Farm Journal
Pro Farmer
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News this week...

Merry Christmas, Happy New Year from *Pro Farmer*! – *Corn futures dropped to new contract lows last week before modestly bouncing. Soybeans extended their decline from the mid-November highs as some rains fell on dry areas of Brazil. Wheat futures followed the other markets to the downside, while holding in their recent consolidation ranges. Cattle and hog futures posted choppy trade ahead of Friday's Cattle on Feed and Hogs & Pigs Reports. Cash cattle snapped a six-week string of losses, while cash hogs hinted a seasonal bottom could be close. This is your final issue of Pro Farmer for 2023. Your next newsletter will be dated Jan. 6, 2024. For market and policy updates during the holidays, go to www.profarmer.com. Pro Farmer wishes you a blessed Christmas filled with joy... and a prosperous 2024!*

Brazil's weather turning the corner?

Rains provided some relief to dry areas of central and northeastern Brazil last week, though they came too late for early maturing soybeans. Forecasts signal more consistent rains could develop by early January. Mostly favorable conditions are expected across southern Brazil and most of Argentina.

Cordonnier cuts Brazil crop forecasts

South American crop consultant Dr. Michael Cordonnier cut his Brazilian crop forecasts by 2 million metric tons (MMT) to 155 MMT for soybeans and by 1 MMT to 117 MMT for corn. For Argentina, Cordonnier raised his corn crop peg 1 MMT to 53 MMT and left his soybean crop forecast at 50 MMT.

Milei wants to raise soy product taxes

New Argentine President Javier Milei proposed raising the tax on soyoil and soymeal exports by two percentage points to 33%, which would be the same as soybeans. Milei also wants to raise the tax on corn and wheat exports by three points to 15%. These changes would need congressional approval.

CARB's soy-friendly LCFS proposal

The California Air Resources Board (CARB) intends to end its existing Low Carbon Fuel Standard (LCFS) exemption for interstate jet fuel, likely leading to increased production of sustainable aviation fuel. The update also includes a prohibition on palm oil-derived feedstocks, which may create a larger market share for soyoil. The proposal did not include a cap on agricultural feedstocks. A major concern for the American Soybean Association is a proposal to prevent deforestation by mandating point-of-origin tracking for crop-based feedstocks by 2028.

El Niño will fade, La Niña possible

El Niño has peaked and will begin a steady decline in January. After that, additional cooling is possible in the eastern equatorial Pacific, which could result in the redevelopment of La Niña. World Weather says years in which moderately strong El Niños turned ENSO-neutral have a tendency to be warmer and drier in the Corn Belt, but it doesn't expect a return of La Niña for summer 2024.

Perspective on Red Sea rerouting

Global shipping companies have redirected their operations in the Red Sea amid concerns about potential attacks by the Houthi rebel group in Yemen. Some trade routes are witnessing a 40% increase in ocean freight rates. As of Dec. 21, 158 ships carrying approximately $105 billion worth of cargo had redirected away from the Red Sea. Logistics CEOs warn if these elevated costs persist for a month or longer, it will lead to inflationary pressures affecting supply chains.

Lower odds for farm bill in early 2024

Funding and food/nutrition issues have been lingering hurdles for getting a new farm bill. Another major development has added a potential delay — New York voter redistricting. That would put several vulnerable GOP lawmakers at more risk of losing their seats and could make farm-state Democrats want to wait until after the elections to finish a new farm bill.

Fed's inflation gauge falls in Nov.

The Personal Consumption Expenditure (PCE) index fell to 2.6% above year-ago in November. Core PCE, minus food and energy prices, eased to 3.2%. On a six-month annualized basis, core inflation eased to 1.9%, suggesting the Fed is well on its way to reaching its target. Markets signal traders anticipate the Fed will start lowering interest rates in March.

Rural bankers expect recession in '24

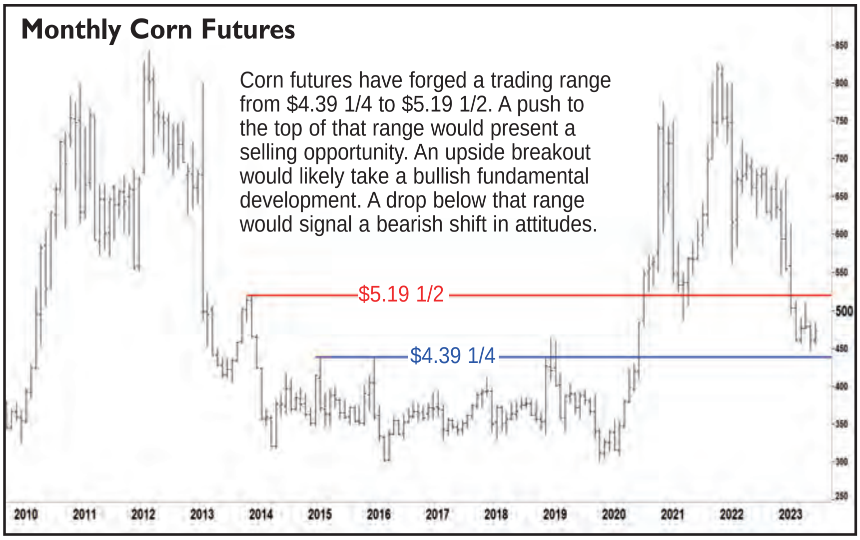
For a fourth straight month, Creighton University's Rural Main Street Index fell below growth-neutral. Some 13.3% of bank CEOs in ag and energy-based areas indicate their local economy was already in a recession, while another 43.3% expect a recession in early 2024.

