



AgReview

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Can Exports Save the Dairy Industry?

**Grains: Low Volatility
Means Low Margins**

**Upward Price Potential
In Fertilizer Stocks**

**Geopolitical Risks
Threaten the
“Trump Rally”**

**Biodiesel: Antidumping
Investigation Won't Impact
Markets - Yet**

WORLD PERSPECTIVES: AG REVIEW

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How can WPI's consulting services help your business succeed?

Consumer Research: WPI produces low-cost, non-probability consumer surveys around the world. When overlaid with conventional market research data, the result is insights into where and how markets for agrifood products can be expanded – and we have the results to prove it.

Market Identification: Conventional use of macroeconomic and demographic data has correlative value in identifying new markets, but WPI digs deeper. The result has been unique recommendations with some netting a return ratio of 6:1 for increased exports and promotional investment.

Investment Analysis: WPI has provided due diligence on agrifood investments in disparate parts of the world from dairy and juice packaging in Cameroon to soybean crushing in Ukraine and biotech corn planting in Canada. In other instances, the company has used its decades of risk management experience to caution enthusiastic but new-to-agriculture investors to be prudent.

What do our clients say about our services?

- *Any company that follows up like WPI deserves our business.*
- *WPI does an excellent job of working to assess the client's needs and tailoring their methodologies accordingly.*
- *WPI is very responsive in addressing any questions we have; they are helping the association gauge how to move forward with effective strategies in international markets. This year they have increased the level of their services and continue to help us find ways to be effective with our strategies.*
 - *WPI has been responsive and cooperative under every challenge and circumstance presented in their work for us.*
 - *WPI really provides us with a life-blood service.*

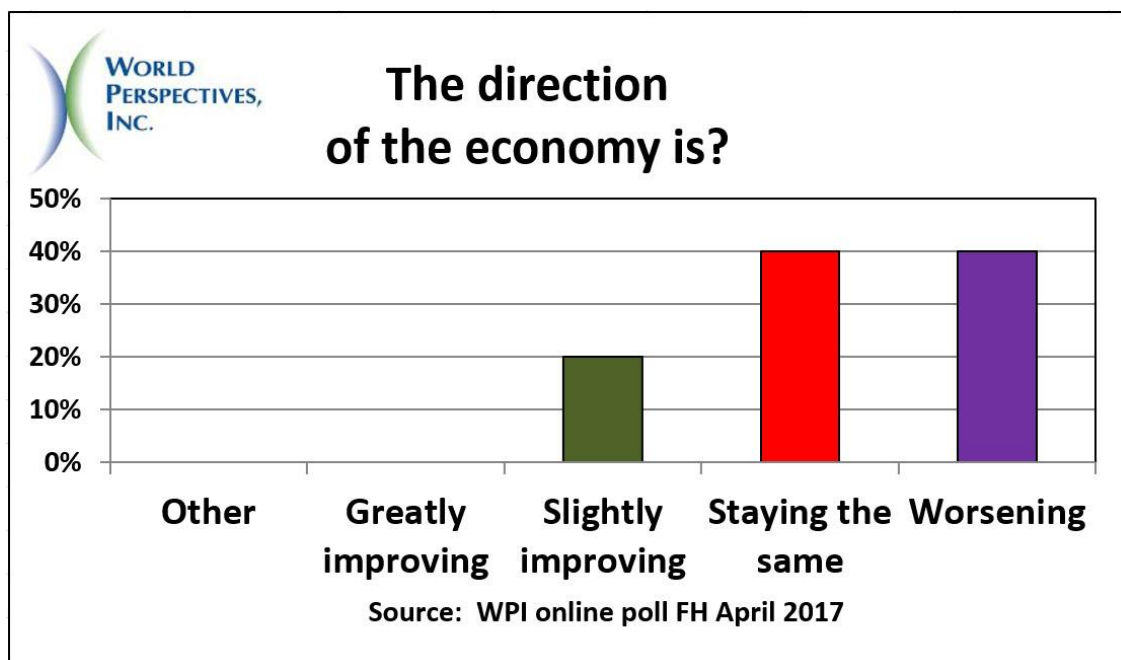
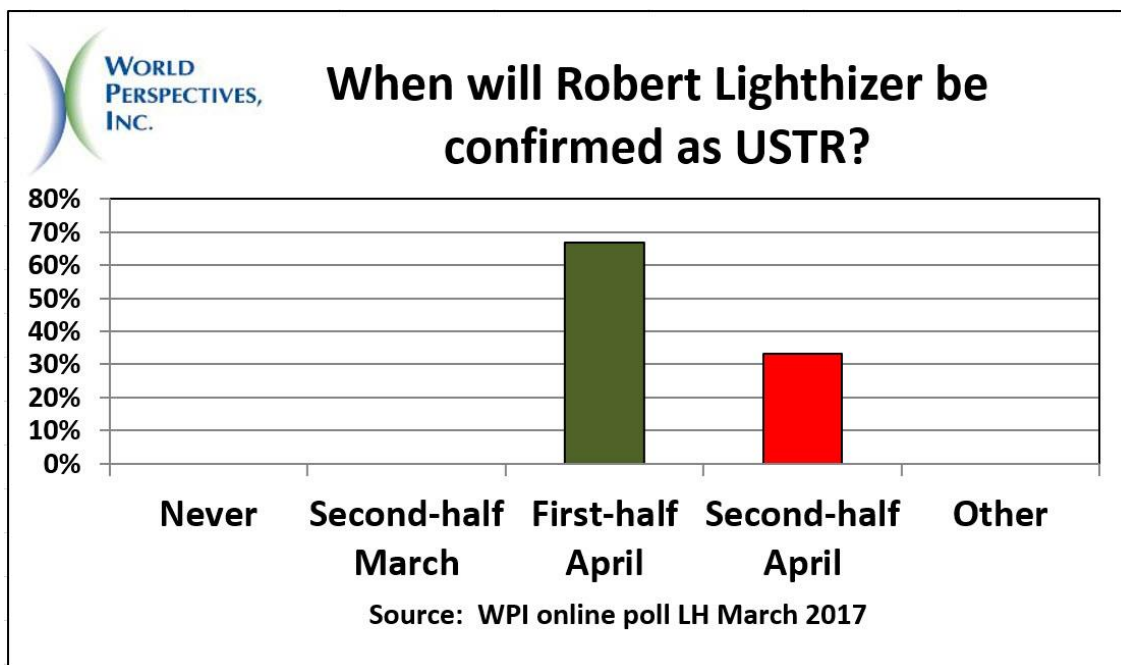
Please contact David Gregg, Consulting Projects Manager, at (503) 467-8668 or dgregg@agrilink.com for more information about how WPI's consulting services can work for you.

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WPI POLLING

Below are the results of two recent WPI polls. Visit www.worldperspectives.com to cast your vote in our current survey.



