8.00 to $10.50 per bushel, down $0.75 at the midpoint. Soybean meal prices are forecast at $315 to $355 per short ton, down $15.00 at the midpoint. The 2018/19 global soybean supply and demand forecasts include higher production and lower trade and crush compared to last month. The tariff that China recently imposed on U.S. soybeans is expected to cause higher prices for soybeans in China and slower protein meal consumption growth.

Sugar

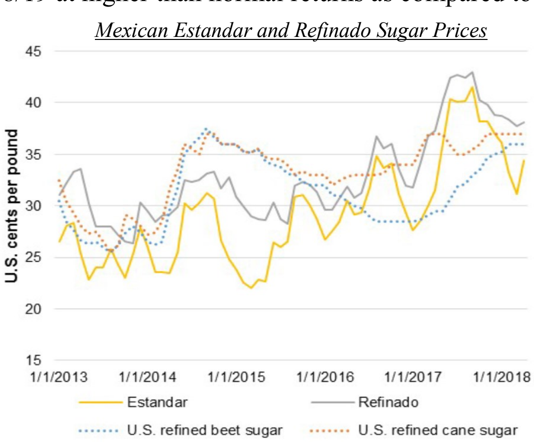
The outlook for the U.S. sugar market is expected to be slightly tighter due, in part, to fewer supplies expected. Estimated supplies for 2017/18 are reduced based on lowered expectations for domestic production and imports. Production for 2017/18 is estimated to total 9.293 million STRV, a reduction based on lowered cane sugar production in Florida. Beet sugar production is unchanged at 5.276 million STRV. Storage and cooling techniques appear to have maintained reasonable quality in frozen sugar beets as sucrose extraction rates from sliced beets continues to be at relatively high levels. Beet sugar production in 2018/19 is projected to total 5.036 million STRV, a 3.7% reduction from the current year's estimate. The amount of sugar produced per acre is in line with recent trends in extraction and shrink rates. At this early point in the projection cycle, cane sugar production is expected to return to longer term trend levels for 2018/19, which would result in a 2.3% decline from the previous year. Cane sugar production in 2018/19 is projected to total 3.740 million STRV, a reduction from the previous month due to lower production in Texas. Florida is forecasted to produce 2.000 million STRV, assuming normal weather conditions, rebounding from the previous year's crop that was affected by hurricanes and a relatively wet harvest season. Louisiana is projected to produce 1.590 million STRV in 2018/19, as yield and recovery rates are expected to return to trend levels after the record 2017/18 crop.



Sugar imports in 2018/19 are projected to be 3.560 million STRV. Imports from Mexico are increased from the June projection at 1.655 million STRV. The first U.S. needs calculation and establishment of the export limit for 2018/19 will be made by the U.S. Department of Commerce (USDOC) subsequent to the release of the July WASDE. The increase in imports is the result of the USDA establishing TRQ's to include an allocation for specialty sugar.

Ending stocks for 2017/18 are estimated to be 1.707 million STRV, resulting in a 13.5% stocks-to-use ratio. These estimates indicate a slightly tighter market than the 2017/18 estimate, as the reduction in supplies exceeded reductions in use.

Mexican sugar production for 2017/18 is increased to 6.009 MMT. Ending stocks for 2017/18 are estimated at 1.246 MMT and are based on 2018/19 domestic consumption (Mexican) before entering into their new season and sugar that can be exported to the U.S. in 2018/19 at higher than normal returns as compared to global prices. Projected Mexican exports to the U.S. are expected to be higher due to current sugar market projections. Domestic Mexican prices remain relatively high compared to U.S. prices. For 2018/19, exports to the United States are increased by a small amount to 1.417 million MT to equal U.S. Needs as defined in the amended Suspension Agreements.



USDA Report Release Dates

World Agricultural Supply and Demand Estimates (WASDE) Report: Aug. 10, Sep. 12, Oct. 11, Nov. 8, and Dec. 11.