USDA lowers 2024 food price outlook

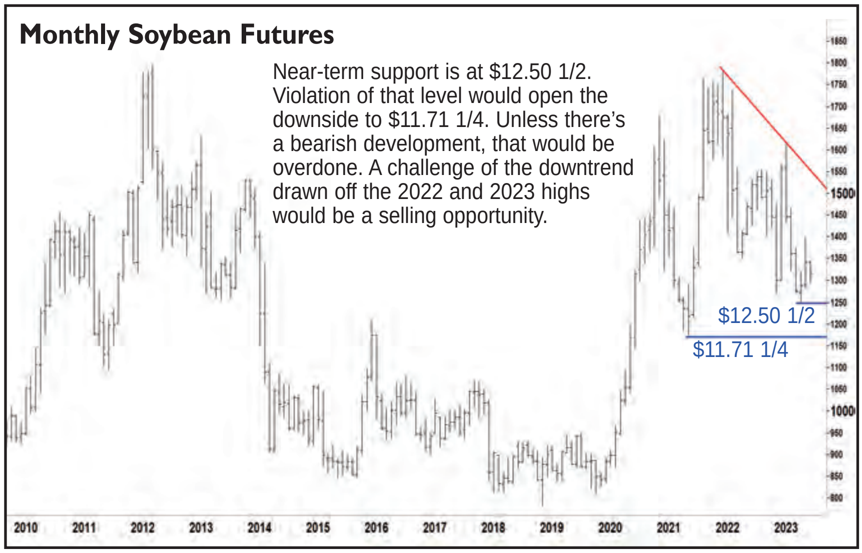
USDA forecasts all food prices will increase 1.2% in 2024, with food away from home (restaurant) prices expected to rise 4.9% while food at home (grocery store) prices are seen declining 0.6%. That would be the smallest annual increase in overall food prices since they rose 0.9% in 2017 and the steepest decline in grocery prices since they fell 1.3% in 2016.

Corn futures continued to closely track the 2010-14 period throughout 2023, as we documented numerous times. If that pattern holds, there should be a general uptrend in prices through the first quarter of the new year. Broader seasonal price trends would also point prices higher in early 2024. But for an extended price rally, the market will need a bullish catalyst.

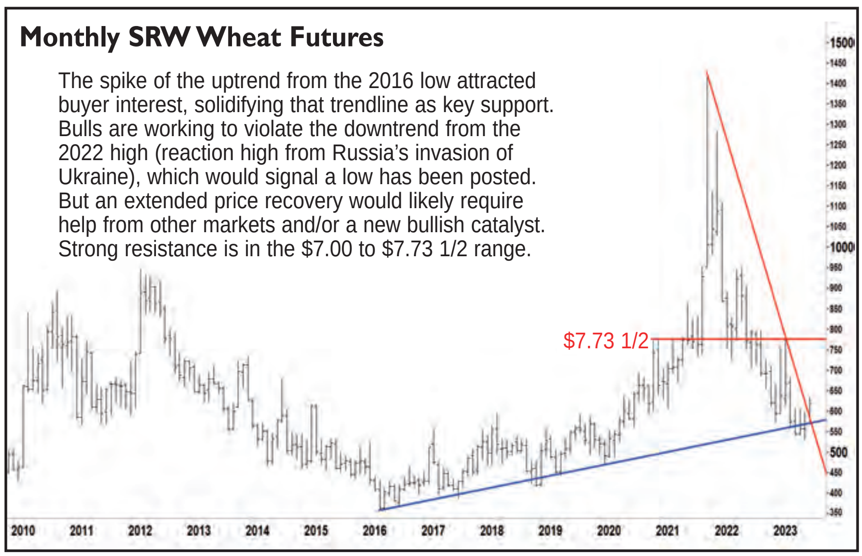
The leading candidate for a bullish spark would be potentially sharp reductions to Brazil's corn crop. The market has basically ignored the drought concerns in central and northeastern Brazil during the first half of the growing season. Once the safrinha crop, which typically accounts for about three-quarters of Brazil's total corn production, comes into clearer focus as soybean harvest advances, market attention should increase. With U.S. ending stocks well above 2 billion bu., you should be focused on selling extended price rallies for 2023- and 2024-crop production.



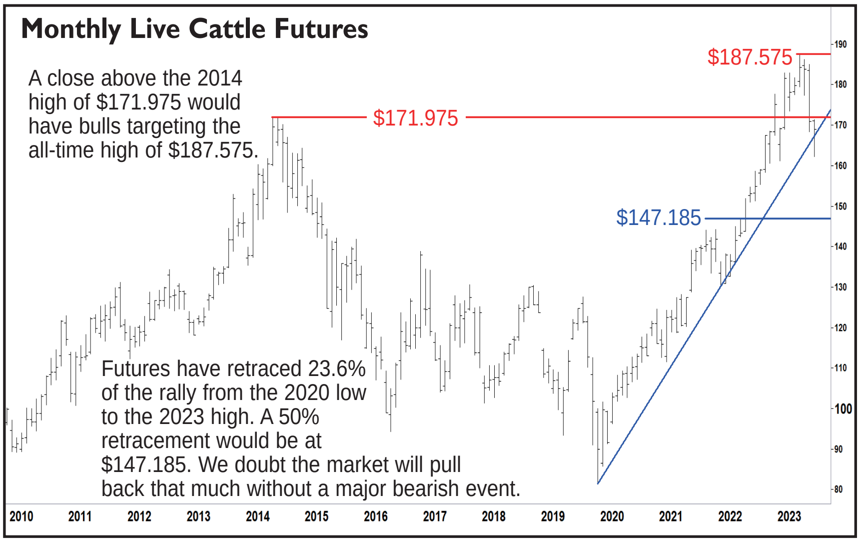
As with corn, front-month soybean futures continued to closely track prices from the 2010-14 period throughout 2023. But prices have underperformed to close out the year. That gives us confidence a market rally will come during the early stages of the new year. If soybeans track their 2014 performance, front-month futures would rally above $15.00 by early spring. That type of rally would likely take continued reductions to Brazil's crop and a steady increase in Chinese purchases of U.S. soybeans. With U.S. ending stocks relatively tight, that type of scenario would be bullish. However, with prices in the teens, you should be looking to sell extended price rallies ahead of the U.S. growing season, as we project soybean acres will rise sharply and push ending stocks back to comfortable levels for the 2024-25 marketing year.