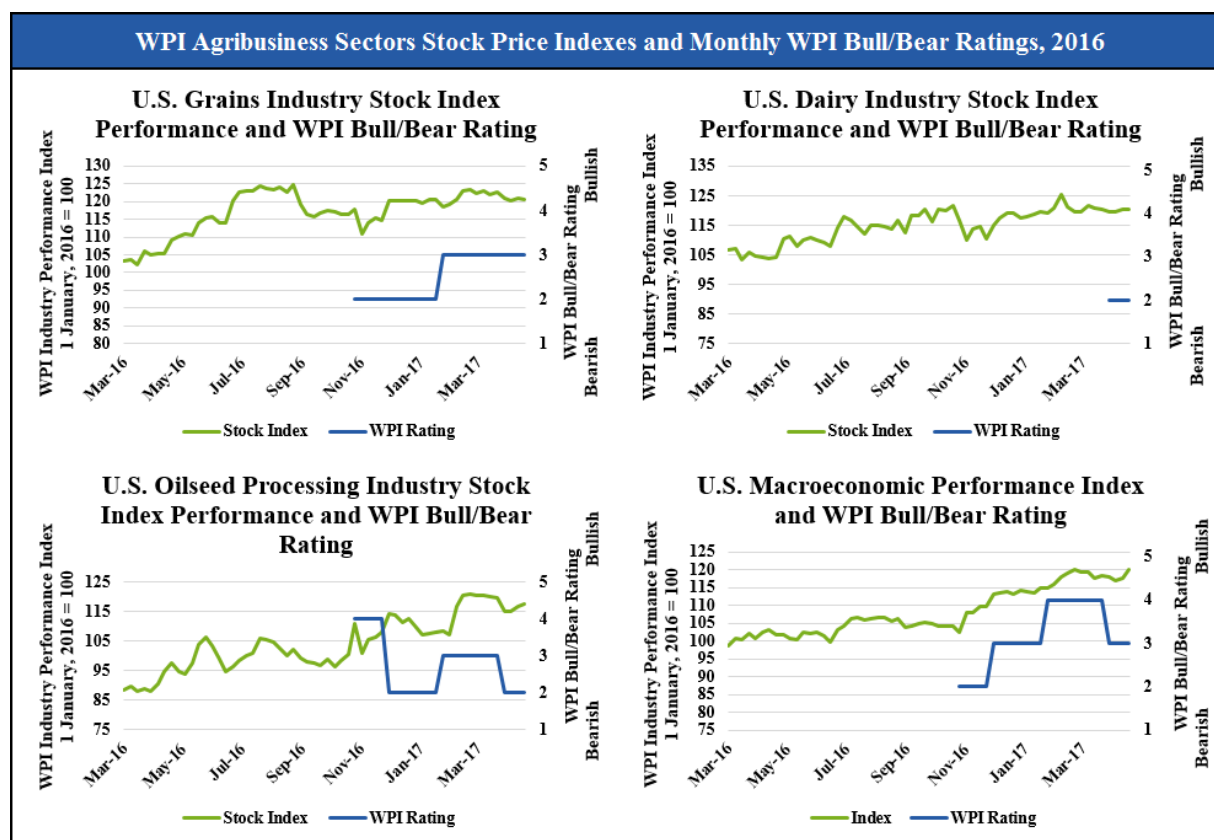
WPI AGRIBUSINESS SUBSECTOR OUTLOOK

By Matt Herrington

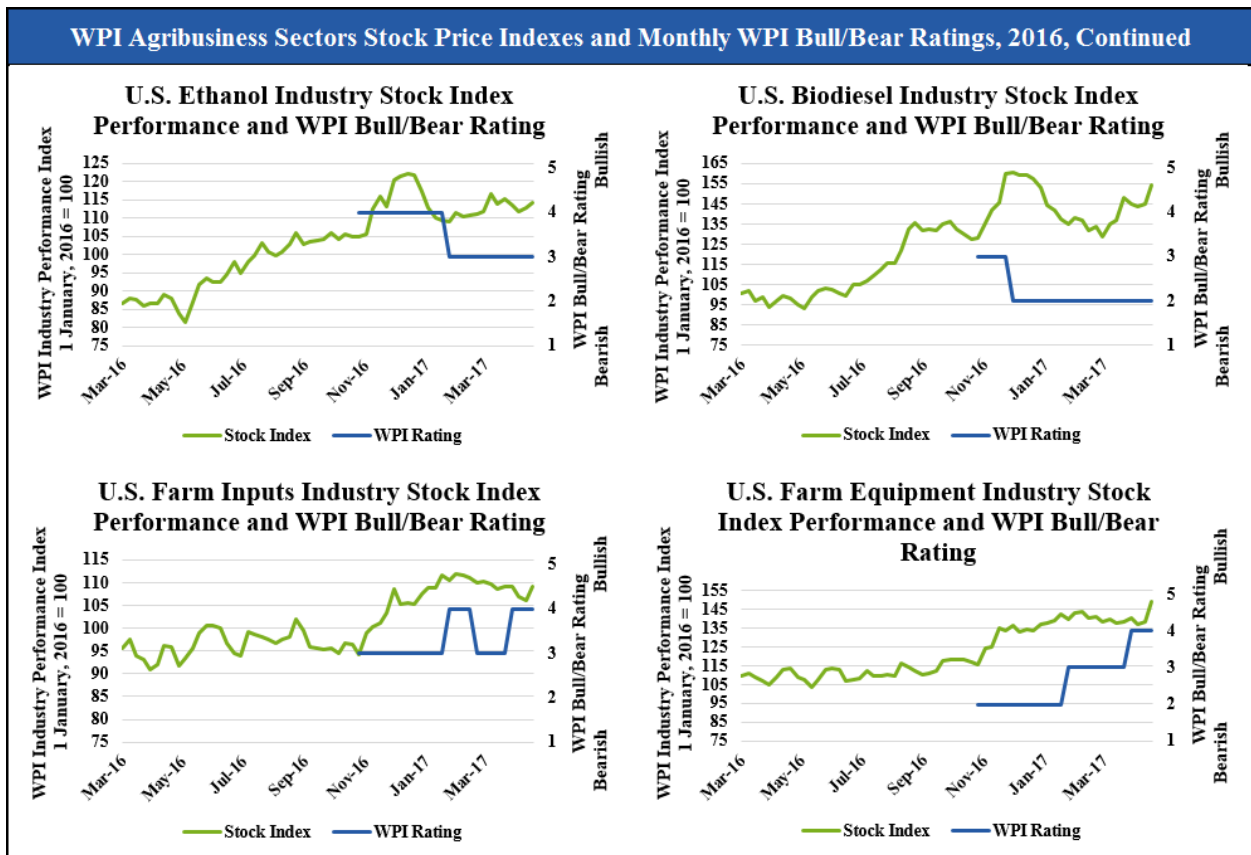
Since the March 2017 issue of *Ag Review*, the U.S. stock market has posted modest gains with the S&P 500 index gaining 0.8 percent and the Dow Jones Industrial Index up nearly the same. The slower growth in stock indexes is reflected in (and partially driven by) more modest growth in WPI's Agribusiness Sectors indexes. The indexes for Grains and Oilseeds fell 1.4 percent and 2 percent, respectively, while the Farm Inputs sector lost three-quarters of a percent. Surprisingly, the ethanol and biodiesel indexes continue to outperform, rising 2 percent and 19.8 percent, respectively. Additionally, strong sales in the farm equipment sector have boosted the index value by 7.8 percent since March.

For the first time this year, WPI is covering the U.S. dairy industry's stock performance. The WPI Dairy Industry Index (an unweighted average of Dean Foods, Lifeway Foods, and Kraft Heinz) increased 1 percent from March even as WPI's Bull/Bear Rating remains bearish.

Overall, WPI views investment in most agribusiness sectors as opportunities that still have upside potential. The current political environment, however, is generating substantial uncertainty that much be monitored carefully.



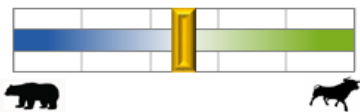
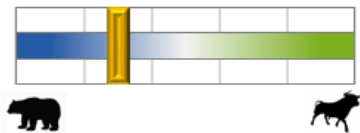
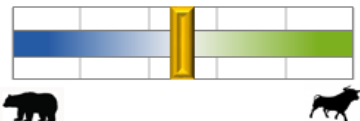
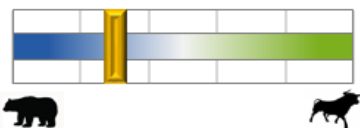


Source: WPI



Source: WPI

WPI BULL/BEAR LEANINGS FOR AGRIBUSINESS IN 2017

By WPI Staff

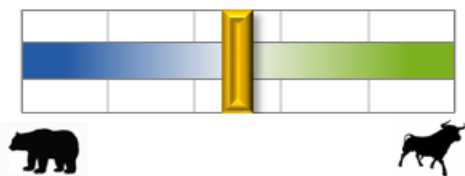
Industry	WPI Industry Bull/Bear Rating	Predominant Influencing Factors
Grains		<ol style="list-style-type: none"> 1) Historically, big-demand years mean excellent margins. 2) However, increased on-farm storage will erode processor/exporter profits. 3) Focus on divesting non-core business units will stabilize bottom lines. 4) Focusing on meeting consumer needs will boost revenue streams.
Oilseeds		<ol style="list-style-type: none"> 1) Record global ending stocks will pressure prices. 2) South American production will add to already burdensome stocks. 3) U.S. soybean plantings will likely be record large in 2017. 4) The soybean bear market is expected to continue for at least another year. 5) Poor profitability may limit Brazilian soybean plantings in the coming year.
Biofuels		
<i>Ethanol</i>		<ol style="list-style-type: none"> 1) The biofuels industry is dependent on federal policies, which are uncertain now. 2) Ethanol production is on pace to exceed the 15 billion gallon domestic use cap. 3) Ethanol exports will be crucial to reducing record-high stocks. Exports have been strong so far, despite the loss of China as a market.
<i>Biodiesel</i>		<ol style="list-style-type: none"> 4) The blenders' tax credit is expired, which historically means lower profitability. 5) The antidumping and countervailing duty case filed by the U.S. against Argentina and Indonesia likely won't be resolved until a year from now.
Farm Inputs		<ol style="list-style-type: none"> 1) Spring planting demand is fading quickly. 2) Nitrogen and DAP prices have fallen, pulling fertilizer share prices lower too. 3) Share prices are at/near lows and have upside for the next three months. 4) Global crude oil supply/demand is more balanced, supporting fertilizers. 5) High coal prices are limiting Chinese nitrogen supply on the international market.
Dairy		<ol style="list-style-type: none"> 1) Commercial disappearance of milk and dairy products is decreasing. 2) Production continues to increase and add to supplies and stocks. 3) USDA is likely to intervene with price-supporting cheese purchases. 4) Exports have been strong so far, reaching a 21-month high in February. 5) Canada's new trade barrier on ultrafiltered milk created a supply glut in the U.S.

Policy Factors

- 1) U.S. stocks are flying high from the “Trump Rally.”
- 2) U.S. business investment and lending declined in Q1 2017.
- 3) Trump’s political stances have changed a record number of times.
- 4) Political uncertainties abound across the globe.
- 5) Foreign direct investment has inflated developing countries’ currencies, lowering investing yields and investment incentives.

WPI Bull/Bear Ratings for Policy Factors Influencing Agribusinesses

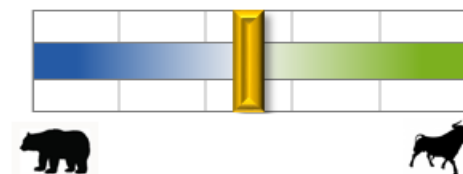
Trade Policy



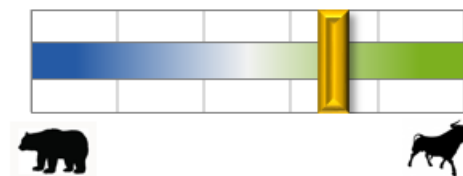
Food Policy



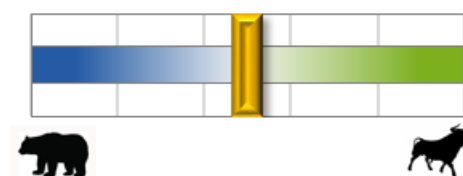
Macroeconomics



Agricultural Policy



Geopolitics



THE U.S. GRAIN INDUSTRY

By Robert W. Kohlmeyer

Top Four Reasons WPI is Neutral the U.S. Grains Industry

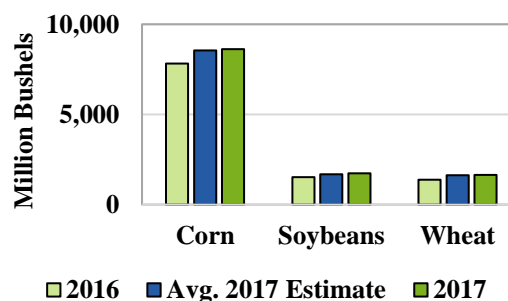
- Historically, big-demand years meant excellent margins for processors and exporters.
- Increased on-farm storage capacity is forcing processors/exporters to pay more procurement costs, eroding margins.
- Agribusiness' recent focus on divesting non-core business units will help stabilize their bottom line.
- In the long run, focus on meeting changing consumer needs will boost revenue streams.

Each year on 31 March, USDA releases its pre-planting survey of U.S. farmers' initial spring planting intentions and estimates of grains and soybeans stocks as of 1 March. These highly anticipated reports offer the first survey-based insights into how much land might be planted with various crops for the forthcoming crop year. USDA's survey of planting intentions is conducted well before spring planting is underway except in the Deep South, and most farmers have time to switch their minds based on weather conditions and changing price relationships. Thus, actual planted areas can and usually do vary from the initial intentions. Nevertheless, the exercise is worthwhile to get a sense of what farmers are thinking as spring planting approaches.

