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SEPTEMBER 2018

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### Dear Ag industry associate:

The dairy industry will soon have a new risk management product to add to their toolbox. USDA’s Risk Management Agency will roll out the Dairy Revenue Insurance Plan in early October. This program will work like existing crop insurance, with milk revenue guaranteed as a function of both price and production. It can be used in conjunction with existing tools such as the Dairy Margin Protection Program (MPP) and Livestock Gross Margin for Dairy (LGM – Dairy). It also can supplement traditional risk management tools that dairies are already using through the processor or on the exchange.

As with any risk management tool, there are both advantages and disadvantages to this new program which must be weighed by individual dairy producers to understand whether and how this may fit into their operation’s overall risk management plan. Our feature article this month describes this new program in greater depth, highlighting both advantages and disadvantages that dairy producers will want to take into consideration as they evaluate how it may fit with their individual operations.

Meanwhile, there have been several developments over the past month impacting spot and forward margins. The biggest piece of news was that the U.S. reached an agreement with Canada to join the bilateral trade pact made with Mexico in August. The new U.S. Mexico Canada Agreement (USMCA) preserves many of the trade benefits from NAFTA with some updated features that will be particularly welcomed by the dairy industry. Our regular Margin Watch reports cover this and other developments such as the Quarterly Hog and Pig and Grain Stocks reports in greater detail.

Respectfully,

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**Crop Margin Management**  
Chicago | December 5-6

**Beef Margin Management**  
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**FEATURE**

# Dairy Revenue Protection



**Dairy Revenue Protection (DRP) is an insurance program administered by the USDA under authority of the Federal Crop Insurance Act. DRP is a voluntary risk management program designed to protect dairy producers against declines in quarterly milk revenue below a guaranteed coverage level on a producer declared milk production quantity.**

Premiums are due at the end of the quarter being insured rather than paid as an upfront cost once the coverage begins. The Government will subsidize the premiums at a rate dependent upon a producer's declared coverage level.

DRP can be used in conjunction with agricultural support programs such as Margin Protection Program (MPP) as well as a complement to numerous exchange-traded products and risk management strategies available.

## Important Program Features

### Enrollment Periods:

Enrollment for the DRP program begins on October 9th. The first quarterly insurance period available for purchase will be Q1 (Jan-Mar) of 2019. Through December 15th, 2018, a producer will have the option to purchase coverage for five consecutive quarters, beginning with Q1 2019 and ending on Q1 2020. On the 16th day of the last month in a quarter, sales for a nearby quarter end while sales begin in the next deferred quarter. For example, on December 16th, sales for Q1 2019 are no longer available while sales for Q2 2020 begin. Premium payments are due upon the conclusion of the quarterly period being covered.

DRP will not be sold on days where monthly USDA Milk Production, Dairy Products, and Cold Storage Reports are released. Milk or dairy prices that experience a limit up or down move in the futures

markets will not be available for determining the quarterly expected revenue, thus DRP will not be sold on days with limit moves.

#### **DRP Pricing Options:**

DRP offers two unique pricing options: a Class Pricing option & Component Pricing option. The pricing options are designed to allow producers customization of their price elections to more accurately reflect their price risk. Every producer has the ability to choose which pricing option is a better fit for their price risk, comfort-level, and ultimately the dairy operation as a whole.

The Class Pricing option uses a weighted average of Class III and Class IV milk prices, declared by the producer, as a basis for determining coverage and indemnities. The Component Pricing option uses the component prices of butterfat, protein and other solids as a basis for determining coverage and indemnities. Under this option, the butterfat and protein test percentages are declared by the producer to establish their insured milk price.