A recent spurt of Chinese buying of U.S. wheat helped futures rebound off their lows and forge what could be a major low. But export demand for U.S. wheat remains far from strong enough to produce sustained price strength, leaving the market vulnerable to choppy near-term price action. For wheat to produce a sustained price rally, the corn and/or soybean markets likely need to lead the way unless China unexpectedly remains an active buyer of U.S. wheat early in the new year. Drought remains a concern across U.S. winter wheat areas, especially in the Southern Plains. But those conditions have improved slightly and it's typically difficult to get traders excited about winter wheat drought during the winter months. USDA's January winter wheat seedings estimate will be down from year-ago but production could still rise notably if yields rebound, which would push up ending stocks and limit rallies.

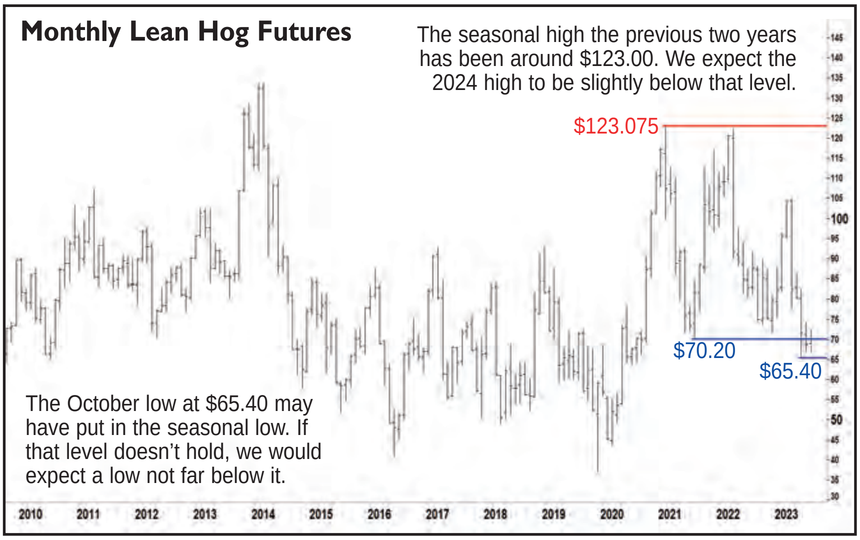


The cattle market surged to an all-time high in 2023 as the beef cow herd shrank to a 62-year low. Heavy fund long liquidation took the wind out of bulls' sails since mid-September. Since there was no significant change in fundamentals, we expect a substantial price recovery during 2024. Supply-side fundamentals will remain bullish in the new year, especially if cow-calf operators begin to actively rebuild their herds, which would reduce the beef supply as heifers are held back. But we continue to have concerns with demand. While domestic beef demand performed better than some feared over the past year, exports fell nearly 15% this year and are projected to decline another 6% in 2024. That could keep the cattle market from rallying to new highs. Once a clear market top is place, there will need to be a greater focus on hedges for fed cattle producers, as history suggests the multi-year price pullback will be sharp.



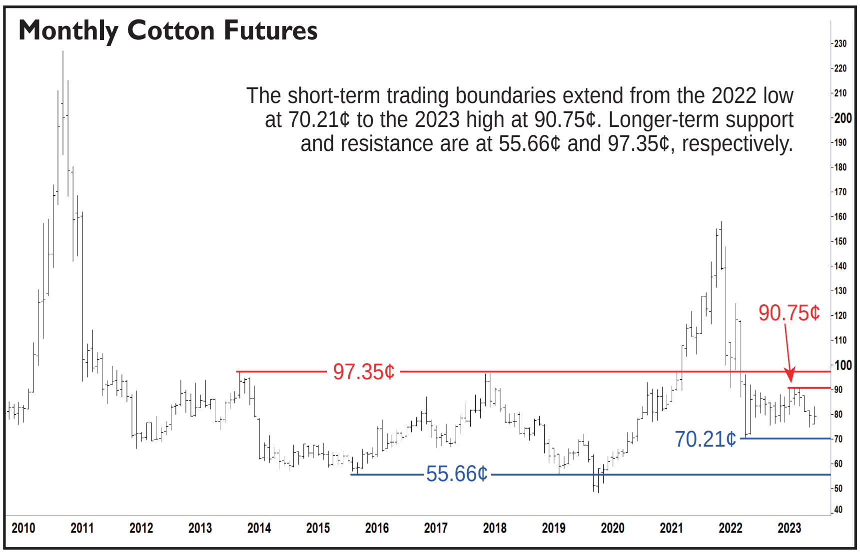
The cash hog market is in the process of trying to put in a seasonal low. It appears that may have already happened in futures, though the upside will be limited until the cash market bottoms. That might not come sometime early in 2024. As market-ready supplies decline, prices will rally to seasonal highs midyear.

Pork production is forecast to increase in 2024, but so are exports. Chinese demand for U.S. pork will be key for demand, as it rebounded sharply in 2023, but China's domestic pork production is also robust. Domestic U.S. pork demand could be the key to determining if prices eventually take out the seasonal highs from the past two years. While pork remains relatively cheap compared to beef, we doubt there will be an appreciable uptick in domestic pork demand from the strong performance this year. That could keep the hog market from quite reaching the summertime highs posted the past two years.



The cotton market appears to have found a comfort zone as traders wait on the next major market-moving news. The recent collapse in volatility suggests the market is in a holding pattern and will likely respond with a big price move — to the upside or downside. Barring any major adjustments to the 2023 crop size, demand will be the likely price mover over the first half of the new year. More specifically, Chinese demand. China has been a relatively active buyer of U.S. cotton, but concerns with the Chinese economy persist. If China can rebound economically, it would likely be price-supportive for cotton.