The 1 March count of U.S. grain stocks comes at the halfway point of the present corn and soybean crop year and the three-quarter mark of the wheat crop year. By interpolation, the stocks reports show how much of each crop was used during the December-February quarter, giving analysts the opportunity to measure that quarterly disappearance against their demand assumptions. The volumes of exports, soybean crush and corn-based ethanol production are closely tracked. However, grain used for livestock feed purposes cannot be accurately tracked, so analysts estimate feed use as best they can.

The 1 March corn and wheat stocks were larger than expected, indicating feed use was lower than expected during the quarter. The higher-than-expected soybean stocks suggested that USDA may have underestimated the size of the 2016/17 U.S. crop.

**U.S. Grain Stocks
as of 1 March 2017**



Source: USDA, WPI

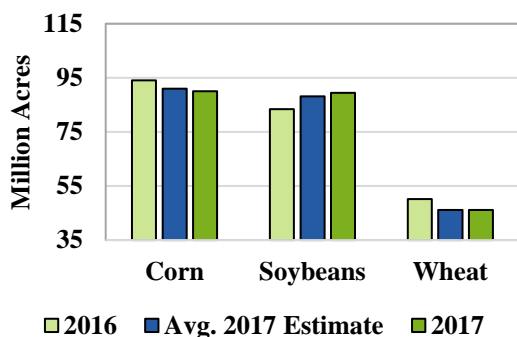
It was widely expected that USDA's initial planting intentions survey would show a sharp increase in planned soybean acreage and a large decrease in corn acreage because the price relationship between the two crops had been

Theoretically, large supplies and bid demand should be the best of all worlds for grain handlers, processors and exporters.

tilted in favor of soybeans since late 2016. More importantly, many farmers could calculate a small profit for new crop soybeans in

2017, but few could pencil anything but a loss from producing corn. USDA's acreage intentions proved to be more extreme than anticipated. Intended soybean acreage came in at 89.5 million acres, up more than 6 million acres from last year, which would be by far the largest amount of land ever planted with soybeans if realized. Corn acreage intentions were 90.0 million acres, down 4 million from last year and more than 1 million fewer acres than expected.

USDA Prospective Plantings Acreage



Source: USDA, WPI

The theme of the 1 March stocks and acreage data from USDA is that in the absence of severely adverse weather, U.S. grain and soybean supplies will continue to be overly abundant. They will be made more so by the huge soybean and corn crops in Brazil and Argentina. South American soybean production will be record

The theme of the 1 March stocks and acreage data from USDA is that in the absence of severely adverse weather, U.S. grain and soybean supplies will continue to be overly abundant

large by a wide margin as will its corn production, assuming Brazil's second corn crop turns out as well as expected. Brazilian and Argentine soybean and corn exports will very likely reduce competing U.S. exports through the balance of 2017.

The grain industry has been dealing with increasingly large U.S and world supplies for the last four years. Only because demand has also expanded substantially during the same time have surpluses been kept from growing even larger. Unless unfavorable weather intervenes in important producing and/or consuming countries, a fifth year of overly abundant supplies is likely in 2017/18.

At least in theory, large supplies and big demand should be the best of all worlds for grain handlers, processors and exporters. However, this has largely not been the case in recent years for a variety of reasons with an important one having been the wide disbursement of both supplies and demand. Grain processing and exporting used to be concentrated in just a few countries, but it has literally grown to be worldwide in the past several years. The Black Sea region has become dominant enough in the world wheat trade to be the trendsetter for world wheat prices. Combined, Brazil and Argentina now dominate soybean and soyoil exports, and they are likely to soon do so for soymeal. The U.S. has lost influence and market share of those sectors of world agricultural trade that it once dominated.

It used to be that large U.S. grain companies profited by taking the following actions:

- Accumulate and store grain in their huge terminal elevators
- Hedge by selling the nearby futures contract
- Roll the hedges forward
- Cash in on the spread between the nearby and deferred contracts in a carrying charge market

It was easy income for grain companies. However, farmers have built so much on-farm storage capacity that most commercial farms do not have to sell much production at harvest. The

opportunities for grain handlers to earn income from acquiring and storing grain have sharply diminished.

Farmers' ability to store a substantial portion of their production at home has other ramifications for grain handlers and merchants. When farmers are dissatisfied with crop prices, as has chronically been the case during these years of overly abundant supplies, they simply hold on to their production in hope of better prices later. This has made it difficult for grain merchants, processors and exporters to maintain the steady flow of grain supplies needed to run processing plants or load ocean vessels. Companies needing grain or soybean supplies to meet commitments have been forced to raise bids to higher-than-expected prices that persuade farmers to sell.

BNSF Hopper Car Being Loaded with Grain at ADM's Galveston Harbor Export Terminal



Source: Roy Luck, Flickr (Photo labeled for reuse.)

U.S. and South American farmers' widespread withholding of supplies has created logistical problems for exporters and processors as well as reduced their margins from what might have been expected from a big supply-big demand situation. This has cut into agribusiness corporate profits during recent years.

Based on quarterly and annual reports from publicly-held agribusinesses and those privately-held companies that choose to file them, those entities' profits during FY 2015 and FY 2016 were mediocre. While there were several company-specific reasons for this, lower-than-expected processing and exporting margins were a consistent theme throughout the industry.

However, the most recent quarterly reports during FY 2017 from large processing and exporting companies seem to have improved. The inference is that companies have learned to better cope with their changing operational realities.

Further evidence that large agribusinesses are bending to new realities can be found in two trends that were developing last year: divesting non-core business lines and activities, and increasing focus on customer wants.

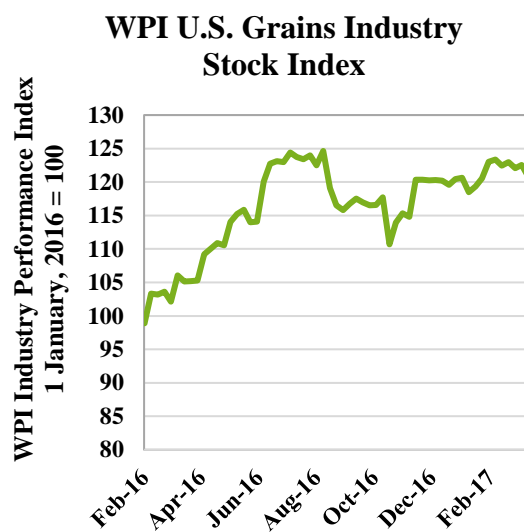
Before today's trend of divestitures, major agribusinesses began to diversify in the 1980s and 1990s by *entering* businesses not directly related to their specific agriculture-related activities. Among others, these activities included trading crude oil and other energy products, industrial metals, insurance, and financial services; operating hedge funds; and trading and processing soft commodities. The original concept was that by widening the diversity of business activities and profit lines, companies would be better protected if profits from traditional activities declined. Basically, agribusinesses diversified their activities for reasons similar to those that encourage individual investors to diversify their portfolios. To at least some extent, every major agribusiness company followed this trend and expanded into nontraditional activities.

Perhaps as a result of a few years of less-than-desired profits, this trend seems to have come to a rather abrupt end. Nearly all the companies that diversified business lines in the 1980s and 1990s have taken steps to eliminate some or all their acquired diversity. They have divested themselves of numerous businesses that, in management's judgement, became a distraction and instead will refocus on their core businesses. The past 12-18 months have seen large multinational agribusinesses sell off several units and subsidiaries not directly related to agribusiness, including steel mills, energy trading units, financial trading businesses and others. Management hopes this will make the companies leaner, more focused and better able to expand their core businesses.

The second trend is based on efforts to provide customers and clients with products they want. This is a basic rule of business, but handlers and processors of fungible bulk commodities have not been forced to pay as much attention to it as more consumer-oriented businesses. However, the rising demand for non-GM foods and food ingredients as well as gluten-free products and the growing market for organic foods are forcing several companies to figure out ways to meet these changing tastes.

The aversion to foods made with GM ingredients is based on emotion rather than science. After more than 20 years of research, there exists no true scientific evidence that GM foods are harmful to one's health and well-being. Farmers and agricultural analysts applaud the use of GM seeds and the foods that result from them. Analysts know that, ultimately, the benefits of GMOs will be needed to provide food and nutrition for the world's growing population. However, emotion can rule buying impulses, and the demand for non-GM foods is growing. Some of the large agribusinesses that vocally support GMOs are also becoming active in promoting the production of non-GM crops and providing non-GM grains, soybeans and their products to food manufacturers. This often involves refurbishing storage and transportation facilities to accommodate the necessary segregation of non-GM crops from others. In similar fashion, some companies are finding ways to supply customers with gluten-free grain, even though there is no health benefit from consuming such foods unless one is gluten-intolerant.

Given the agribusiness focus on "retrenchment" strategies and a return to the core business, grain handlers' and processors' margins should begin to improve this year as attention on efficiency pays off. The added focus on meeting consumer trends and wants should help boost revenue streams, both now and in the long term. Accordingly, although crop prices are low and will remain so for the foreseeable future, grain handlers' and processors' margins/earnings have found support and will work higher from here. Expect company share prices to reflect these changing fundamentals in the medium-term as operational efficiency takes hold.



