WEEKLY COMMODITY BUZZ – 8/2/2020

August starts with cattle surge and China corn shortages

August is here market watchers! The month of July finished with record breaking rainfall, a highly unusual description for this time of year, but we'll gladly take it! Precip chances were already cancelled for the end of this last week with a few in store for next week, but we're reminded how precarious the moisture situation can be this time of year. While crops enjoyed a drink and cooler temps, we now need heat units to really develop soybeans and sesame. That is usually not a problem with Oklahoma's August norms. Rainfall wasn't the only record set in July. Second-quarter US GDP was released this last Thursday and was the worst-ever drop in history surpassing both the Great Depression and Great Recession at a 32.9 percent decline for the first 6 months as COVID-19 brought an unprecedented shock to the system. However, the disaster would have cut far deeper without the decisive and intentional action of the Federal Reserve. Closer to home, this seems to be an appropriate time to share that today, yes August 2nd, marks the 100-year anniversary of the Oklahoma City Branch of the Kansas City Federal Reserve Bank. This has special meaning given that I am currently serving on this board representing agriculture and rural Oklahoma. Interestingly, it was US Senator Robert D. Owen of Oklahoma that sponsored the bill in 1913 to create the Federal Reserve Act. Data that I reviewed this week showed beef demand at full service restaurants dropped nearly 80 percent from the 3rd week of March through late April when cities and states mandated shutdowns. Quick Service Restaurants, such as McDonald's, dropped nearly 40 percent. While both segments since recovering to levels 26 percent and 11-14 percent below normal traffic, respectively, the effects are still being felt. However, data out this week showed retail beef sales surged $3.5 billion during the pandemic. While higher prices drove part of this gain with value up 35.3 percent, volume sales from March 15th through July 19th increased 21.9 percent, as reported by Anne-Marie Roerink from 210 Analytics. Recent export data has been firm, up nearly 20 percent over the past several weeks and the latest week was the largest net sales volume on record since May of 2018. This has been led by Japan, up 146 percent over the last four weeks, the largest volume of net sales to that country since June 2018. A weaker US dollar has only helped to promote US exports. On the topic of Japan, 2020 is on track to be the first year since the 2003 BSE ban that the US is to regain leading exporter status over Australia to the island nation. That long recovery and the recent COVID shock just goes to show us just how vulnerable our food supply chain can be and the importance of risk management to even out black swan extremes or bear markets. Meanwhile, feeder and live cattle futures have been on the move once again this week. This time, front-month August feeder futures broke through the double-top on July 16th and July 27th that was $4.00 per cwt above the 200-day moving average. August feeders closed the week at $144.675, not seen since March 3rd. While the next resistance levels are at this point in the market, the gap remains on the chart begins at $147.875 up to $149.200. This market strength has been impressive in light of the uncertainty in the economy, but Friday's strength to close the week and the month suggests the bullish sentiments continue. Cash fat cattle are thought to be at/near the lows. Trading at a discount to the futures has many hopeful that a cash rally is in store. August live cattle futures last trade date is on August 31st. The contract settled Friday at $102.825. With fewer cattle on feed in Nebraska and Iowa, there is not near the size of front-end supply in the north versus the south. This is evident from the bids and movement of cattle with more southern cattle moving north to reach bids above $100. Boxed beef cutouts have had a weaker undertone recently and now bottom searching. Importantly, packer margins remain positive and so packers will continue to harvest cattle at elevated levels as long as demand can keep pace. The issue is all proteins are working through backlogs and putting plenty of supply on the market and so we must be vigilant that retail beef doesn't price itself out of strong demand. The fate of the next stimulus bill now being debated will have much ado about consumer spending and sentiments at large. Cheap corn prices have eased any stress on rising feed prices. Favorable US weather and adequate old crop stocks has eased any excitement from major China purchases of US corn. With September corn making a new low on Friday at $3.14 ½, this market could find renewed support should China buying continue. In fact, China bought the largest ever monthly volume of US corn in July. While some may view this as China making good on its Phase 1 commitments, the reality is that China needs the corn and probably more than the trade is currently expecting. My contacts are telling me that elevated feed demand, transportation disconnects due to recent floods and compromised state reserves that continue to be unusually fully subscribed at auctions indicate increasing tightness. The average price of the latest weekly auction was $7.39 per bushel. So far, more than double the amount of corn has been sold from State reserves as compared to this time last year. Corn prices in China have climbed to a five-year high with front-month corn futures on the Dalian Commodity Exchange rising nearly 30 percent since January, levels not seen since 2015. Compared to domestic prices, imported corn prices are approximately $85 per ton lower and I've heard from one source that domestic prices could double due to supply and demand partly driven by transportation disconnects. Bottomline, don't give up on corn longs yet. The wheat market has been trying to break out of the recent range, but pressed by corn. The EU crop continues to slip while the Russian numbers are back and forth. Any major move in wheat will have to see movement in corn. China buying could pick up in wheat due to tightness overall in grains. US bean purchases have continued to see China activity while US weather remains favorable. November beans back above the $9.00 level look worth protecting with the 200-day moving average just above $9.06. Give me a call at (580) 232-2272 or stop by our office to get your account set up and discuss strategies to protect your exposure to these markets. It is never too late to start and there is no operation too small to get a risk management and marketing plan in place. Remember, I am on-site at the Enid Livestock Market on Thursday, sale day. Wishing everyone a successful trading week!

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