From a supply perspective, we expect cotton acreage to climb in 2024 and for production to significantly rebound, which would push up 2024-25 ending stocks. If that scenario unfolds, it could take a bullish summer weather event to keep cotton prices from falling.



Biofuels, weather and SCOTUS garner major attention in 2023

By Pro Farmer Editors

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Each year is unique, presenting a new set of circumstances that shape agriculture and our lives. As 2023 comes to a close, it's time to look back on the events, stories and people that were most influential over the past year.

Pro Farmer ag story of the year: Biofuels resurgence

There was a lot of debate over the ag story of the year amongst the *Pro Farmer* staff, with many strong candidates for this designation. The deciding factor for choosing the resurgence of biofuels as our story of the year was the amount of "tentacles" it has with far-reaching impacts across the agriculture sector.

While traditional corn-based ethanol production seems to have plateaued in the low 5-billion-bu. range, soybean oil consumption for biofuels took off in 2023. Renewable diesel and sustainable aviation fuel (SAF) became standard names not only in the ag sector but in mainstream media as the push for carbon reductions intensified.

The ag sector announced new soy processing facilities and/or expansion of existing plants to ramp up production of soybean oil to meet the increased demand. Soy processors traditionally crushed soybeans for the meal content. That's no longer the case, with soyoil now the desired by-product.

Much of the soy processing expansion has come in non-traditional areas, positively impacting local basis. The expansion led to a record soybean crush of 2.212 billion bu. in the 2022-23 marketing year, with the forecast for 2023-24 currently at 2.300 billion bushels. Soybean oil use for biofuels surged to a record 12.491 billion lbs. in 2022-23 and is projected to reach 12.800 billion lbs. in the current marketing year.

With Brazil ramping up its soybean production and continuing to take export share away from U.S. soybeans, this new source of demand is crucial for the industry. SAF may also help corn-based ethanol rebrand partially away from the Renewable Fuel Standard (RFS) as miles driven limits the growth of ethanol for that sector — if ethanol will indeed qualify as an SAF feedstock.

The current renewable diesel/SAF impact on the soybean market reminds us of ethanol's effect on corn, starting in 2005. During the early years of ethanol expansion, we repeatedly said no one knew exactly the levels corn-based ethanol would rise to, just that it was constantly an upward moving target. This story is just beginning.

Pro Farmer ag event of the year: La Niña to El Niño

The shift from La Niña to El Niño had dramatic impacts on agriculture. La Niña helped produce record soybean and corn crops in Brazil in 2022-23, despite drought in far southern areas — and record exports. Argentina endured a historic drought, which slashed its soybean production, driving more soymeal and soyoil demand to the U.S., which helped offset soybean export demand lost to Brazil.

The transition to El Niño didn't come quickly enough to support U.S. corn and soybean crops, with drought pushing yields well below trendline levels. Still, the U.S. produced a record corn crop, due to a sharp increase in acreage.

With El Niño fully intact by September, impacts have reversed for the 2023-24 South American growing season. Brazil is experiencing crop stress, while Argentina has seen much-improved growing conditions.

Pro Farmer ag persons of the year: SCOTUS

Nobody had a bigger impact for agriculture in 2023 than the U.S. Supreme Court (SCOTUS), which issued two significant rulings. In May, SCOTUS upheld California's Proposition 12 rule, which allowed Massachusetts and other states to push forward similar animal confinement legislation. Also in May, SCOTUS ruled against EPA on its waters of the U.S. (WOTUS) rule, limiting its jurisdiction and forcing the agency to reissue its final rule.

Honorable mentions for ag story, event and person

Fed pause, pivot: Inflation peaked midyear. In December, the Fed turned dovish, suggesting rate cuts are coming.

Shipping/logistics woes: A variety of issues impacted shipments on the Mississippi River, Black Sea, Panama Canal, Brazil and Red Sea/Suez Canal in 2023.

Mexico GMO corn issue: Mexico backed down on its stance against U.S. GMO corn after Washington challenged the rule via USMCA. There's hope this issue could be resolved in 2024 with a new Mexican president.

Farm bill: Lawmakers were unable to get a new farm bill done, leading to a one-year extension.

Cattle highs: Cattle futures and cash prices surged to all-time highs in 2023 as the beef herd fell to a 62-year low.

Paul Neiffer: aka "Farm CPA." He's the go-to for many farmers on tax-related issues and farm payments. Also, lawmakers and their staff consult with him on tax regulations.

Ag trade: There was a swing from record ag exports to a record ag trade deficit in fiscal year 2023.

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General Manager Ryan Nelson • Editor Brian Grete • Editor Emeritus Chip Flory • Chief Economist Bill Nelson • Economist Lane Akre • Market Analyst Hillari Mason
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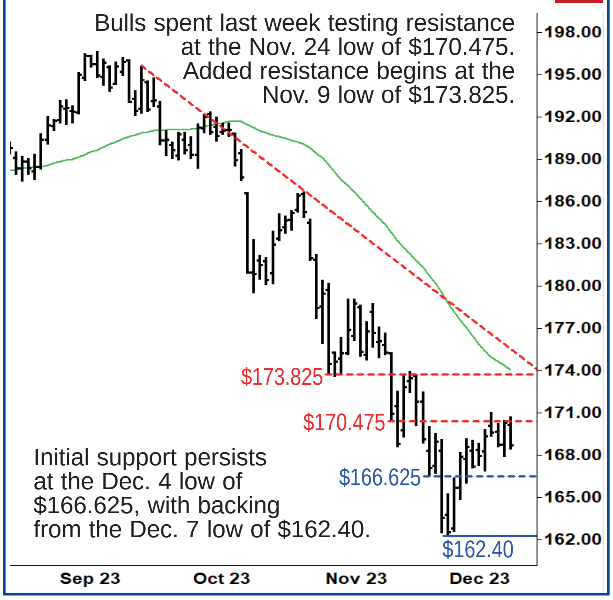
Farm Journal CEO, Prescott Shibles

CATTLE - Fundamental Analysis

Cash cattle prices have fallen substantially from late-October levels, which will likely limit feedlot interest in buying replacements, especially with the yearling herd looking likely to shrink into 2025. Ranchers holding back heifers for the breeding herd will reduce those supplies even further. Seasonal patterns indicate fed cattle supplies will decline into late winter and history suggests prices also peak in years the cattle population hits a cyclical bottom. Thus, there's a good chance the anticipated early-2024 rally could carry the market back toward, and possibly surpass, the 2023 peak.

