Q3 2019

MWA
MURRAY WISE ASSOCIATES

THE WISE AG UPDATE

*Your source for farmland & agribusiness transaction news by **Murray Wise Associates LLC***

IN THIS ISSUE

Trade War Creates A Murky Global Picture for Soybeans

As the seasons change over from summer to autumn, the soybean fields nearest our offices in Illinois and Iowa have just begun to drop their leaves. The late planting across the Midwest has pushed harvest back and could affect yields. In next quarter's newsletter, once harvest has been completed, we will be presenting an in-depth look at this year's supply story with the help of an esteemed guest writer, Dr. Scott H. Irwin from the University of Illinois.

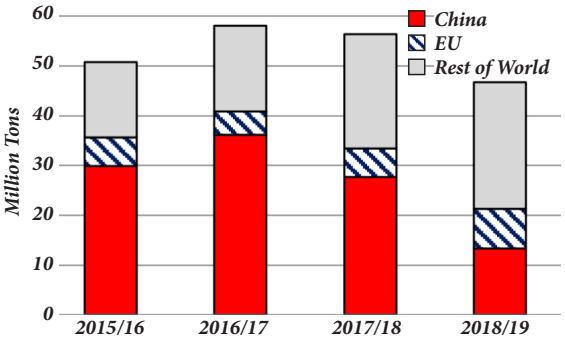
Despite the late start, we are seeing combines in fields, trucks lining up at grain elevators, and we expect this newsletter will be arriving in your mailboxes as harvest gets into full swing. As is the question every year, under what market conditions will U.S. farmers be selling their grain? Despite the 2019 supply side issues we've mentioned, the answer to that question for soybeans may lie more in the global demand story.

To set up that demand story, we must briefly cover the supply issues. USDA's Economic Research Service forecasted a nearly 20 percent decline in the projected 2019 soybean harvest due to reduced year-over-year plantings and lower yields, and we have heard from a number of operators who feel the USDA estimates are optimistic. Typically, a reduction of that magnitude would constrict supply and push prices upwards, at least somewhat, but prices haven't responded as much as would be expected. Some of that muted effect is due to the previous year's record carryout in the soybean stock that undoubtedly assures more-than-adequate supplies.

However, you probably don't need us to tell you that the real story on pricing, now and going into 2020, is global demand for U.S. soybeans and the effects that tariffs have had on that demand.

We all have been in enough coffee shops and grain elevators around the country this year to know that bringing up tariffs is a charged subject. We aren't here to discuss the possible merits of the U.S. tariffs on China and the potential benefits or disadvantages they have for the U.S. as a whole. Our objective today is to specifically look at China's retaliatory increase in the tariffs on soybeans and the decrease of soy purchases by China and the effect it has had on the demand for U.S. soy products.

US Soybean Exports



Source: USDA-FAS "Oilseeds: World Markets and Trade", Sept 2019

The Chinese tariffs have resulted in a substantial decrease in soybean exports for the U.S. Since 2017, there has been a 67% decline in U.S. soybean exports to China. Even with this 21.7M metric ton decrease over the past two years, China remains

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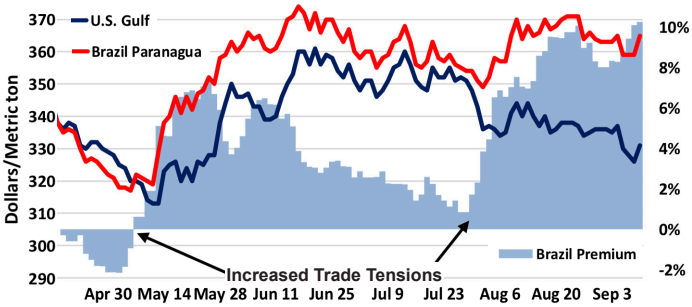
Trade War (cont. from pg. 1)

the largest importer of U.S. soybeans, leaving U.S. farmers exposed to potential continued demand softening in the face of an ongoing trade war. While drop-off in U.S. soybean exports to China has been partially mitigated by increased exports to other purchasers, primarily Egypt, Pakistan, the E.U. and Argentina, the overall decline in demand for U.S. soybeans has reverberated throughout the market.

The biggest benefactor of China's tariffs on the U.S. so far has been the soybean producing nations of South America. Brazil has seen exports and prices both rise during the tenure of China's tariffs on U.S. soybeans. It would appear the tarrifs have created a large premium on export soybean prices for Brazil compared with that of the U.S., with premiums up to $1.35 per bushel.