#### **Covered Milk Production:**

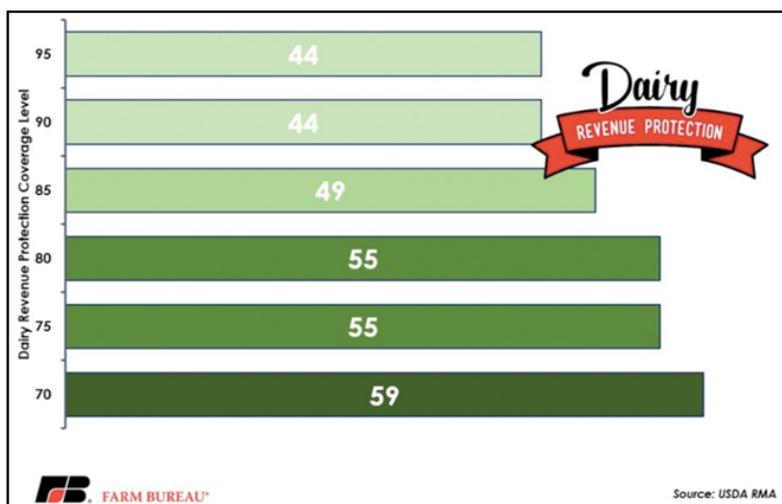
Each dairy producer declares an amount of quarterly milk production to insure under the DRP program. There are no minimum or maximum volume requirements on covered milk production, and multiple quarterly coverage endorsements for the same quarterly insurance period are allowed, although they cannot cover the same milk. In this way, a producer may make elections that vary by coverage levels as well as by milk pricing options.

The amount of declared milk production, among other factors, will be used to determine premium cost and final revenue guarantee for each quarterly coverage endorsement under the DRP program.

#### **Coverage Level:**

Quarterly insurance coverage levels will be available from 70% to 95%, in 5% increments. This coverage level determines the final revenue guarantee that a producer will receive on their covered milk production. The magnitude of the government subsidy paid towards the program's quarterly premium is also determined by the producer's elected coverage level. A producer does not directly choose their premium subsidy under DRP, rather, the subsidy is dependent upon a producer's declared coverage level, as illustrated in Figure 1.

**FIGURE 1:**



Using the Class Pricing Option, Figure 2 shows a producer’s price floor, or minimum pay price, at each available coverage level with an expected Class III & Class IV weighted-average price of \$16.25 and 9,000,000 pounds (90,000 cwt) of covered milk production for Q4 2019. The minimum pay price is first calculated as follows:

$$\text{Minimum Pay Price} = (\text{Coverage Level} \times \text{Expected Pay Price})$$

This will be used to calculate the final revenue guarantee on their Q4 2019 quarterly coverage endorsement under the DRP program. Premium costs here are arbitrary and do not genuinely reflect DRP premiums.

**FIGURE 2:**

Quarterly Coverage Endorsement – Q4 2019						
Coverage Level	Covered Milk Production	Expected Pay Price	Minimum Pay Price	Premium Cost	Net Price Floor	Net Revenue Guarantee
95%	90,000 cwt.	\$16.25	\$15.44	\$0.33	\$15.11	\$1,359,900.00
90%	90,000 cwt.	\$16.25	\$14.63	\$0.17	\$14.46	\$1,301,400.00
85%	90,000 cwt.	\$16.25	\$13.81	\$0.07	\$13.74	\$1,236,600.00
80%	90,000 cwt.	\$16.25	\$13.00	\$0.03	\$12.97	\$1,167,300.00
75%	90,000 cwt.	\$16.25	\$12.19	\$0.01	\$12.17	\$1,095,300.00
70%	90,000 cwt.	\$16.25	\$11.38	\$0.01	\$11.37	\$1,023,300.00

The net price floor set by a producer’s quarterly coverage endorsement equals their minimum pay price minus the premium paid, which would then be multiplied by the covered milk production to find the policy’s final, premium-adjusted revenue guarantee.

$$\text{Net Revenue Guarantee} = (\text{Minimum Pay Price} - \text{Premium Cost}) \times \text{Covered Milk Production}$$

Notice the nature of the relationship between coverage level and subsidy received. This inverse relationship represents the tradeoff between final revenue guarantee and magnitude of a premium's subsidy. The greater the government subsidy on the premium, the lower the final revenue guarantee, and the higher the 'deductible' on the quarterly insurance coverage.

## How Does DRP Relate to My Revenue?

Dairy Revenue Protection provides protection from a decrease in the final milk revenue and a producer's actual revenue on a specific producer-declared quantity of milk production. The discrepancy between the guaranteed quarterly revenue level under the DRP program and a producer's actual milk revenue on this milk production is caused by variation in market prices over time and natural fluctuations of milking cow yields among states and pooled production regions.