DAILY FEBRUARY LIVE CATTLE

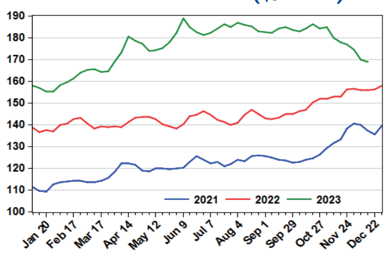


Position Monitor

Game Plan: Futures have rebounded, while the cash market is still searching for a low. We expect an extended corrective rebound in both markets.

	Feds	Feeders
IV'23	0%	0%
I'24	0%	0%
II'24	0%	0%
III'24	0%	0%

CASH CATTLE PRICES ($/CWT.)



HOGS - Fundamental Analysis

Cash hog prices fell to their lowest levels since early 2021 in early December and could keep sliding into the end of the year. However, after having consistently exceeded year-ago levels throughout 2023 (contrary to initial USDA estimates), hog supplies are expected to fall below this year's rates by spring. That was demonstrated by the mid-month futures reversal, which moved February futures from a modest discount to a sizeable premium to the cash index. Indeed, 2024 hog futures are anticipating a near "normal" hog price pattern. We suggest awaiting better hedging opportunities in the weeks ahead.

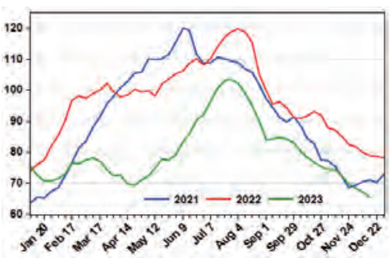
DAILY FEBRUARY LEAN HOGS

Position Monitor

Game Plan: The market is still searching for a seasonal low, but hedges are not advised. Premiums in February futures signal traders anticipate a cash market low soon.

	Lean Hogs
IV'23	0%
I'24	0%
II'24	0%
III'24	0%

CASH HOG PRICES ($/CWT.)



FEED

Feed Monitor

Corn

IV'23	100%
I'24	33%
II'24	0%
III'24	0%

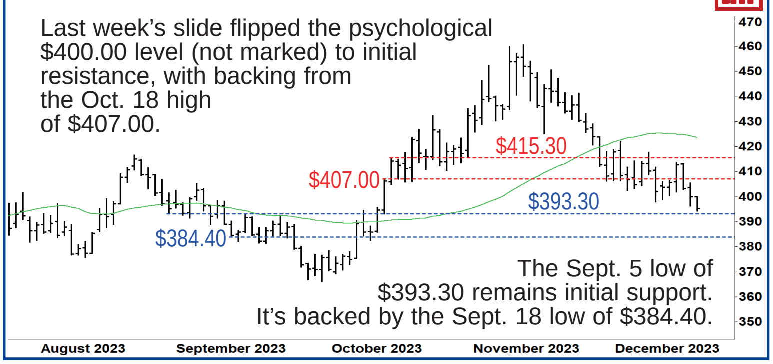
Meal

IV'23	100%
I'24	33%
II'24	0%
III'24	0%

Corn Game Plan: On Dec. 20, we advised extending corn-for-feed coverage in the cash market through January. On signs the market has posted a major low, we look to more aggressively extend coverage.

Meal Game Plan: On Dec. 20, we advised extending soymeal coverage in the cash market through January. Be prepared to further extend coverage on signs of a low.

DAILY JANUARY SOYBEAN MEAL

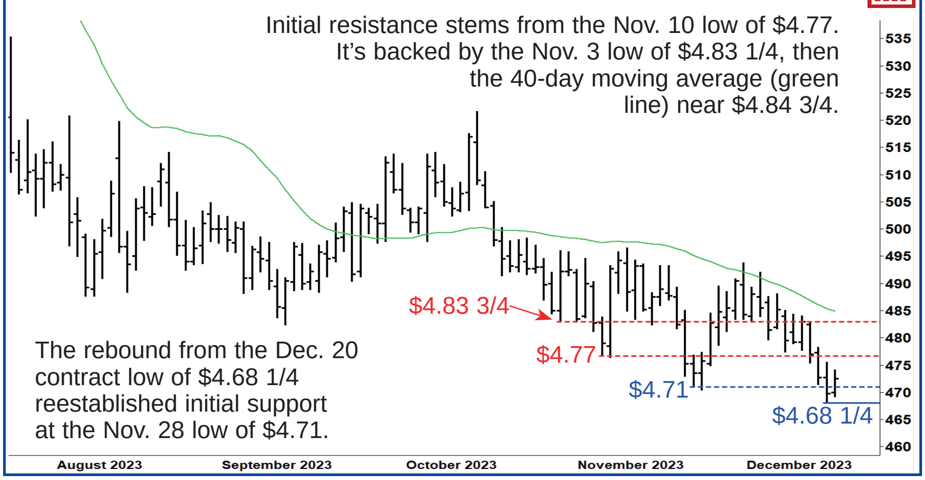


Position Monitor

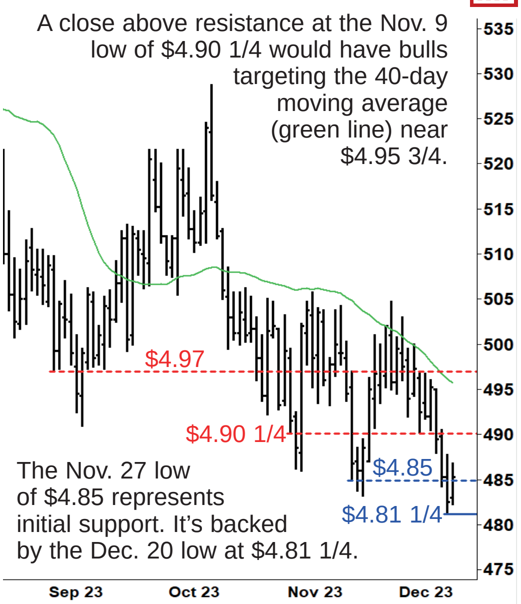
	'23 crop	'24 crop
Cash-only:	35%	0%
Hedgers (cash sales):	50%	0%
Futures/Options	0%	0%