Source: WPI

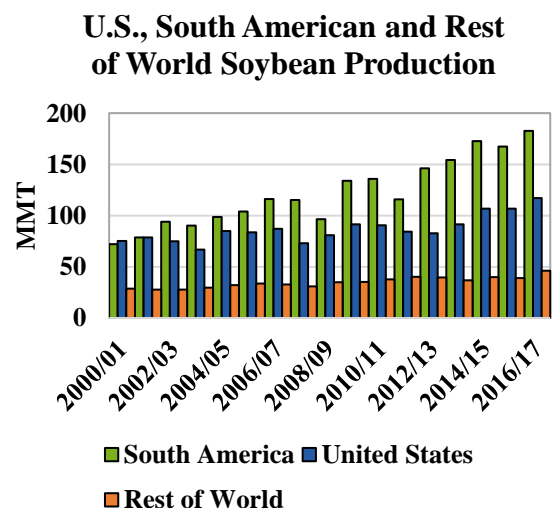
THE U.S. OILSEED PROCESSING INDUSTRY

By John Baize

Top Five Reasons WPI is Bearish the U.S. Oilseed Processing Industry

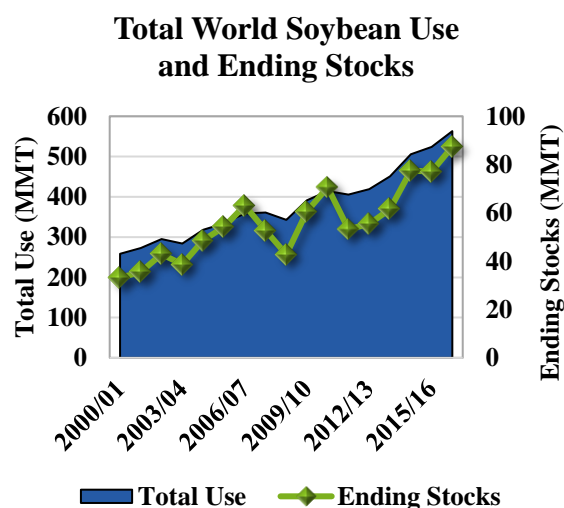
- Forecasted record large-global soybean ending stocks will continue pressuring prices.
- Record-large South American soybean production will add to already burdensome stocks.
- U.S. soybean plantings in 2017 will likely be a record high, further compounding the over-supply situation.
- The soybean bear market is expected to continue for at least another year.
- However, poor profitability may reduce Brazilian soybean plantings in the coming year.

The key metric driving global oilseed markets is the record-high global soybean surplus. While global soybean demand is excellent and still growing, it is not rising as rapidly as production. Soybean prices have fallen sharply around the world, and the only question is whether they will continue to decline. The answer largely depends on how many soybean acres the U.S. will plant in 2017 and what the growing season's weather will be. These factors are the biggest focus for the sector right now.



Source: USDA, WPI

By all accounts, total South American soybean production will be 15.4 MMT greater than in 2016. This comes on the heels of production forecasts that USDA increased for Brazil, Argentina and Paraguay. In total, South American soybean production will be 5 percent higher this year.

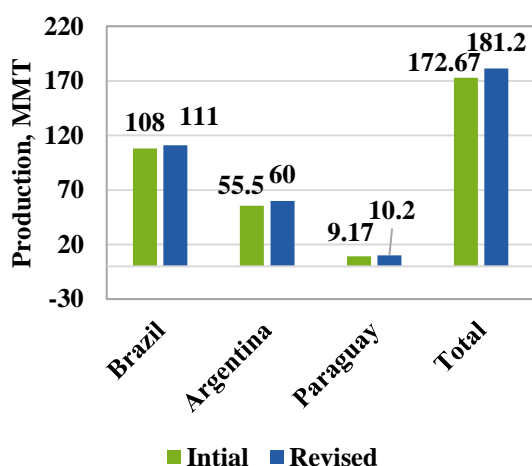


Source: USDA, WPI

Because of the huge South American soybean crop and last year's record U.S. crop of 117.2 MMT, USDA is forecasting 2016/17 global

soybean production at a record-high 346 MMT, a one-year increase of 33 MMT or 10.5 percent. Even with global demand forecast to climb 17.8 MMT, USDA raised its forecast for U.S. soybean ending stocks from 82.8 MMT to 87.4 MMT, also a record high. Had it not been for a combination of flooding and drought in Argentina, global production and stocks would have been even greater.

USDA Soybean Production Forecasts for Select South American Countries



Source: USDA, WPI

USDA's 31 March planting intentions survey found U.S. farmers intend to plant a record 89.5 million acres of soybeans, 6.1 million acres (7.25 percent) more than last year's record. The reason for such a high volume is that farmers simply believe that soybeans represent a better opportunity for profitability in 2017 than corn, wheat or other crops. They also view soybeans to be less of a financial risk because they are less costly to plant. Price changes and weather will impact what is actually planted, but it clearly appears U.S. soybean plantings will set a record this year.

If U.S. soybean plantings reach 89.5 million acres and the average yield is near the trend-line of 48.5 bushels/acre (BPA), U.S. production will total 4.3 billion bushels (117.49 MMT) or about the same as in 2016. If the yield equals last year's 52.1 BPA, production will total about 4.95 billion bushels (134.7 MMT). With the U.S. having

achieved record soybean yields in the last three years, the odds favor a drop below record levels in 2017, but that is far from certain. U.S. soybean genetics are improving every year, and weather during the 2017 growing season could be as good as in 2016.

No one will be watching how many soybean acres are planted in the U.S. and the growing season weather there this year more closely than farmers in South America. They are much more dependent on soybeans than U.S. farmers and will be the next to plant their crop in only about four-five months. South America's farmers also have far less governmental income protection than those in the U.S. with access to government-subsidized crop insurance and other assistance.

Soybean prices in Brazil are already as low as \$7.20/bushel. That is well below the cost of production for most farmers, which exceeds \$8.00/bushel. If U.S. soybean plantings are as large as indicated in the planting intentions survey and summer weather is good, soybean prices will likely be even lower when South America's farmers plant their next crop. On the other hand, if those plantings are lower and the summer growing season is unfavorable, prices likely will be higher than now.

The last time farmers in Brazil planted fewer soybeans than the previous year was MY 2006/07 when there was a 6.9 percent decline because of bleak profit

opportunities. However, this year could be very similar. Clearly, some farmers could decide to either forego planting soybeans on their poorest land or plant alternative crops, depending on the prices for corn and other commodities. Finally, some farmers may be forced to reduce their soybean plantings because they cannot acquire financing as easily as in the previous year. It will

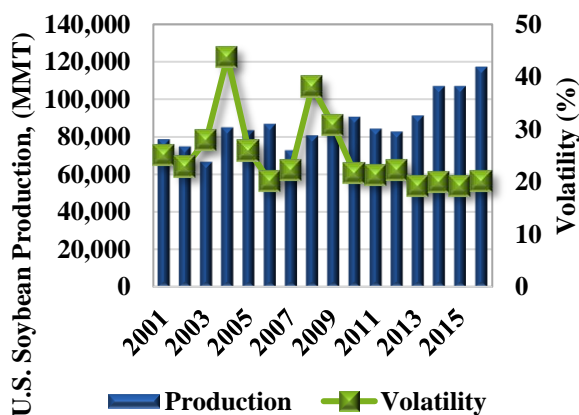
The last time Brazilian farmers planted fewer soybeans than the previous year was MY 2006/07. This year is shaping up with similarly bleak profit opportunities.

simply remain unknown what will happen in South America until U.S. plantings and weather are determined.

Large supplies and lower prices for soy meal and soy oil should be positive for food manufacturers and animal producers.

The year ahead promises to be a challenging one for agribusiness firms associated with the soybean industry. Processing and exporting firms like ADM, Bunge and Cargill will have a plentiful supply of soybeans to process and export. However, such abundance often does not translate into good margins unless demand also is strong. A lack of volatility during periods of surplus typically causes importers and users to buy on a hand-to-mouth basis, putting downward pressure on margins. If the weather in the U.S. this summer is problematic, processing and export margins will probably be higher because of the volatility and increased forward purchases by importers and soy users.

Annual U.S. Soybean Production and Average Nearby Futures Volatility



Source: USDA, CME Group, WPI

Large supplies and lower prices for soy meal and soy oil should be positive for food manufacturers and animal producers. Soy meal is a key ingredient required by animal producers such as Tysons Food, Perdue Farms, and

JBS. Similarly, soy oil and competing vegetable oils like canola oil, palm oil and sunflower oil are key ingredients used by firms like McDonalds, Unilever, J.M. Smucker, and Yum Brands. Those companies should see the ingredient costs decline as soybean prices fall. Fortunately, lower prices may also lead to faster growth in global demand, which will help prevent further increases in surplus stocks.

If soybean prices remain low over the next year, companies producing soybean seed will face challenges in holding their prices at current levels. Additionally, they may face pressure selling as much seed in South America. Among those that may be negatively impacted are Monsanto, Bayer, DuPont Pioneer, Syngenta, and Dow AgroSciences. Broader impacts of an unprofitable soybean sector include reduced farmer purchases of seed and chemicals as well as equipment produced by Deere and Company, AGCO, and Case-IH.

The global soybean sector has experienced several consecutive years of good prices, rapid demand growth and good profitability throughout the value chain. However, because of excellent weather and higher-yielding soybean varieties, the industry appears to be facing a prolonged period of high surpluses and low prices. It will take some time for this situation to be corrected, barring unforeseen negative weather causing a decrease in production and stocks.

Lower volatility during surplus supply years puts downward pressure on processor margins, and 2017 is shaping up as an excess supply year.

THE U.S. BIOFUELS INDUSTRY

By Dave Juday

Top Five Reasons WPI is Neutral Ethanol, Bearish Biodiesel

- The biofuels industry is highly dependent on federal renewable energy policy, but there is a great deal of uncertainty over the future of that policy under the Trump administration.
- Ethanol production is 4.5 percent ahead of last year and on pace to exceed the cap of 15 billion gallons for domestic use.
- Ethanol exports will be crucial to reducing record-high stocks; January 2017 exports have been strong despite the loss of China's market and the potential loss of Brazil in the second half of 2017.
- The biodiesel blenders' tax credit has expired, which historically means reduced profitability for the biodiesel sector. Production and margins are down versus last year.
- An antidumping and countervailing duty case filed by the U.S. industry against Argentina and Indonesia likely won't be completed until a year from now.

At the insistence of President Trump, climate change was not on the agenda when he met with Chinese Premier Xi Jinping in early April. This came after Mr. Trump signed an executive order on 28 March directing the EPA to roll back the Obama-era Clean Air Action Plan that called for a 26 percent reduction in U.S. greenhouse gas emissions from electric utilities by 2025. That plan was used in 2014 by then-President Obama to negotiate with Premier Xi to secure a commitment from China to ensure that country's greenhouse gas emissions would peak no later than 2030. The 2015 Paris Climate Accord spurred both plans into action.

While neither regulatory blueprint was targeted at electricity generation and had nothing to do with renewable transportation fuel directly, Trump's actions have confounded the U.S. biofuels industry. At the Nebraska Ethanol Board's recent Issue Forum, Doug Durante, executive director of the Clean Fuels Development Coalition, said the Trump administration doesn't "... feel it's very important to reduce carbon. They are very skeptical about climate change. They are very clear about that." The administration's stance makes it more difficult for the biofuel industry to

push for expanded use based on environmental grounds, leaving the sector to come up with a new line of reasoning for expanding the required volumes for biofuels.