DRP is not designed to insure against revenue losses caused by:

- Death of dairy cattle;
- Other loss, disease or significant decline of milking herd; or
- Other farm-level losses or significant damages of any kind
- Mandatory deductions at the plant for balancing costs

### Class Pricing Option:

The Class Pricing option uses a blended Class III and Class IV milk price, based off average butterfat and protein test values of 3.5/3.0, as a framework for determining coverage, premiums, and indemnities. Under the Class Pricing option, a producer declares their Class III price weighting factor between 0 – 1.00. The default Class IV weighting factor is then 1.00 minus the producer-declared Class III weighting factor.

For example, if a producer declares a Class III price weighting factor of 0.50, then the default Class IV price weighting factor would equal  $(1 - 0.50)$ , or 0.50. These weighting factors imply that this producer's expected milk revenue will be weighted on 50% of the Class III price plus 50% of the Class IV price. When determining the price weighting factor, the Class III plus Class IV weights must equal 100% under DRP guidelines.

Under the Class Pricing Option, a producer's expected pay price is calculated by their weighted average Class III & Class IV price average over each month of the policy's quarter. Figure 3 shows a hypothetical calculation for the expected pay price for Q4 2019 assuming a Class III weighting factor of 50%.

**FIGURE 3:**

Month	Class III Futures	Class IV Futures	50/50 Weighted Average Pay Price
October	\$16.55	\$16.15	\$16.35
November	\$16.50	\$16.10	\$16.30
December	\$16.20	\$16.00	\$16.10
<b>Q4 2019 Average</b>			<b>\$16.25</b>

**Component Pricing Option:**

Under the Component Pricing Option, the producer declares their butterfat and protein test pounds. The other solids test is fixed at 5.70 pounds per 100 pounds of milk. The elections of butterfat and protein test pounds allow a producer to establish coverage for prices that can accurately mirror their expected milk components.

Under DRP guidelines, declared butterfat test elected can be no less than 3.50 pounds and no more than 5.00 pounds, in 0.05 pound increments. The declared protein test elected can be no less than 3 pounds and no more than 4 pounds, in 0.05 increments. Both declared components are subject to the component test ratio between butterfat and protein. The declared butterfat to protein test ratio must be no less than 1.15 and no greater than 1.30, rounded to the nearest five hundredths (0.05). The minimum-maximum component ratios are illustrated in Figure 4.

**FIGURE 4:**

Butterfat Test	Minimum Protein Test	Maximum Protein Test
3.50	3.00	3.05
3.55	3.00	3.10
3.60	3.00	3.15
3.65	3.00	3.15
3.70	3.00	3.20
3.75	3.00	3.25
3.80	3.00	3.30
3.85	3.00	3.35
3.90	3.00	3.40
3.95	3.05	3.45
4.00	3.10	3.50
4.05	3.10	3.50
4.10	3.15	3.55
4.15	3.20	3.60
4.20	3.25	3.65
4.25	3.25	3.70
4.30	3.30	3.75
4.35	3.35	3.80
4.40	3.40	3.85
4.45	3.40	3.85
4.50	3.45	3.90
4.55	3.50	3.95
4.60	3.55	4.00
4.65	3.60	4.00
4.70	3.60	4.00
4.75	3.65	4.00
4.80	3.70	4.00
4.85	3.75	4.00
4.90	3.75	4.00
4.95	3.80	4.00
5.00	3.85	4.00

A producer using the Component Pricing option declares test values of butterfat and protein that are necessary to determine the expected total component milk price used to determine expected revenue and coverage. These producer elections using the Component Pricing option are shown in Figure 5. When determining the expected value of butterfat and protein, the average monthly value for each month in the insured quarter is calculated utilizing component futures' prices and AMS component formulas. The total component price/cwt in Figure 5 represents an expected total component price for Q4 2019 assuming declared butterfat and protein test values of 3.60/3.10, respectively.

**FIGURE 5:**

Expected Value/pound		Declared Test Pounds	Calculated Value/cwt
Butterfat	\$2.56	3.60	\$9.22
Protein	\$1.87	3.10	\$5.80
Other Solids	\$0.35	5.70	\$1.99
<b>Total Component Price/cwt</b>			<b>\$17.00</b>

If the component pricing option is elected, a producer's coverage is based on their declared butterfat test and protein tests. However, to receive your full coverage, your average actual butterfat test and average actual protein test component levels for milk sold during the quarterly insurance period must not be less than 90 percent of the declared butterfat test or declared protein test.