Recent Market News for Both Corn and Soybeans Dominated by Weather and Trade Uncertainties

July weather is the most important factor in influencing final corn yields with August being the most influential month for soybean yield potential. In the absence of rain, temperature-related corn stress may spark a weather rally in the market turning the calendar into the ever-important month of July. In mid-June, weather concerns were limited by rains, as these heavy rains boosted soil moisture levels across a large portion of the central U.S. Buyer interest can be renewed given any weather stress interjected into the corn market.

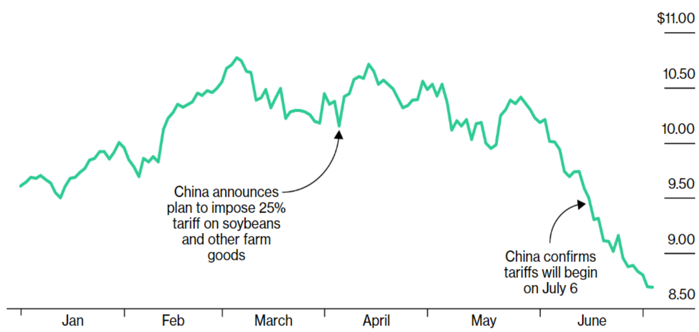
As thought, corn futures trended lowered as the Midwest received rain. The duration of the heat and scope of any accompanying moisture will be key factors determining price direction in early July. Looming issues surrounding NAFTA renegotiations and the U.S. relationship with Mexico are underlying negative factors. Corn exports continue to be fairly stable and ethanol demand is solid. Tightening global supplies should shore up demand and act as a floor under the market.

Thoughts among those in the trade think that demand will be eventually be price-supportive. The global corn STUR continues to emit bullish signals, as the bulk of the current bearishness are related to both weather and trade news is believed to be overstated in this market. Both the U.S. and global STUR are trending lower for a second consecutive year. U.S. corn export demand potential is rising amid ongoing drought in the Black Sea region and smaller crops in Brazil and Argentina. Corn exports are headed to their highest levels in more than a decade. With world supplies shrinking, more crop losses are projected for major U.S. competitors (Brazil, Russia, Ukraine, and Europe) in the global corn market. With 2018/19 world inventories set to hit a six-year low and with exports remaining strong, the market is fundamentally undervalued.

For soybeans, all eyes are on China and the weather. With crop conditions being the highest they have ever been in mid-June and with large planted acreage, carry-over is likely to be high and this news is not lost on the market as soybean futures plunged to a 10-year low. Trade tensions were also a contributor to this plunge as there are fears of reduced Chinese interest in buying U.S. soybeans. Weather uncertainty weighs negatively on prices, but there are also worries that humid and hot weather are creating ideal conditions for an outbreak of disease problems in the Midwest .

China has recently been buying less U.S. soybeans. China can slow its purchases of U.S. soybeans and shift demand to South America, but only to a degree. The good news for U.S. producers is that China needs U.S. soybeans. At the moment, China is exhibiting little interest in U.S. soybeans with cheaper supplies readily available in Brazil. The weakness in the Brazilian Real, which fell to a two-year low, Brazilian growers are able to more profitably sell this year's crop. Increasing prices and the drop in the Real are expected to drive Brazilian soybean acreage higher when planting of the 2018/19 crop begins in September. While China holds record port stocks, logistical problems in Brazil may threaten shipments into July and August. Currently, U.S. prices are attractive, relative to the values China has paid for Brazilian soybeans, supporting the notion that China is still making an economic business decision in regards to U.S. soybeans.

U.S. Soybean Futures
Since the start of 2018, dollars per bushel



Source: Chicago Board of Trade

U.S. soybean export discounts are already increasing demand from many importers outside of China. There are, as yet, no signs of slowing global demand for U.S. soybeans, which is positive. The deteriorating situation between China and the U.S. will not mean a halt to U.S. exports to China, it will likely *slow* exports down in the near-term while also posing more of a substantial threat over the long-run.