Further, although Trump – both as candidate and president – has expressed his support for biofuels and the Renewable Fuel Standard (RFS), the sector is nervous about the administration's true position. The nervousness is driven by the number of RFS critics who are now

The timing of Trump's actions is critical, and there is a good chance the EPA will purposefully drag its feet this year regarding biofuels volumes.

administration officials, including EPA Administrator Scott Pruitt as well as key players in the agency and Department of Energy transition teams. Moreover, the president's softening of many of his key campaign platform issues, ranging from a hard stance on China trade (including that country's new import tariffs on ethanol and DDGS) to the harsh rhetoric about renegotiating NAFTA, is causing the sector to worry.

The timing of Trump's actions is critical as the EPA approaches the deadline for releasing its proposed Required Volume Obligations (RVOs) of biofuels for CY 2018 and that of biodiesel for CY 2019. There is a good chance that the agency will intentionally drag its feet this year, however. A final decision from the D.C. Circuit Court of Appeals on whether the EPA retains its waiver authority to reduce ethanol RVOs isn't expected until this summer.

The case stems from the proposed volumes issued for CY 2014. At that time, the EPA reduced the advanced and overall volume totals by waiving the applicable statutory volumes due to an "inadequate domestic supply." However, it interpreted the phrase "inadequate domestic supply" as applicable to a shortage of motor fuels that could be blended and not to biofuels. In short, the EPA argued a general waiver can be granted by equating the market's inability to consume with its inability to supply enough biofuels. This authority is not clearly delineated in the 2007 Energy Independence and Security Act (EISA) statute and was subject to a legal challenge from the biofuels industry. With the court decision pending, the EPA could be waiting to see what its options are, potentially delaying the 2018 volume proposal until this summer.

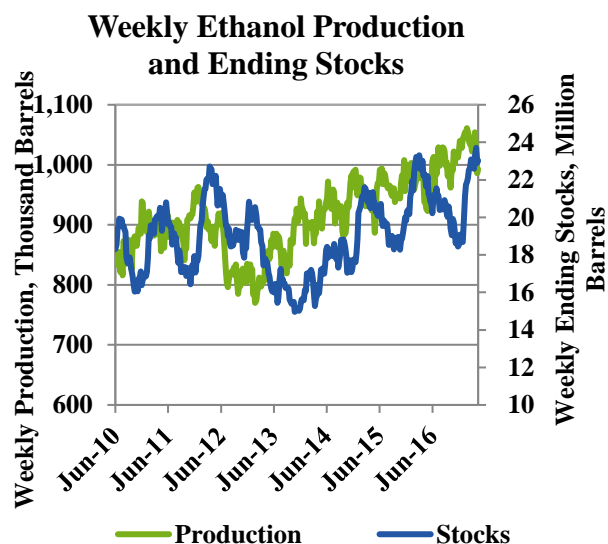
Ethanol

While ethanol production dropped slightly at the end of March, it stayed above the 1 million barrel/day mark as the U.S. Energy Information Administration (EIA) reported that the daily average for the last week of the month was 1.019 million barrels. That is the lowest total in 19 weeks and down 25,000 barrels/day from the previous week. However, it is also the 23rd straight week that production has exceeded 1 million barrels/day. In addition, the volume was 4.5 percent higher than the same week a year ago and has helped push up stocks to the

With the court decision pending, the EPA could be waiting to see what its options are, potentially delaying the 2018 volume proposal until this summer.

highest level on record since EIA started tracking ethanol data in June 2010.

Such a drop in weekly production is not unusual as production follows a typical seasonal pattern, heading lower into March and April as plants start maintenance and the supply chain moves toward summer blends. Through 31 March, ethanol production is on pace to reach about 15.7 billion gallons.



Source: EIA, WPI

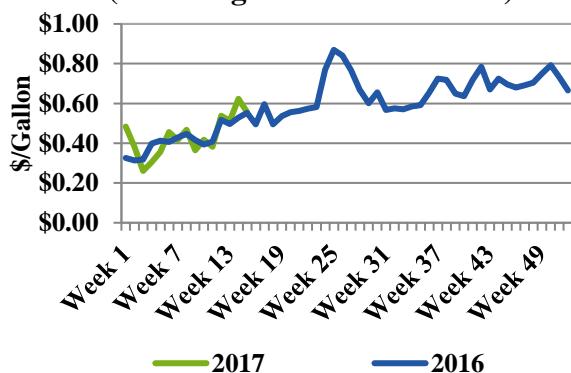
The RVO for this year is 15 billion gallons, which is at the statutory cap for conventional ethanol under EISA. Thus, exports will be critical to move the additional ethanol being produced. Data for the month of January showed that exports were surprisingly up from December and reached the fifth-highest monthly total on record. However, shipments to China have stopped due to new tariffs imposed late last year, and thus the robust pace of production coupled with slower exports added about 131,000 barrels to ethanol stocks as of the week ending 14 April 2017.

In Brazil, the ethanol sector is pressing for a new ethanol import tariff of 16 percent, and there is widespread agreement that it is very likely to be enacted. Reportedly, that has helped boost U.S. export sales for shipments between now and June. Last year the U.S. exported a total 1.05 billion gallons of ethanol with Brazil accounting for 267 million or about 25 percent of that total.

Domestically, the market looks good for the rest of the year. According to EIA’s April Short-Term Energy Outlook (STEO), fuel ethanol blending is projected to increase to 960,000 barrels/day, approximately 20,000 barrels/day higher than last year, and would total 10.1 percent of total motor gasoline consumption. EIA’s forecast for ethanol blending for the high-mileage, summer driving season is 963,000 barrels/day, up 1.7 percent from the 2016 season average of 947,000 barrels/day. The increases are due to greater highway travel despite overall motor gasoline prices being forecast at 10 percent higher than last year.

Over the first 15 weeks of the year, ethanol prices FOB Iowa plants are up 7 percent on average, while corn prices are down 1.7 percent. Natural gas prices are 8.4 percent lower, which is helping offset a 28 percent decrease in DDGS prices. In total, this year’s average ethanol plant gross margin is very similar to last year’s and is following the same pattern.

WPI Estimated Gross Margins for Ethanol (including corn oil extraction)

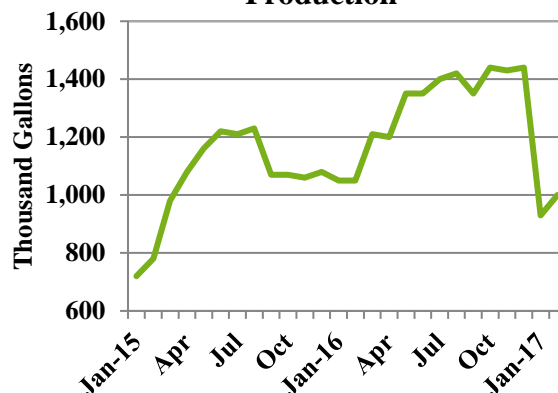


Source: USDA, WPI

Biodiesel

The EIA’s STEO shows methyl ester biodiesel production at 930 million gallons for January 2017, a considerable drop from December that can be attributed to the expiration of the biodiesel blenders’ tax credit at the end of 2016.

U.S. Methyl Ester Biodiesel Production

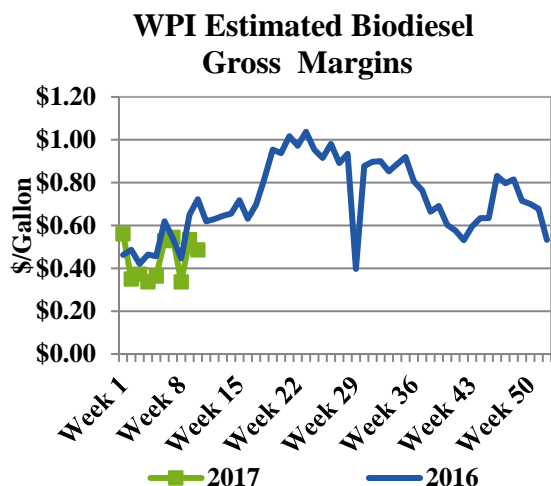


Source: EIA, WPI

The fate of the credit, whether it is re-instated, re-instated as a producer credit rather than a blender credit or left expired, is caught up with the congressional effort on a comprehensive tax reform bill. Prior to the Easter recess, there were private negotiations between key Republican and Democratic lawmakers in the House, the chamber where tax bills must originate, but the concept of the Border Adjustment Tax (BAT) is still a major roadblock to moving toward any kind of consensus on a reform bill.

Whether or not the BAT will be included in a tax overhaul bill must be settled before such legislation proceeds, and it is difficult to handicap the biodiesel credit until then. The credit has always been a catalyst to biodiesel production and producer margins. Without it, those margins are following seasonal patterns but continue to trend below last year’s.

Without the tax credit in place, biodiesel producer margins are following seasonal patterns but continue to trend below last year’s.

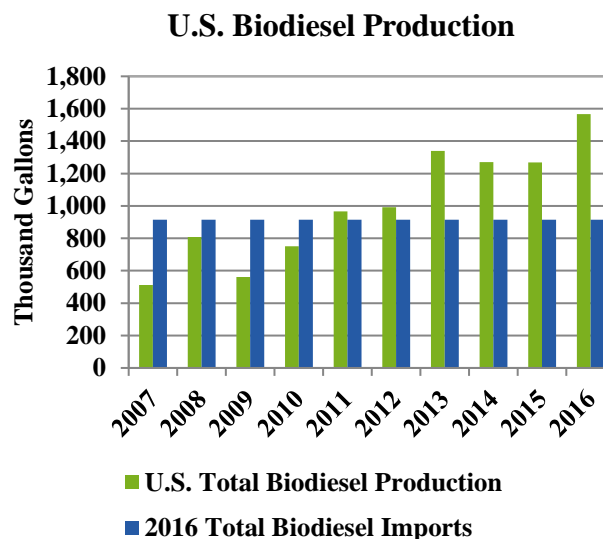


Source: USDA, WPI

Note: Returns are per gallon for soyoil methylester

Biodiesel imports are also down dramatically. In January, there were 10.12 million gallons of methyl ester biodiesel from Argentina and 4 million gallons from Canada as well as 11.5 million gallons of renewable diesel from Singapore for a total 25.6 million gallons. That compares to December when total imports were nearly 135 million gallons: 112 million gallons of methyl ester biodiesel and 23.4 million gallons of renewable diesel. Overall imports in 2016 totaled more than 915 million gallons, including 693 million gallons of methyl ester biodiesel and 222 million gallons of renewable diesel. The 2016 import volume was greater than U.S. total domestic production in every year prior to 2011, and it nearly matched the domestic production of 2011 and 2012.