Game Plan: Wait on a corrective rebound to get current with advised sales. Corn is struggling to find a bottom, though prices tend to work higher early in the new year. It would likely take a bullish catalyst like sharp reductions in Brazil's crop estimate to fuel an extended rally. Be prepared to advance 2023-crop sales and start 2024-crop marketings on an extended rally.

DAILY MARCH CORN



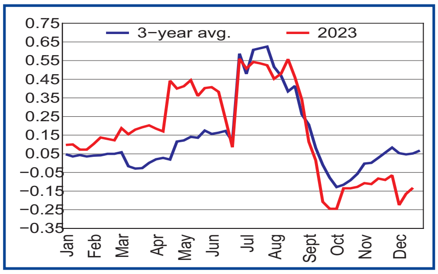
DAILY MAY CORN



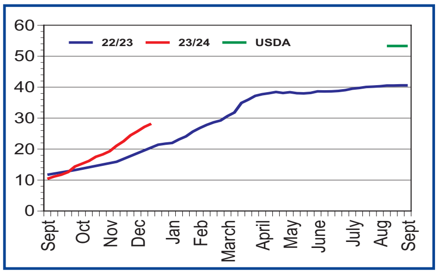
CORN - Fundamental Analysis

Reports of slow fertilizer purchases by Brazilian farmers last week accentuated recent talk of sizeable cutbacks in that country's safrinha (second-crop) corn plantings following their soybean harvest. Conversely, Brazil's weather forecast has turned more favorable, which may have played a role in recent futures' losses. The soybean market's late-fall underperformance versus expectations may also be undercutting corn values. Weak demand following this year's record crop is seemingly reflected by the corn basis chart. Still, history suggests corn futures will rally in the first quarter, as corn exports typically take on a more prominent role early in the new year.

AVERAGE CORN BASIS (MARCH)



CORN EXPORT BOOKINGS (MMT)



Position Monitor

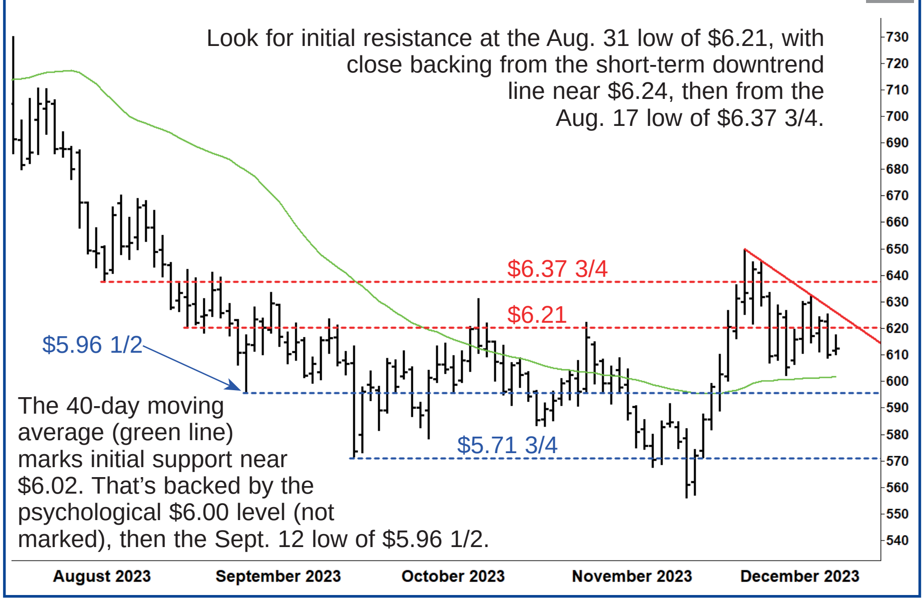
	'23 crop	'24 crop
Cash-only:	60%	10%
Hedgers (cash sales):	60%	10%
Futures/Options	0%	0%

Game Plan: Wait for a push to the upside to get current with advised sales and to increase marketings. With upward momentum stalled, the market could weaken, though we feel downside risk should be limited.

WHEAT - Fundamental Analysis

SRW — The dormancy of Northern Hemisphere winter wheat crops makes potential demand shifts the dominant force in the markets. The U.S. dollar decline should be supportive, but the weak basis indicates sluggish export demand. A seasonal corn/soybean advance could give wheat a boost.