The final butterfat test and final protein test used to calculate the final component pricing milk revenue and the actual component pricing milk revenue for indemnity calculation purposes is determined as follows;

1. If either actual component test is less than 90 percent, then, as applicable, the final butterfat test and/or final protein test will be the actual determined test value percent divided by .90. For example, if the declared butterfat test is 5.00 pounds, the policyholder's average butterfat test during the quarter must equal or exceed 4.50 pounds. If the actual butterfat test is 3.80 pounds, the final butterfat test will be 4.22 pounds (3.80 pounds actual / 0.90).
2. For either actual component test that is at least 90 percent of the declared, then, as applicable, the final butterfat test and/or final protein test will equal the declared butterfat test or declared protein test. For example, if the declared protein test is 4.00 pounds, and the policyholder's average actual protein test during the quarter is 3.80 pounds, the final protein test will be 4.00 pounds.

Premiums will be due in accordance with the initial component calculations; any recalculation of component values will not result in a premium refund.

## Farm-Level Factors

### Optional Protection Factor:

Under DRP, a producer must elect a protection factor between 1.0 and 1.5, in 5% increments. It is designed to provide greater flexibility in matching farm-level production risk. For example, if a producer declares a protection factor of 1.5 and receives an indemnity payout of \$20,000, their final quarterly indemnity would equal \$30,000, as  $\$30,000 = (\$20,000 \times 1.5)$ . The producer's premium increases proportionally along with any indemnity, if one is paid out. Even if there is no indemnity payout, the producer must still pay the premium times their chosen protection factor.

### Yield Adjustment Factor:

Each quarter upon the release of state-level milk production data by the USDA via Milk Production reports, a yield adjustment factor will be determined for producers based on actual vs. expected production yields in their state or pooled production regions. This yield adjustment factor is determined by dividing actual quarterly milk production per cow by the expected milk production per cow for that quarter. Both the expected and actual values represent a state or pooled production region yield data, not expected or actual yield for an individual operation.

For example, if expected milk production per cow for a given quarter and state is 7,500 pounds and the USDA publishes actual milk production per cow of 7,800 pounds for that quarter and state, the yield adjustment factor would be equal to 1.04, as  $1.04 = (7,800 \div 7,500)$ . Similarly, if actual quarterly milk production per cow was 7,200 pounds, the yield adjustment factor would be 0.96, as  $0.96 = (7,200 \div 7,500)$ .

From a practical standpoint, if the yield adjustment factor is above 1.0, then actual milk revenue is calculated higher and potentially above the threshold that would trigger an indemnity payment. Conversely, if the yield adjustment factor is below 1.0, then actual milk revenue is calculated lower thus reducing the threshold for triggering an indemnity payment.

This holds true regardless of actual farm level production. In other words, the dairy's actual production may be lower in a given quarter due to farm-level factors while the state or region's milk production was higher than expected. It may also be true however that the dairy's production proves larger than anticipated while the state or region's actual production was lower than expected.

### Production Loss Factor:

A dairy producer declares their covered milk production on the quarterly coverage endorsements, but if the dairy does not actually market the covered milk production that was declared by the producer:

1. If milk marketings for the quarterly insurance period are at or above 85 percent of the declared covered milk production, then your covered milk production equals your declared covered milk production, even if your milk marketings are lower than the declared covered milk production; or
2. If milk marketings during the quarterly insurance period are less than 85 percent of the declared

covered milk production, then your total covered milk production for this quarterly insurance period shall equal your milk marketings divided by 85 percent.

For example, two separate quarterly coverage endorsements purchased at different points in time for a single quarterly insurance period, endorsement A has 1,500,000 pounds of declared covered milk production and endorsement B has 500,000 pounds of declared covered milk production for a total of 2,000,000 pounds. The milk marketings are 1,200,000 pounds of milk for the quarter. The total covered milk production for all quarterly coverage endorsements shall be 1,200,000 pounds divided by .85, which equals 1,411,765 pounds.

Premiums will always be due as calculated by your initial declared covered milk production, and they will not reduce because of any recalculations in covered milk production. This is important to understand as even though there is no maximum amount of milk production that can be insured, there is a disincentive to over insure since payments are ultimately determined by actual production, *not* declared production.

#### **Declared Share:**

A producer's declared share, or actual share, represents the percentage interest in the insured milk as an owner of the dairy operation at the time of the quarterly coverage endorsement. The premium paid and indemnity received adjust proportionally with the declared share of a producer.