Last year's record imports are the reason domestic biodiesel producers are seeking to change the tax credit to apply to production rather than blending



Source: EIA, WPI

Last year's record imports are the reason domestic biodiesel producers are seeking to change the tax credit to apply to production rather than blending. In this form, foreign producers would not be able take advantage of it. However, blenders currently access the credit even by using foreign-produced biodiesel.

Of the total 2016 imports, 48.5 percent (444 million gallons) came from Argentina, 64 million gallons more than were imported from there cumulatively during the previous three years. Imports from Indonesia totaled 102 million gallons, nearly double the 52.4 million gallons in 2015. These are assumed to be biodiesel made of palm oil, which generates D6 Renewable Identification Numbers (RINs). While these imports would compete with ethanol on a compliance basis, they compete with domestic biodiesel that generate D4 RINs in the physical fuel market.

On 23 March, the National Biodiesel Board (NBB) filed an antidumping and countervailing duty petition with the U.S. Department of Commerce and the U.S. International Trade Commission (USITC) against both Argentina and Indonesia. It alleges dumping margins of 23.3 percent for Argentina and 34.0 percent for Indonesia that result from selling biodiesel at below the cost of production. The petition claims Argentina subsidizes feedstock and that

Indonesia provides direct grants to biodiesel producers. Both countries impose an export tax on feedstock, which is applied to soybeans in Argentina and palm oil in Indonesia.

The USITC must make a preliminary decision within 45 days (8 May) on whether to move the case forward. The law is stacked in favor of petitioners (in this case, the U.S.) as in the early proceedings the burden of proof needed to move a case forward is low. Accordingly, the USITC probably will vote to proceed, especially if the

NBB had good, experienced lawyers who know the ITC system, and there is no reason to think it did not. The hearing in the investigation's final phase is likely to occur a year from now. It's significantly more likely for respondents (Argentina and Indonesia) to prevail in the final phase than in the preliminary stages, but if the facts show injury to the U.S. industry, the law still would require the commissioners to vote in favor of imposing duties. The ITC will receive the staff report on 1 May and likely vote on 5 May.

Timeline for USITC Biodiesel Investigation

23 March 2017	Petitions are filed
12 April 2017	DOC initiates AD/CVD investigations
13 April 2017	ITC staff conference
8 May 2017	Deadline for ITC preliminary injury determination
16 June 2017	Deadline for DOC preliminary CVD determination, if deadline is not postponed
21 August 2017	Deadline for DOC preliminary CVD determination, if deadline is fully postponed
30 August 2017	Deadline for DOC preliminary AD determination, if deadline is not postponed
19 October 2017	Deadline for DOC preliminary AD determination, if deadline is fully postponed
5 March 2018	Deadline for DOC final AD and CVD determinations, if both preliminary and final AD determinations are fully postponed and CVD deadline is aligned
19 April 2018	Deadline for ITC final injury determination, assuming fully postponed DOC deadlines

THE U.S. DAIRY INDUSTRY

By Dave Juday

Top Five Reasons WPI is Bearish the U.S. Dairy Industry

- Commercial disappearance of milk and dairy products is decreasing.
- Production continues to increase and add to supplies and stocks.
- Federal price-support intervention through cheese purchases is likely.
- Exports have been strong so far in 2017, reaching a 21-month high in February.
- Canada has initiated a new trade barrier on ultrafiltered milk, which has created a supply glut in the Upper Midwest and Northeast.

Milk production generally increases each year from March to May in what is known as the “spring flush.” Combined with the current production trend, this would suggest there is likely to be more milk than market for the next few months.

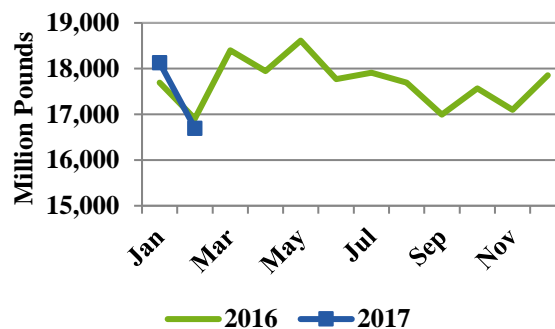
A February production total of 16.7 billion pounds was below that for the same month a year ago. However, when 2016 numbers are adjusted for the leap year, this year’s production was actually a 2.3 percent year-over-year increase. Milk cow inventory was 9.367 million head, 4,000 more head than in January. Culling was down as well with an estimated 253,200 head slaughtered under federal inspection in February, approximately 15,900 fewer head than the previous month. Meanwhile, daily milk production per cow was 63.6 pounds in February, 1.7 percent greater than February 2016.

Fundamentals suggest there is likely to be more milk than market for the next few months.

Total milk production is forecast to reach 217.3 billion pounds this year, up from 212.4 billion pounds last year and 5.6 percent above the five-year average of 205.8 billion pounds. February beginning stocks were up 19 percent on a milk equivalent, milk fat basis and 9 percent on a milk equivalent, skim solids basis as well as across all

product categories of butter, cheese and non-fat dry milk.

U.S. Monthly Milk Production

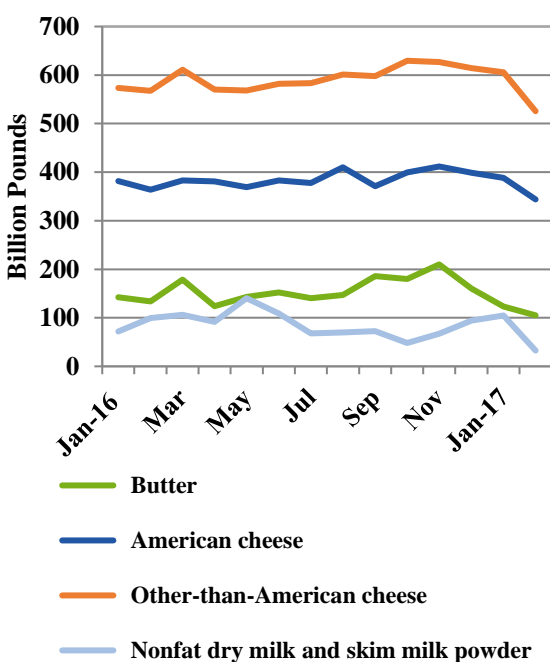


Source: USDA, WPI

Based on the latest data, domestic demand so far this year has been weaker than in 2016. For the December-February period, domestic commercial disappearance for butter was down 8.7 percent versus the same previous period (adjusted for leap year) and remained about the same for cheese. Part of that could be attributed to the Easter date of 16 April this year versus 27 March last year, which was closer to the December-February quarter.

Domestic demand so far this year has been weaker than one year ago.

Domestic Commercial Disappearance of Dairy Products



Source: USDA, WPI

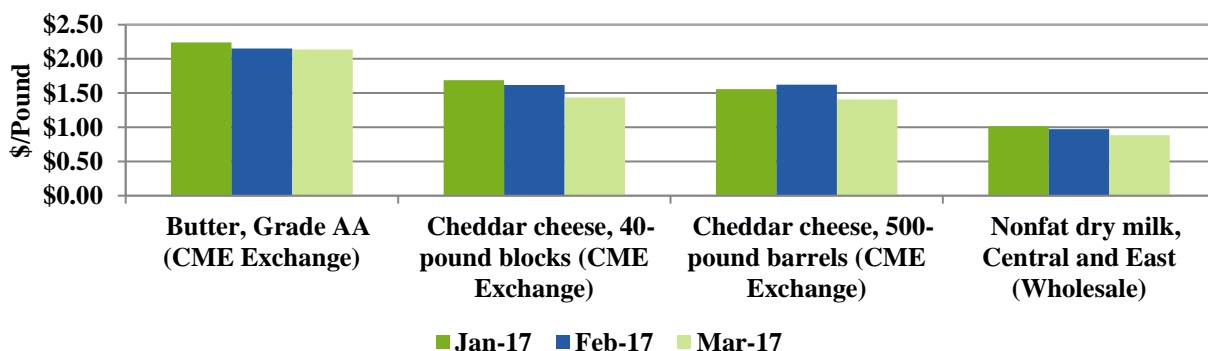
Not surprisingly, higher milk production, larger stocks of products and lower commercial disappearance that implies lower demand have led to generally falling dairy product prices. The exception to this trend is dry whey, which increased from \$0.512/pound in March to \$0.534/pound as of 8 April.

This year's product pricing has also affected milk pricing. Under the Federal Milk Marketing Order (FMMO) system that regulates pricing for milk by class, farm gate milk prices are of course determined by the wholesale market prices for butter, nonfat dry milk, cheddar cheese, and dry whey. The pricing formula adjusts the finished product prices based on calculations for product yield per 100 hundred pounds of milk. It then provides an overhead allowance to processors, known as the "make allowance," for processing and marketing costs. As announced on 5 April by USDA, the March milk prices are as follow:

- **Class II Price:** \$16.21/cwt., down \$0.31 from February. Milk in this category is used for ice cream and related frozen dairy desserts as well as fluid creams and cultured dairy products like yogurt, cottage cheese and sour cream.
- **Class III Price:** \$15.81/cwt., down \$1.07 from the previous month. Milk in this class is used for all hard cheeses.
- **Class IV Price:** \$14.32/cwt., down \$1.27 from February. This milk goes to butter and dry milk products such as nonfat dry milk powder, skim milk powder and dry whole milk powder.

Class I milk is fluid beverage milk and always set at the highest price, which is based on a premium differential added to the higher of the Class III or Class IV price. The differential varies by each of the 10 marketing order regions.

Dairy Product Prices



Source: USDA, WPI

With lower prices, increased production and a lack of milk processing capacity, there is a great deal of political pressure to provide relief for dairy farmers.

With lower prices, increased production and a lack of milk processing capacity, there is a great deal of political pressure to provide relief for dairy farmers. Indeed, at his Senate confirmation hearing on 23 March, USDA Secretary Sonny Perdue was pressed by the ranking Democrat on the Senate

Agriculture Committee, Debbie Stabenow (D-Michigan), to look at providing such before the farm bill is renegotiated. This could come in the form of a product purchase, most likely cheese, which would boost prices and, in turn, could increase milk prices if enough product were removed from the market. However, it would also further squeeze processors during a time of weak demand. If USDA makes such a purchase, it could come as soon as the first week of May.