US & Brazil Port Prices, Brazil Premium(%)



Source: USDA-FAS "Oilseeds: World Markets and Trade", Sept 2019

Argentina, the next largest soybean producer in South America, has also seen greater exports to China. However, their exports to China are still dwarfed by those of the U.S. during the period in which tariffs have been in place mainly due to high Argentinian export taxes imposed by their own government as well as reduced yields in the recent growing season due to drought.

Further complicating the global trade of soybeans is the emergence of African swine fever (ASF) in China, a disease that will kill an infected animal within ten days. Rabobank approximates that China's pig herd has been reduced by anywhere from 20 - 70%. According to a CNBC report, China suspects the use of food waste as animal feed as the most likely cause of ASF. Moving forward, China has banned the use of food waste, meaning that farmers are now switching to more standardized food sources, mainly grain products. This policy will likely have a positive impact on Chinese demand for soybeans as herd size recovers. While the immediate future is murky, the new food source regulations that are being put in place could eventually be positive for U.S. farmers, as China's soybean demand could continue to grow as herd sizes are replenished.

The demand side of the pricing equation is changing every month as China looks for alternatives to U.S. soybeans. That being said, there are many factors that could trigger a rapid change in the demand story for U.S soybeans, causing a positive impact on prices. Trade frictions could lessen. China could agree to buy more ag products as a show of good faith. South America could be facing unfavorable economic headwinds.

Alternatively, any demand factors that positively affect the price of soybeans, such as those mentioned above, may only be short lived. For a long-term change to the demand of soybeans to take place, a lasting trade deal will likely have to be reached. If and when that will happen is anyone's guess. As for how the demand story will affect the U.S. market over the next year, we will likely see another decrease in soybean acreage planted next year if a trade deal hasn't been reached by spring, as many operators remain wary of the potential outcomes of putting money in the ground and hoping for a deal.

Beyond next year, the effects of Chinese tarrifs are still unknown. It is likely that in the event the tariffs are removed that China would buy more U.S. soybeans, but there is also the potential for continued increase trade with South American countries meaning U.S. exports may not retrace their previous highs. It is also possible, however, that as part of any trade deal reached with China there is a mandatory amount of soy products they would have to buy from the U.S., in which case U.S. exports could rise to a level not yet achieved. Essentially, we will wait alongside the U.S. grain farmer to see how this plays out politically and economically, hoping for favorable resolution while also preparing for prolonged uncertainty.

IN THE NEWS: WOTUS UPDATE In our previous newsletter we discussed the ongoing deliberation of a 2015 rule put in place by the EPA and Department of the Army that expanded the scope of the "waters of the United States" (WOTUS) definition, increasing government oversight for items such as ditches, groundwater (including groundwater drained through subsurface drainage systems) and artificial lakes and ponds (e.g. stock watering ponds), much to the frustration of many rural landowners. On Sept. 12, 2019, both agencies released a statement that they have finalized a rule to repeal the previous expanded WOTUS definition, and consequently, the regulations will now fall back to the pre-2015 rule definitions. Now that the controversial WOTUS definition has been repealed, the EPA indicated that their next step is to create a new definition that "will provide greater regulatory certainty for farmers, landowners, home builders and developers nationwide."

Drafts of Groundwater Sustainability Plans Taking Shape

In accordance with California's Sustainable Groundwater Management Act (SGMA), groundwater basins were required to form Groundwater Sustainability Agencies (GSAs) by June of 2017 and submit a Groundwater Sustainability Plan (GSP) by Jan. 31, 2022, while "critical overdraft" basins must submit their GSPs by Jan. 31, 2020. Most of these "critical overdraft" basins intended to publish drafts in mid-summer of this year to give operators and landowners in their basins an opportunity to comment and have a voice in the process.

While some GSAs have fallen behind and have yet to publish complete or final drafts, many have been able to stay on schedule and release drafts that detail their efforts to meet the sustainability goals laid out in SGMA. Most of the "critical overdraft" basins that are submitting their GSP at the beginning of next year have large imbalances in groundwater usage versus groundwater recharge and have a long road ahead to meet the sustainability goals laid out in SGMA.

In an effort to meet these goals, many basins have implemented groundwater allocation programs and demand management. Many areas will see pumping reductions as early as next year. That includes some of the largest agricultural producing areas of the Central Valley, such as Madera, which will take actions to reduce pumping by 2 percent of the total demand reduction amount (about 0.72 percent of current usage) according to the draft GSP.