For example, if a producer owns 50% of the quarterly coverage endorsement under the DRP program, they only have to pay 50% of any premium costs, but will only receive 50% of any indemnity payouts.

#### **DRP Frequently Asked Questions (FAQs):**

The USDA Risk Management Agency (RMA) has released a FAQ sheet to answer any additional questions that individual producers may have regarding Dairy Revenue Protection, which can be found online at:

<https://www.rma.usda.gov/help/faq/dairyrevenueprotection.html>

## **Conclusion**

Dairy Revenue Protection represents a new opportunity for producers to address the very realistic risk of a significant and unexpected decline of future revenues and overall profitability. CIH embraces any new tool that offers the dairy industry an ability to protect against declining milk revenues and enhance overall profitability. Protecting revenue at a government-subsidized rate is especially attractive in low margin environments, particularly when premium costs are not due until the end of the period being covered. It is critical to assess how farm-level factors and features under DRP relate to your specific operation. CIH will work alongside your operation to create an integrated margin management policy that ensures you are properly hedged and able to take advantage of greater

revenue opportunities if offered above the minimum level of your DRP. We encourage you to learn how a combination of risk management strategies can help you protect and enhance forward revenues and, ultimately, overall profit margins for your dairy operation.

**For any questions or to learn how this may specifically affect your dairy, contact CIH at 866-299-9333.**

# Hog Margin Watch: September



The hog market has had a lot to digest the past two weeks. Cold storage numbers, African Swine Fever (ASF) updates, Florence recovery, the Quarterly Hogs & Pigs Inventory and perhaps most importantly, news of a NAFTA 2.0 agreement. The U.S. and Canada reached a resolution, which paves the way for a new, so-called, U.S.-Mexico-Canada Agreement (USMCA). Canada agreed to incrementally relax restrictions on U.S. dairy imports, while also eliminating the Class 6 & 7 Milk categories. The U.S. in turn dropped demands to overhaul the trade dispute mechanisms that exist in the original NAFTA, a major Trump administration goal. The new pact also includes an exchange rate curb, which in practice will deter currency manipulation to gain trade flow advantages. Many believe this will serve as a benchmark in future trade negotiations with others, including China, where this is potentially more of an issue. All three countries still need to approve the treaty, and ratification will likely fall into 2019. It should also be noted that Mexico's 20% duty on U.S. pork and cheese remains in effect as U.S. tariffs on steel and aluminum from both Mexico and Canada have yet to be lifted. This may remain the case until ratification of the new treaty by all parties. The atmosphere regarding trade is relief, albeit with a major pork outlet still closed in China. The Quarterly Hogs & Pigs Report revealed all hogs & pigs inventories of 75.486 million head, an increase of 3.0% from last year, and below pre-report expectations of a 3.4% bump. Hogs kept for marketing at 69.156 million were also 3.0% greater year over year, and similarly below the analysts' estimates of a 3.5% gain. Breeding hogs up 3.5% outpaced expectations of 3.1%. Given the greater breeding numbers, the improved North American trade environment is essential, providing channels for current production projections. Cutout gains from Hurricane Florence remain, even as recovery efforts are progressing towards normalcy. ASF discoveries in China have waned, as Chinese authorities have even relaxed some restrictions in the initial outbreak areas. Lastly, the Cold Storage report estimates August 31 inventories of pork at 583 million pounds, 1.2% higher than 2017 levels. Beef inventories were 5.6% greater and most troubling were chicken inventories, off the charts at 928 million pounds, a bulge of 18.6% from last year. Our clients continue to contemplate extending coverage as margins become more favorable, and lean towards flexibility given trade and ASF issues regarding China.



The Hog Margin calculation assumes that 73 lbs of soybean meal and 4.87 bushels of corn are required to produce 100 lean hog lbs. Additional assumed costs include \$40 per cwt for other feed and non-feed expenses.