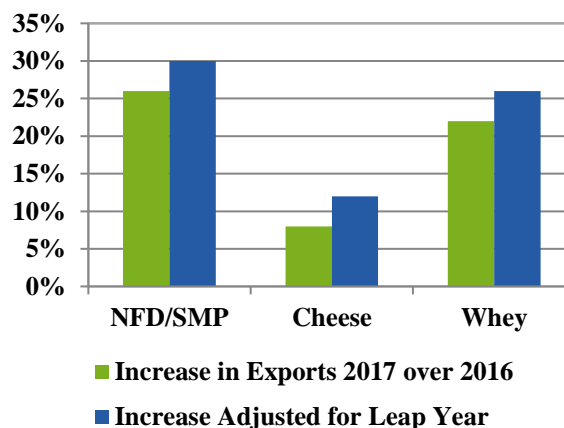
The silver lining to the dairy cloud remains exports. With lower global prices and milk production in Australia (a major dairy exporter) down nearly 20 percent due to the effects of a recent drought, U.S. exports have been strong. On a total milk solids basis, they equaled 14.8 percent of U.S. milk production in February. The U.S. Dairy Export Council (USDEC) indicated the following for the month:

- Non-fat dry milk/skim milk powder exports were just shy of 52,000 MT.
- Cheese exports totaled 26,347 MT.
- Whey shipments reached 43,307 MT.

However, there are looming issues in the global market as well. With the impending NAFTA renegotiation, cheese and powder exports to Mexico slowed in January, and it bought 33 million pounds of skim milk powder from Europe in February. The latter purchase marks the first time the U.S. has lost out on a tender in years. Further, production in the EU is rising based on the elimination of the production quota there and the embargo that Russia placed on its products. The EU has instituted a voluntary reduction

scheme, but the program is undersubscribed and the market still flush with milk. Finally, Canada instituted a newly-established milk class on 1 April known as Class 7 or “ingredient class,” which includes “... skim milk solids in all forms that can be used as ingredients, including but not limited to skim milk, skim milk powder, ultrafiltered and diafiltered milk, whole milk powder and condensed or evaporated milk (not for retail).”

February Dairy Product Exports



Source: USDEC, WPI

The new regulation impacts ultrafiltered milk from the U.S., which is a high-protein, concentrated product typically used in cheese and yogurt production that had been exported to Canada tariff-free. The new regulated pricing class effectively acts as a tariff, primarily hitting processors and producers in northern U.S. states, especially Wisconsin and New York. In these states, ultrafiltered milk production accounts for about \$150 million in annual export sales. Some processors making ultrafiltered milk have already stopped buying raw milk from producers, and the loss of that outlet is creating a milk supply glut in the Upper Midwest and Northeast. Additionally, dairy industry sources predict this will force more skim milk powder into the global market, which is thinly traded and will drive down prices for U.S. exporters and producers globally.

FARM INPUTS

By Joost Hazelhoff

Top Five Reasons WPI is Neutral/Bullish the Farm Inputs Industry

- Fertilizer S/D: Seasonal spring planting demand in North America and Europe as well as buying in Latin America are fading quickly.
- Nitrogen and DAP prices have come down, and fertilizer companies' share prices, unable to isolate themselves from this dynamic, have generally moved lower.
- Share prices are at or near their lows, and moderate upside for the industry is anticipated over the next three months.
- Global crude supply and demand are much more balanced in early 2017; further improvement in this situation will support fertilizer prices.
- Cost of production economics continue to benefit to North American nitrogen, limiting Chinese supply on international markets.

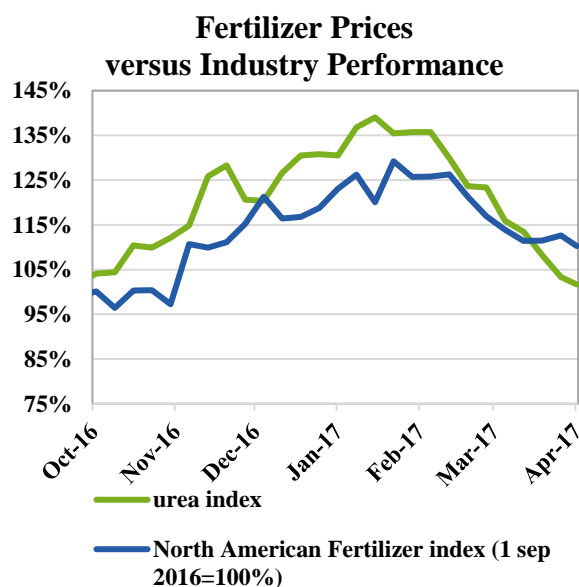
Last month WPI noted an anticipated near-term correction in fertilizers with new supply affecting prices (see *Ag Review* Volume 29, No. 2). Several other factors compounded this effect, driving fertilizer prices, especially in the nitrogen segment, materially lower. As illustrated by our North American fertilizer index, the industry's share price development has not been able to isolate itself from this move. Prices appear to be at or near their lows and, as such, moderate upside for the industry is anticipated over the next three months.

Maintenance outages in the Arab Gulf in April and current outages in Russia should take some supply pressure off the market where demand otherwise is relatively weak.

In nitrogen, the price outlook for urea is flat for the very near term but may move higher toward the end of our three-month forecast period. During the past month, global urea prices corrected considerably lower, although they seem to have bottomed out

in early April. Planned maintenance outages in

the Arab Gulf in April and current outages in Russia should take some supply pressure off the market where demand otherwise is relatively weak.



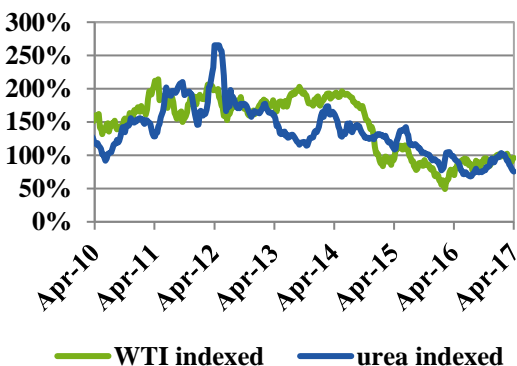
Source: CSI data systems, WPI analysis
The Index is the unweighted average of PCS, Agrium, Mosaic and CF

In phosphates, U.S. domestic prices moved up materially in February with strong seasonal application demand and supply that was hampered due to delays in shipments from Morocco. That move higher didn't have legs, and prices have been mostly stable in the past month. Recently, though, they have started to move lower on the back of weakening demand in both the U.S. and Brazil.

Crude Oil versus Fertilizers

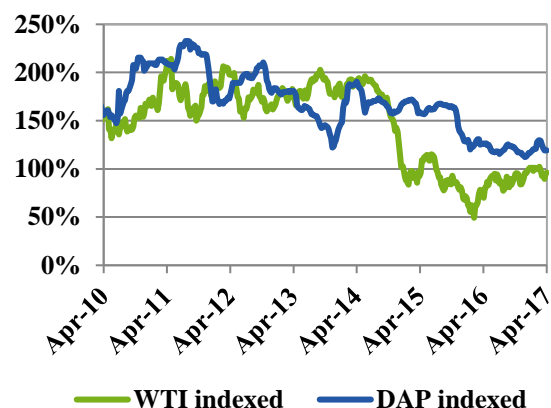
Current urea prices have slipped below the historical price band between crude oil and urea. The recovery of crude prices restored some crude oil-based support for DAP values. Anticipated upside for crude oil has materialized as supplier discipline from both OPEC and non-OPEC origins has prevailed in line with agreements made at the end of 2016. Meanwhile, global crude demand growth rates are strong, underpinned by improving economic data. Consequently, global supply and demand are considerably more in balance than in 2016. Should this situation improve further, crude-driven support for fertilizers should be anticipated.

Crude Oil versus Urea Prices



Source: UA Dataservice, WPI analysis (NB: 1 May 2009=100%)

Crude Oil versus DAP Prices



Source: UA Dataservice, WPI analysis (NB: 1 May 2009=100%)

Near-Term Grains versus Fertilizers

Throughout much of the year, corn price increases often translate into higher fertilizer prices. During planting season, however, factors that may be considered bullish for corn prices (i.e., unfavorable planting weather possibly pushing acres from corn to soybeans) have a direct negative impact on pre-plant and side-dress nitrogen demand. In turn, that will have a bearish effect on fertilizer prices.

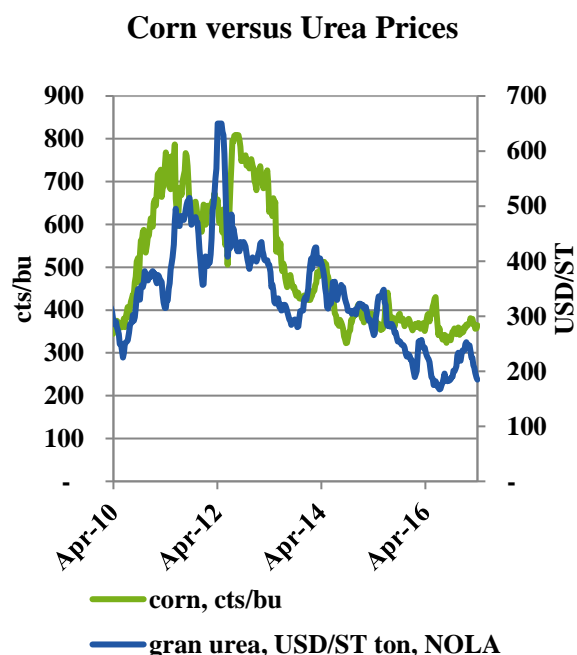
This may even be the case if most of the nitrogen has already been applied as it will simply depress refill demand in the summer.

During planting season, however, factors that may be considered bullish for corn prices (i.e., unfavorable planting weather possibly pushing acres from corn to soybeans) have a direct negative impact on pre-plant and side-dress nitrogen demand.

The same theory applies to actual corn acres planted. Last month WPI noted that the 2017 corn planting would concede some acreage to soybeans by as much as 3-4 million acres. USDA's planting intentions report produced a reduction beyond the average trade guess, coming in at just under 90 million acres planted to corn. The smaller area may improve near-term corn prices, but it also helps to explain the apprehension in fertilizer buying at the retail

level. Moreover, it helps to explain why current urea prices are slipping below the historical urea-corn band.