DAILY MARCH SRW WHEAT

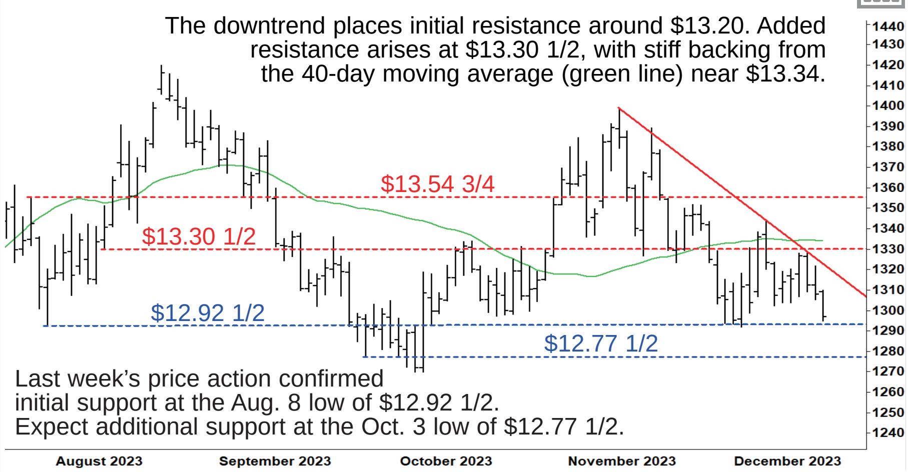


Position Monitor

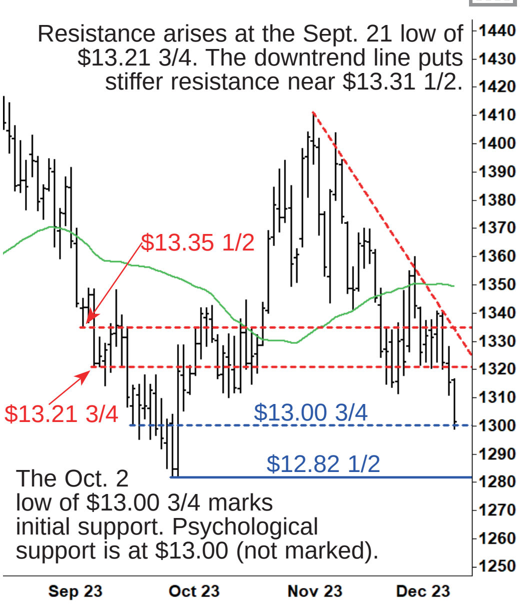
	'23 crop	'24 crop
Cash-only:	50%	10%
Hedgers (cash sales):	55%	10%
Futures/Options	0%	0%

Game Plan: Wait to get current with advised sales. Be prepared to make additional old- and new-crop sales on an extended rally. We are targeting a move to the $14.00 area in March soybean futures to increase old-crop sales. Timing of new-crop sales will be based off old-crop. Seasonally, prices should generally strengthen, though that will be determined by South American crop potential and corn.

DAILY JANUARY SOYBEANS



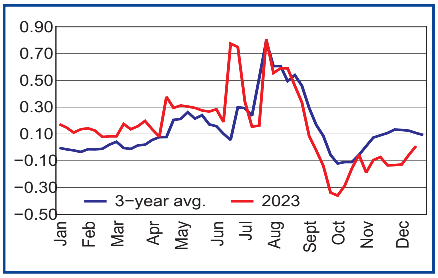
DAILY MARCH SOYBEANS



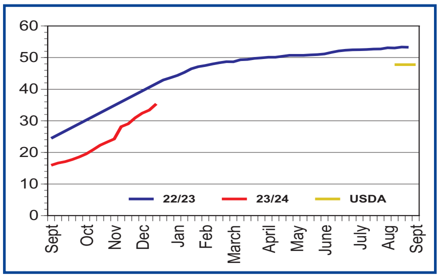
SOYBEANS - Fundamental Analysis

Although one could argue torrid demand for soyoil and the crushing industry's pursuit of that market is currently weighing on soymeal prices, there's little doubt about the strength of domestic soybean demand. The Fed's announcement of planned interest rate cuts has also improved the economic outlook and undercut the dollar. Nevertheless, soybean futures struggled mightily in late autumn. This seemingly reflects Brazil's active shipments of its record 2022-23 crop and the prospect of another huge harvest in the current crop year. But we still believe the tight domestic situation will power an early-2024 rally and favor waiting for it to materialize.

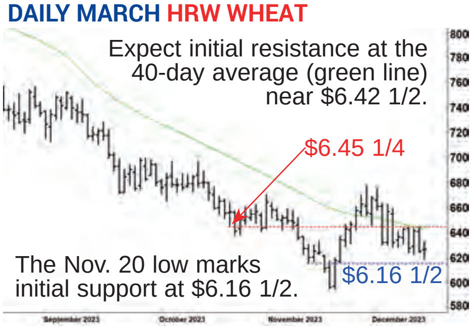
AVERAGE SOYBEAN BASIS (NOV.)



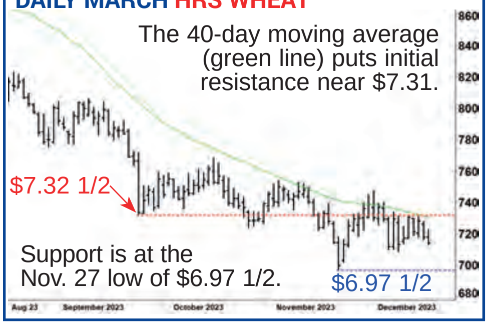
SOYBEAN EXPORT BOOKINGS (MMT)



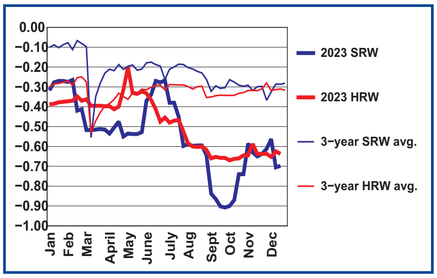
DAILY MARCH HRW WHEAT



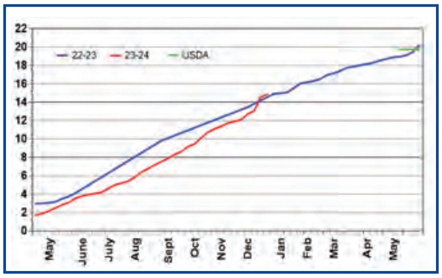
DAILY MARCH HRS WHEAT



AVERAGE WHEAT BASIS (MARCH)



WHEAT EXPORT BOOKINGS (MMT)



HRW — Late-year rains seem set to significantly improve the moisture situation in the Southern Plains, possibly boding well for the 2024 HRW crop. With HRW basis much wider than normal, the cash market isn't providing any support to futures. An extended move higher would likely require increased export demand.

