

## **This Week in Agriculture:**

**A Mixed Bag of Information from the Week that Was: November 16, 2018**

- **Though Thanksgiving isn't until next week the grain markets have taken on a holiday type feel when it comes to trade. It's apparent a range has been established and with harvest wrapping up and no major influx of news expected many traders are looking to outside markets to take advantage of volatility.**
- **At this point the only thing that could really generate excitement would be a resolution to the trade war we find ourselves in with China. It appears as though high-level officials are doing all they can to make the meeting between President Trump and President Xi at the end of the month successful. Reports surfaced mid-week that Chinese officials had answered the list of demands presented by the U.S. in writing and that further outlines were being established ahead of the high-level chats.**
- **While certain members of the administration have been quick to extinguish too much excitement over the progress we've seen, others have stated they are confident a resolution will be reached shortly.**
- **Outside of the Chinese news we have been watching what is taking place in crude. In 6 short weeks the crude market has managed to erase all of 2018's gains, falling to the lowest level in a year. Ideas that Saudi Arabia will fight OPEC's pledged cuts and record U.S. production are just two of the factors playing in to the sharp sell off.**
- **What is most unfortunate is the impact the drop in oil and gas prices is having on already poor ethanol margins. Though the relationship between crude and corn was nearly non-existent when crude was trading higher, a drop in crude prices puts pressure on the value of corn as the relationship between corn and energy prices as a whole cannot be denied.**
- **As we've discussed before, ethanol margins have been rocked with the gutting of the RINs market via refinery exemptions given by the EPA as well as the administration's push to change how RINs are traded as a whole. Since RIN values were used in the past to offset poor grind margins, the fact that they are nearly worthless now is showing itself in margins. In the last month or two we have heard of several ethanol plants shutting down, being sold or cutting back on production until margins improve.**
- **Also troubling ethanol players and corn buyers is the idea that not only has year-round e-15 use been contested and is likely facing a lengthy legal battle, but that the cheaper gas gets the less attractive cheap octane via ethanol becomes. While the RFS mandated 10% blending, a slight increase above a 10% blend is allowed, but only takes place when it is attractive from a pricing standpoint to do so. In theory, the cheaper the price of gas, the higher the blend wall becomes.**
- **Though production was stout this week, it is likely that until we find a new outlet for ethanol production via increased domestic use or exports margins will continue to languish, pressuring the overall demand outlook and values ethanol players can or will pay.**
- **While the environment for ethanol grind might be poor, soybean crushers found themselves crushing a record amount of beans in October. NOPA crush released yesterday morning showed 172.3 million bushels crushed coming in higher than lofty pre-report guesses and well above levels seen a year ago. Through the first 2 months of the marketing year crush levels are running 11% above year ago levels, with the USDA forecasting a 1.2% increase. While crush margins have fallen off significantly from recent highs they are still strong enough to support continued swift demand in the months ahead.**
- **Export sales released this morning were in range, but not overly exciting. One point of interest, we saw "unknown" come in and make daily purchases of soybeans 3 days this week. This is a relatively new development as flash sales have been nearly non-existent it seems for the start of the marketing year. In the past "unknown" has always been thought of as China, whether this is an indication trade talks are actually making headway or not will remain to be seen until shipment.**
- **Next week will be shortened by the holiday, with likely much thinner trade than normal. Thin trade tends to mean an increase in volatility so be aware without a major fundamental shift major moves in either direction will be short lived. Most of trade attention will remain rightfully focused on China news.**