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The dairy market has been fairly steady the past two weeks, as the fundamentals have been throwing around some mixed signals. Milk production in August was stronger than expected, estimated to be 18.3 billion pounds, a 1.4% gain over last year. Production was 1.2% higher in California, even though the herd size dropped by 12,000 head. Nationally, however the number of milk cows on farm dropped by 4,000 head. Cold Storage figures for both butter and cheese indicated monthly draws, but were higher on a yearly comparison by 3.8% and 1.9% respectively. Record inventories of cheese dissipated on a monthly basis by 3.8%, nearly doubling the average July through August draw of 2.0% over the past ten years. Butter supplies on the month were lower by 8.6%, not quite meeting the average July through August pace of 10.5% over the same period. Trumping the USDA updates was NAFTA 2.0 news, which rocked the agricultural and equity markets alike. The U.S. and Canada came to terms on the so-called new U.S.-Mexico-Canada Agreement (USCMA), after tough rhetoric, the impasse was broken right at the deadline. Canada agreed to open up their dairy market to additional U.S. imports and eliminate the Class 6 & 7 milk categories, while the U.S. dropped demands for a new trade dispute regime, a major Trump administration sticking point. Among other new facets, an exchange rate curb to discourage artificial currency manipulation to gain trade advantages was implemented. Many believe this mechanism will be included as a benchmark in all future trade negotiations. U.S., Mexico and Canada all need approval for the new pact, and ratification will likely spill into 2019, as will the phasing in of changes to the Canadian dairy market. The U.S. corn harvest is 26% complete, ahead of the 5-year average of 17%, but pesky rains throughout the belt will slow progress as fields dry out. The Quarterly Grain Stocks report revealed 2.14 billion bushels of corn as of September 1, above expectations by 138 million bushels, but did represent a drawdown of 7% from last year's levels on greater disappearance. The October WASDE report will update yield and production projections, and will incorporate the fresh stocks data as well. Given the seasonal tendency of margins heading into next year, many of our clients are concentrating on maintaining flexibility across the board.



The Dairy Margin calculation assumes, using a feed price correlation model, that for a typical dairy 62.4 lbs of corn (or equivalent) and 7.34 lbs of meal (or equivalent) are required to produce 100 lbs of milk (includes dry cows, excludes heifers not yet fresh). Additional assumed costs include \$0.90/cwt for other, non-correlating feeds, \$2.65/cwt for corn and meal basis, and \$8.00/cwt for non-feed expenses. Milk basis is \$0.75/cwt and non-milk revenue is \$1.00/cwt.

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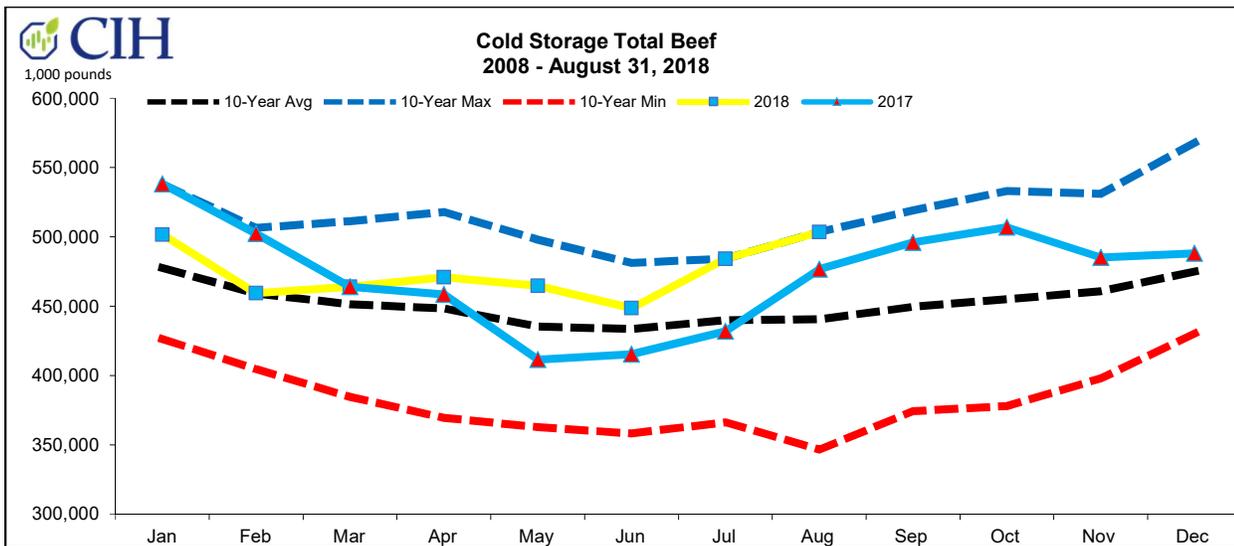
# Beef Margin Watch: September