HRS — The poor export situation remains a handicap for bulls, especially with Canadian HRS flowing south. And yet, futures seemingly posted a fall low last month. This may partially reflect growing optimism about the economic outlook and weaker dollar. Still, the technical situation suggests other supportive factors are at work.

Position Monitor

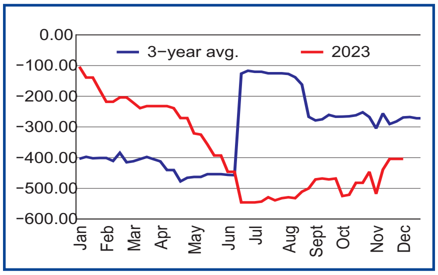
	'23 crop	'24 crop
Cash-only:	60%	0%
Hedgers (cash sales):	60%	0%
Futures/Options	0%	0%

Game Plan: Wait on an extended corrective rebound to advance sales. Given our sales levels, we are targeting a rebound into the mid-80.00¢ area.

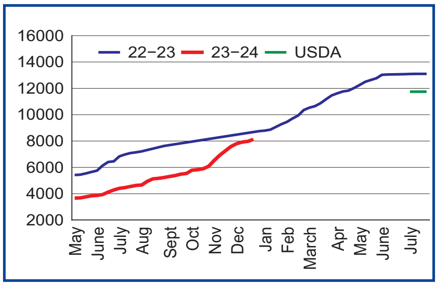
COTTON - Fundamental Analysis

The Fed's promise of 2024 interest rate cuts boosted the economic outlook, along with the equity indexes, and undercut the dollar. But cotton futures have proven unable to rally. Traders remain focused on export potential to China, which has discouraged bulls.

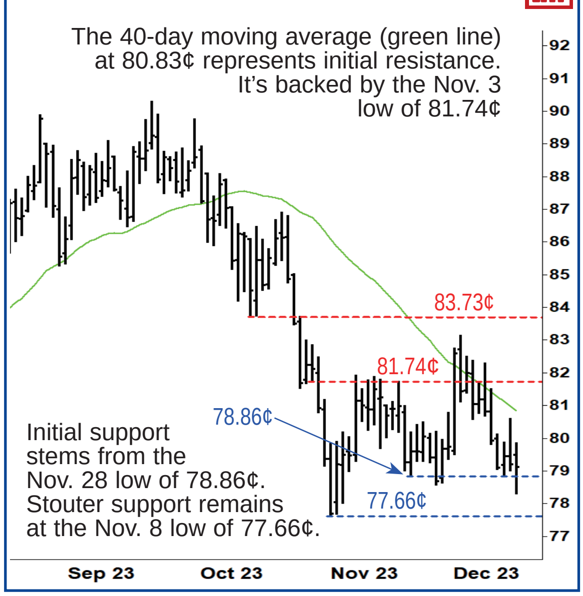
AVERAGE COTTON BASIS (MARCH)



COTTON EXPORT BOOKINGS ('000 BALES)



DAILY MARCH COTTON



GENERAL OUTLOOK

COMMODITIES: The accompanying chart illustrates the relative price performance of the various commodity sectors in 2023. The crops markets were the weakest sector. That reflects a record corn harvest as well as the wheat industry's logistical export disadvantage. But the depressed nature of the crops markets, the likely cutback in corn acres and the tightness of the soybean situation suggest 2024 prices could improve.

The cattle market began the year at levels only topped by those of 2014-15, which largely explains the seemingly flat livestock performance. We think cattle prices could reach fresh highs as the cattle population nears cyclical lows.

The improved economic outlook could boost the energy and metal sectors next year, whereas cocoa, sugar and orange juice are coming off record highs. That suggests large declines in the softs.

DAILY COMMODITY INDEXES (JAN. 1 = 100)

FROM THE BULLPEN **By Economist Lane Akre**

Renewable diesel has captured the attention of people inside and out of agriculture. Soybean crushing has ramped up over the past year, with 2022-23 crush setting a record, which is likely to be beaten this year. The seeming reduced crop quality from a growing season riddled by crop stress has decreased soyoil yield, meaning soybean processors have to crush more soybeans to achieve the same amount of soyoil production. When paired with the uptick in soyoil for biofuel use, crushers are likely to be running at capacity for an extended period.

Similar to the ethanol boom in the mid 2000s, USDA has been slow to adjust biofuel use higher on the soyoil balance sheet so far this year. Last year, soyoil for biofuel rose to 12.491 billion lbs., the highest ever. This was spurred higher by monthly biofuel use topping the 1-billion-lb. mark for the first time in May 2023. It has since not fallen below that mark, and with additional renewable diesel plants coming online, is likely to remain robust — and continue to grow.

USDA forecasts another record in biofuel use for 2023-24 at 12.8 billion lbs., just 2.5% above the prior year. With use continuing high thus far this marketing year, that would imply usage dropping significantly later in the crop year, despite additional plants coming online. We do not believe that is likely, pointing to soyoil use likely extending well above current USDA estimates.

WATCH LIST

1	**Christmas Day** Markets and gov't offices closed.	**MON 12/25**
2	**USDA Export Sales Report** Data delayed due to Christmas.	**FRI 12/29** 7:30 a.m. CT
3	**China PMI Data** Manufacturing data for December.	**SAT 12/30** 7:30 p.m. CT
4	**New Year's Day** Markets and gov't offices closed.	**MON 1/1**
5	**Employment Report** Jobs data for December.	**FRI 1/5** 7:30 a.m. CT

Farm Bill and Policy Updates

Read Jim Wiesemeyer's latest updates on the farm bill, USDA programs and much more in his daily Policy Updates report on www.profarmer.com.