While the corn balance sheet for MY 2017/18 may tighten somewhat from the previous year, first estimates don't point at an adjustment material enough to provide significant upside pressure for fertilizer prices. This may change closer to the end of our three-month forecast period as the usual weather scare comes along. Come summer, a combination of lower acreage and less favorable weather would seriously alter the price outlook, not only for grains but for fertilizers as well.



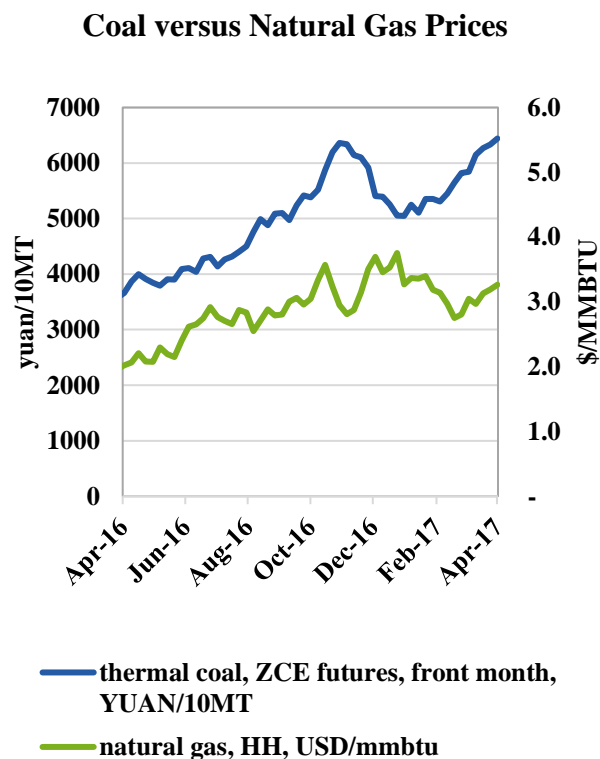
Source: CME, WPI analysis

Nitrogen Cost of Production: Gas-Based versus Coal-Based

Some reprieve for international nitrogen markets has come from the relatively high cost of production in China due to elevated feedstock (i.e., thermal coal) pricing. At the risk of sounding like a broken record, note that U.S. nitrogen production margins based on the spot

cost of natural gas are benefitting from lower gas prices there, whereas coal-based (Chinese) production is dealing with ever-increasing thermal coal prices.

Last month WPI noted that “for the near term, the margin benefit for U.S. gas-based production versus Chinese coal-based nitrogen has not plateaued yet.” Market dynamics in the past month are in line with that assertion, and our three-month outlook has not changed. The U.S. Energy Information Administration (EIA) is calling for 2017 U.S. Henry Hub natural gas prices to stay close to \$3/MMBTU below current levels. On the other hand, thermal coal prices have now surpassed the record highs achieved in November 2016 after dipping earlier this year.



Source: CME, CSI data, WPI analysis

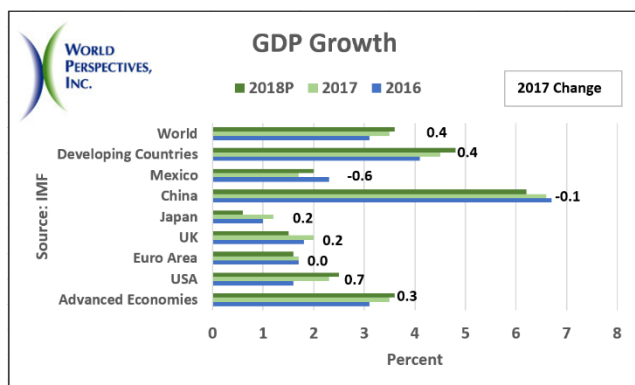
POLICY TRENDS

By Gary Blumenthal

Top Five Reasons WPI is Neutral Macroeconomic Trends for Agribusiness

- U.S. stocks are flying high from the “Trump Rally.”
- U.S. business investment and lending declined in Q1 2017.
- Trump’s political stances have changed a record number of times
- Political uncertainties abound across the globe.
- Foreign direct investment has inflated developing countries’ currencies, lowering investing yields and investment incentives.

The International Monetary Fund (IMF) concluded at its spring meeting that world economic growth is on its strongest course in several years. Global investment and manufacturing are showing strength, and U.S. growth is accelerating. Yet respondents to WPI’s admittedly small survey sample of the economic outlook viewed the situation as unchanged or declining. This likely reveals more about the political position of the respondents than the actual economy.



Supporters of President Obama point to his success at reducing unemployment, increasing exports and keeping inflation subdued. His opponents highlight the lower labor participation rate, reduced median family income and higher insurance costs. In the same fashion, Trump’s supporters today refer to the “Trump rally,” while

his detractors point out that business investment and lending declined during the first quarter of this year.

Trump Trauma

People around the world are paying attention to Donald Trump, both fascinated and frightened by his unpredictability. Yet he is becoming increasingly conventional in his decision-making. Writing for the *Washington Post*, Richard Cohen highlights the record number of reversals by Trump in just his first three months in office. NATO was once obsolete but is now (once again) a partner in fighting terrorism; China was once the evil Middle Kingdom but is now helping with North Korea; and Russia was previously a friend but is now unfriended for supporting Syria, which was previously ignored but now earns 59 cruise missiles worth of attention.

Like perspectives on Trump’s economic results, whether these reversals are viewed positively is largely political. First, Stanford University scholar Verlan Lewis sees nothing surprising in Trump’s foreign policy reversals. The record since at least 1900 is for presidential candidates to campaign as less globally interventionist than the incumbent, but they then tend to exercise authority once elected in the one area where the

Constitution most allows them to – foreign policy.

Lewis also notes that political support for such foreign policy activism tends to fall along party lines. Activism by a Democrat in the White House is supported by Democrats and criticized by Republicans, and the reverse is true when a Republican is president. In short, people tend to see themselves as ideologically pure when they are instead quite partisan.

Still, Donald Trump would fare better if he followed the best qualities in leadership as identified by research from the CEO Genome Project. These traits included reaching out to stakeholders; being highly adaptable to change; showing reliability and predictability rather than being exceptional; and making decisions fast and with conviction, even if imperfect ones.

Global Uncertainties

Setting aside partisan views, it is still easy to find plenty of uncertainty and conflict.

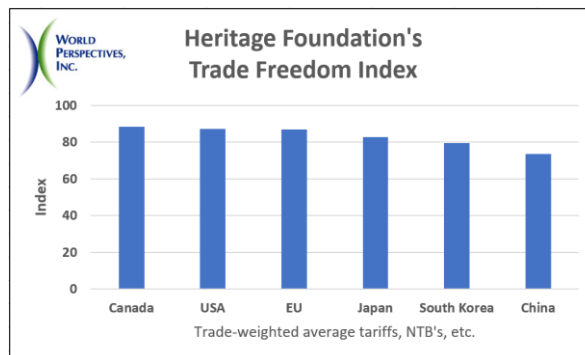
Protectionism:

Among the cautions about global economic growth from the IMF is the peril of growing protectionism.

Although the IMF did not directly name the U.S., it prompted a retort from Commerce Secretary Wilbur Ross. He called the charge “rubbish” and claimed that the American economy is more open to trade than those with huge trade surpluses now vexing about “protectionism” (see following graph). Still rattling around U.S. policymaking are the threats of tariffs, a border adjustable tax, the withdrawal from the Trans-Pacific Partnership (TPP) and a possible similar fate for NAFTA.

“We are going to make some very big changes or we are going to get rid of NAFTA once and for all.”

*~ Donald Trump
18 April 2017
Kenosha, WI*



Just to add to the angst of every free trader, the Trump administration announced a “Buy American, Hire American” initiative that intends to maximize the use of U.S.-made inputs and labor in government procurement. While it is acknowledged that many governments around the world have *de jure* open procurement, the *de facto* situation is far murkier. Still, an American government that is overtly “America First” has shaken confidence around the world. One agricultural trade policy expert suggested that the plan should be to hope for the best, but plan for the worst.

Asia: This past month saw fire (a failed missile launch) and fury over the Korean peninsula. Many South Koreans, who currently lack a duly-elected president, consider Donald Trump more hazardous than the missile-firing Kim Jung-un, which is probably the way the U.S. leader likes it. However, this has not stopped South Korea from building a defensive missile system that destabilizes its relationship with China, and the entire situation has put Beijing in a bind since both Koreas, North and South, appear to be ignoring it.

Trump’s focus on a two-bit tyrant would be strange except for the aforementioned fact that it doesn’t require congressional approval. Downright foolish is Trump’s offer to President Xi Jinping that he would treat China better in terms of trade and currency policy if North Korea’s missile program is stopped. One of his top political charges has been that the terms of trade experienced by the U.S. is the result of poor negotiation by predecessors, and yet his offer to Xi perpetuates the exchange of geopolitical objectives for economic benefits.

Still key to agricultural interests is the economic situation in China. A two-armed economist would emphasize that while China's gross domestic product (GDP) growth rate in the first quarter (6.9 percent) was the fastest since 2015, its debt level is now 277 percent of the economy or more than double what it was a decade ago.

North America: Donald Trump hit Mexico hard during his campaign for the presidency, and he has shown no slack since. By contrast, he has been kinder to Canada. However, Canadian dairy pricing policy is now dumping ultrafiltered milk (high protein) onto the market, undermining what had been a key loophole for U.S. exports moving north. After receiving heavy pressure from dairy state politicians, Trump promised to address the problem. It appears that Canada is not on easy street any longer.

Europe: UK Prime Minister Theresa May ordered parliamentary general elections for 8 June when she hopes to strengthen her hand in Brexit negotiations. There is a chance it could go otherwise, but the British economy is doing well and she is popular. Less assured is the outcome of the French presidential election. After the first round on 23 April, it is now clear that Emmanuel Macron will compete against Marine Le Pen in a runoff on 7 May. If Le Pen wins, Europe will join the U.S. in what is a volatile situation.

Rest of World: Second after China in importance to agriculture is the status of developing countries. Foreign direct investment (FDI) has been pouring into these nations, but that has begun to push up the value of their currencies while concurrently tapping down the yield earned by investors. This likely will dampen the FDI-sugar rush in the near term.



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