The cattle market remained strong the past couple of weeks as it digested a plethora of fundamental news. The Cattle-on-Feed report revealed the fourth consecutive month of record on feed numbers, with September's estimate of 11.1 million head, 6% greater than last year. August, July and June also were record on feed levels for each particular month since NASS initiated the data series in 1996. While the on feed inventories were slightly above expectations, actual placements of 7% greater compare to average estimates of 4% gains. Marketings, however, were in-line and on par with 2017 levels. Cold Storage supplies of beef as of August 31 totaled 503 million pounds, 4.0 % more than last year, while chicken in freezers is off the charts at 928 million pounds, 18.6% greater than last year's inventories. Countering the robust production and supply are average dressed weights, which year-to-date are 0.3% higher, but are down nearly 3 pounds from like weeks last year. The entire agricultural sector received a large dose of adrenaline when the U.S. and Canada came to terms on NAFTA 2.0. The new, so-called, U.S.-Mexico-Canada Agreement (USMCA) eased broad concerns of trade unrest throughout the continent. The new treaty awaits approval from all three nations, and ratification will likely fall into 2019. Canadian tariffs on U.S. processed beef however, are expected to remain in place as U.S. steel and aluminum tariffs against Canada and Mexico have yet to be lifted. The news stoked relief rallies across both commodity and equity markets, as at least part of the trade war uncertainty is eliminated from the equation. The U.S. corn harvest is 26% complete, ahead of the 5-year average of 17%, but pesky rains throughout the belt will slow progress as fields dry out. The Quarterly Grain Stocks report revealed 2.14 billion bushels of corn as of September 1, above expectations by 138 million bushels, but did represent a drawdown of 7% from last year's levels on greater disappearance. The October WASDE report will update yield and production projections, and will incorporate the fresh stocks data as well. Our beef clients continue to consider strengthening delta, rewarding the live cattle run, while maintaining some flexibility for potential seasonal moves into late fall.

**Number of Cattle on Feed, Placements, Marketings, and Other Disappearance on 1,000+ Capacity Feedlots - United States: September 1, 2017 and 2018**

Item	Number		Percent of previous year (percent)
	2017 (1,000 head)	2018 (1,000 head)	
On feed August 1.....	10,604	11,093	104.61%
Placed on feed during August.....	1,928	2,070	107.37%
Fed cattle marketed during August.....	1,979	1,983	100.20%
Other disappearance during August.....	49	55	112.24%
On feed September 1.....	10,504	11,125	105.91%



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# Corn Margin Watch: September



Corn prices and margins were steady the past two weeks, but got a large shot in the arm on the final day of the month. The U.S. and Canada came to terms on a new NAFTA 2.0 agreement at the deadline. The impasse on the agricultural side was broken when Canada agreed to open up their dairy market to additional U.S. imports and eliminate the Class 6 & 7 milk categories. While the U.S. dropped demands for a new trade dispute regime, a major Trump administration sticking point. There are other new facets too, chief among them an exchange rate curb to discourage artificial currency manipulation to gain trade advantages. Many believe this mechanism will be included as a benchmark in all future trade negotiations. Still the new agreement must be ratified by all three parties, which will likely happen in 2019. The treaty also has a new moniker, U.S.-Mexico-Canada Agreement (USMCA), whether that sticks or NAFTA 2.0 is up for debate. The Quarterly Grain Stocks report revealed 2.14 billion bushels of corn as of September 1, above expectations by 138 million bushels, but did represent a drawdown of 7% from last year's levels on greater disappearance. The corn harvest is 26% complete, and compares to a 17% average the past five years. Over 7 inches of rain fell in Iowa this September, but they are still ahead of the average pace of 6%, as 11% has so far been collected there. Next week's WASDE report will update the corn balance sheet with the new stocks data, as well as hone in national yield estimates.



The estimated yield for the 2018 crop is 186 bushels per acre and the non-land operating cost is \$544 per acre. Land cost for 2018 is estimated at \$222 per acre<sup>1</sup>. Basis for the 2018 crop is estimated at \$-0.4 per bushel.



The estimated yield for the 2019 crop is 186 bushels per acre and the estimated operating cost is \$544 per acre. Land cost for 2019 is estimated at \$222 per acre<sup>1</sup>. Basis for the 2019 crop is estimated at \$-0.3 per bushel.