China's Ministry of Finance said that Beijing would remove tariffs on imports of feed ingredients (soybeans, soy meal, rapeseed, and fish meal) from Bangladesh, India, Laos, South Korea, and Sri Lanka starting July 1st. This move takes effect five days before U.S. tariffs of $50 billion in Chinse goods and China's 25% retaliatory tariffs on U.S. soybeans are set to take effect. The move, seen as a coincidental development, figures to do almost nothing to help China meet its soybean import needs.

Soybean Destinations
Where the top exporters sent beans, metric tons

Source: Rabobank

Seed Cotton Program Update

The LSU AgCenter in conjunction with the USDA-FSA, the Louisiana Farm Bureau Federation, the Louisiana Cotton and Grain Association, and Mississippi State University Extension Service, will be hosing a **seed cotton workshop at the LSU AgCenter Scott Research Center in Winnsboro on Thursday, July 26th from 4:30 p.m. to 6:30 p.m.** Information will provided on updating payment yields, generic base acre reallocation, and projecting seed cotton program payments.

With the recent introduction of the seed cotton program, cotton producers need to know the mechanics of the program as to take full advantage of their individual farming foot print. The seed cotton program only applies to the 2018 crop year with renewal language in the current farm bill draft. Generic base acres will cease to exist beginning with the 2018 crop year as seed cotton is now a covered commodity. Therefore, the decision to convert generic base acres to seed cotton base or convert those generic acres to covered commodities recently planted on-farm, is a decision that should be made from a risk-management perspective. Producers electing to convert/reallocate generic acres to seed cotton base acres will be eligible to participate in either PLC or ARC for seed cotton in 2018. Due, in part, to the design of the seed cotton program, upland lint prices and cottonseed prices are weighted in terms of total U.S. production and combined to calculate a national price for seed cotton. This national price for seed cotton will be compared with the seed cotton reference of $0.367 per pound to determine if a PLC support payment is triggered.

USDA FSA Anticipated Timeline for Seed Cotton Program Signup	
June 29, 2018	Producers mailed letters notifying the, of current generic base acres and yield along with 2008-12 planting history
July, 2018	Producers have the opportunity to update yields and allocate generic acres for ARC and PLC
Late July, 2018	ARC and PLC one-time elections occur for seed cotton
Late July, 2018	ARC and PLC signup for 2018CY starts for farms with seed cotton base acres

Producers should be mindful that there are deadlines for program election and enrollment. A table (left) outlining the steps and corresponding timeframe for each step has been included for readers' convenience. Producers are encouraged

U.S. Supreme Court Justice Anthony Kennedy Announces Retirement

It was reported that perhaps the biggest impact that Justice Kennedy had on agriculture was when he wrote a 2005 opinion on the Clean Water Act that was used by the Obama Administration to craft the infamous Waters of the U.S. (WOTUS) rule. The Obama Administration, the EPA, and the U.S. Army Corps of Engineers kept this opinion in mind when ,and in the actual event, that the WOTUS rule would be challenged in the court. The President nominated Judge Brett Kavanaugh, from the U.S. Court of Appeals for the Washington DC Circuit. A conservative judge will likely edge the court more conservative on regulatory issues important to agriculture.

Newsletter Information

A group of growers inquired about a quarterly newsletter being delivered to them containing relevant market news and agricultural policy happenings. As a result, this publication will be delivered electronically per the release schedule. Please contact Dr. Mike Deliberto at mdeliberto@agcenter.lsu.edu to be added to the email distribution list, free of charge.

QUARTER	Reporting Period	Release Date
1	January 1 through March 31	April 15
2	April 1 through June 30	July 15
3	July 1 through September 30	October 15
4	October 1 through December 31	January 15

Please send questions and comments to Dr. Michael Deliberto of the Department of Agricultural Economics and Agribusiness, LSU AgCenter. Mailing Address: 101 Martin D. Woodin Hall, LSU Campus, Baton Rouge, LA 70803. Phone: 225-578-7267. Email: mdeliberto@agcenter.lsu.edu Staff Report 2018-27. July 2018.

LSU Ag Econ