Many GSPs have plans to create water markets and effectively create a cap-and-trade system for groundwater management with yearly reductions in the total groundwater allocations. Some areas, such as the Cuyama Basin, that have fewer options for increasing the water supply for the basin and are potentially seeing a need for groundwater reductions of as much as 50 to 67 percent, are looking at more extreme options such as cloud seeding / weather modification. As more and more GSP drafts are released and finalized, the picture will become clearer about the potential impacts and reductions in pumping due to SGMA.

As the consequences of SGMA become more apparent, another piece of legislation could have a large impact on water usage in California. Senate Bill 1 would allow state agencies to lock in protections under the federal Endangered Species Act, Clean Air Act, Clean Water Act and other environmental and labor laws that were in place prior to President Trump taking office in January 2017. This bill has seen attacks from both sides of the political aisle for the potential effects it could have on pumping from the Sacramento-San Joaquin River Delta and on the Central Valley and the California State Water Project.

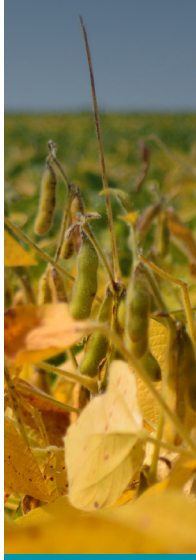
2019 Season Progress

In our Q2 main article we touched on the late planting conditions faced by farmers across the country this spring. The industry has closely monitored yield and planted acreage estimates this summer that are produced by the USDA, as well as independent yield reports such as the annual Pro Farmer Crop Tour.

The USDA and National Agricultural Statistics Service (NASS) report that was of main interest was the acreage report released in late June. The results showed estimated national acres planted to corn up 3% from 2018 to 91.7 million acres and soybeans down 10% from 2018 to 80 million acres. The belief is that many acres that were intended for soybeans were switched to corn late in the planting season because of weather conditions.

The Pro Farmer Crop Tour, which is an annual data set many look forward to, confirmed that yields will likely be down across the Corn Belt compared to 2018. Between now and the end of harvest the topics of how many actual acres were planted (vs. the prevented plant option) and final yields will continue to be debated.

Keep an eye out in our Q4 newsletter for an in-depth look at the 2019 crop year by guest-writer Dr. Scott H. Irwin from the University of Illinois. Dr. Irwin is a national and international leader in the field of agricultural economics and has been on the forefront this entire crop year in analyzing the late planting season and its impact on yields, farmers, and consumers.



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THE WISE AG UPDATE

Current Listings & Upcoming Auctions

Current Listings

Webster Co., IA - 35± Acres with a CSR2 of 66.2. Located south of Fort Dodge, IA.

Kossuth Co., IA - 114± Acres with a CSR2 of 78.2. Located south of Algona, IA.

Wright Co., IA - 150± Acres with a CSR2 of 80.7. Located north of Clarion, IA.

Winnebago Co., IL - 154± Acres with 122.2 PI. 129± tillable ac. Asking $6,500/ac.

Winnebago Co., IL - 123± Acres with 119.9 PI. 120± tillable ac. Asking $7,950/ac.

MWA Recent Transactions

$ 195,000	30± ac	Madison Co., IN
$ 466,400	53± ac	Story Co., IA
$ 613,800	66± ac	Story Co., IA
$ 636,200	67± ac	Story Co., IA
$ 313,500	33± ac	Story Co., IA
$ 1,026,000	114± ac	Webster Co., IA

Upcoming Auctions

Commercial Grocery Store Facility, Downtown Chicago - NOV 19 at 10AM at Crowne Plaza, Chicago West Loop. Property is located at the intersection of North & Elston. 3 prime real estate tracts. Nearly 76,000± sqft of land with a retail facility, cold storage, parking lot, and residential building. Visit StanleysNorthAndElston.com for property details, open house dates, and more.

Champaign Co., IL - 100± Acres offered in 2 tracts. DEC 3 at 10AM at the Gifford German Fall Festival Building.; Nearly all-tillable farmland featuring Champaign Co. soils.

Douglas Co., IL - 196± Acres offered in 2 tracts. DEC 4 at 10AM at the Arcola Best Western Plus.; High quality east-central IL soils with road frontage on 3 sides.

McDonough Co., IL - 163± Acres offered in 2 tracts. DEC 10 at 1PM at the Macomb VFW Post 1921.; Productive western IL soils combined with great recreational opportunities.

Visit MWAAuctions.com or call (800) 607-6888 for details on any property.

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