<sup>1</sup> The Corn Margin Watch yield, land and non-land operating cost values are based upon central Illinois low productivity farmland crop estimates in the "Historic Corn, Soybean, Wheat, and Double-crop Soybeans" report published by the Department of Agricultural and Consumer Economics at the University of Illinois.

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# Soybeans Margin Watch: September



Soybean prices and margins were slightly higher the past two weeks, but got big jolt from news that a NAFTA 2.0 was on the horizon when the U.S. and Canada came to terms. The last minute resolution right at the deadline was a big sigh of relief across the entire agricultural sector as well as in the equity markets. The U.S. relented on demands to overhaul the dispute mechanism within the original NAFTA, a big sticking point among the Trump administration, while Canada agreed to additional opportunities for U.S. dairy imports, as well as scrapping the Class 6 & 7 Milk categories. The bean market got the lift on the perception of averting a trade war, even while its main trade outlet in China remains closed. Hope is high this will precipitate other new agreements. One provision of the new so-called U.S.-Mexico-Canada Agreement (USMCA) includes exchange rate curbs, rules to deter artificial currency manipulation to gain trade advantages; many believe this will be a benchmark feature in all future trade negotiations. U.S., Mexico and Canada all need approval for the new treaty, and ratification will likely spill into 2019. The Quarterly Stocks report, out prior to the treaty news, revealed higher beans stocks than expectations by 44 million bushels. September 1 stocks of 438 million bushels were also 45% greater than 2017 levels. USDA and NASS adjusted the previous production and yield estimates for the 2017 bean crop, static acreage assumptions coupled with higher yields of 0.2 bpa to 49.3, brought production up by 19.1 million bushels. Bean harvest is running ahead of average by 3% at 23% complete, and outpaces last year's 14% clip. The October WASDE report will incorporate the updated stocks estimates, as well as dial in 2018 yield and production projections.



The estimated yield for the 2018 crop is 59 bushels per acre and the non-land operating cost is \$319 per acre. Land cost for 2018 is estimated at \$222 per acre<sup>1</sup>. Basis for the 2018 crop is estimated at \$-0.6 per bushel.



The estimated yield for the 2019 crop is 59 bushels per acre and the estimated operating cost is \$319 per acre. Land cost for 2019 is estimated at \$222 per acre<sup>1</sup>. Basis for the 2019 crop is estimated at \$-0.4 per bushel.

<sup>1</sup> The Soybeans Margin Watch yield, land and non-land operating cost values are based upon central Illinois low productivity farmland crop estimates in the "Historic Corn, Soybean, Wheat, and Double-crop Soybeans" report published by the Department of Agricultural and Consumer Economics at the University of Illinois.

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# Wheat Margin Watch: September



Wheat prices and margins were steady the past two weeks, unable to recover early September losses. The Quarterly Grain Stocks and Small Grain Summary reports both revealed additional U.S. wheat supplies. Greater harvested acres by 5% and yields up 1.3 to 47.6 bpa, drove production for 2018 to 1,884 million bushels up from 1,740 million last year. All wheat stocks on September 1 were 2,379 million bushels versus 1,748 million in 2017. NASS estimated disappearance in the latest June-August quarter totaling 605 million bushels, which undershot last year by 8%. On the bright side, the trade environment improved dramatically, as the U.S. and Canada reached a resolution on a NAFTA 2.0 pact. While the agreement more critically influences movement of corn, pork and dairy products from the U.S., perceptions of greater global cooperation was welcomed across all markets. Winter wheat planting is ongoing and is just ahead of the average pace at 43% seeded. The October WASDE report will incorporate the updated data from NASS on the 2018 wheat balance sheet.



The estimated yield for the 2018 crop is 71 bushels per acre and the non-land operating cost is \$344 per acre. Land cost for 2018 is estimated at \$157 per acre<sup>1</sup>. Basis for the 2018 crop is estimated at \$-0.45 per bushel.



The estimated yield for the 2019 crop is 71 bushels per acre and the estimated operating cost is \$344 per acre. Land cost for 2019 is estimated at \$157 per acre<sup>1</sup>. Basis for the 2019 crop is estimated at \$-0.35 per bushel.

<sup>1</sup> The Wheat Margin Watch yield, land and non-land operating cost values are based upon central Illinois low productivity farmland crop estimates in the "Historic Corn, Soybean, Wheat, and Double-crop Soybeans" report published by the Department of Agricultural and Consumer Economics at the University of Illinois.

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