<u>This Week in Agriculture</u>

News That Could Make a Difference: November 25, 2015

- An abbreviated and somewhat light holiday trade this week finds us continuing to trade in the recent range. With little in the way of new domestic information many traders spent the week contemplating geopolitical changes and their potential impact on the market as we move ahead. So far for the week March corn is up 3, while March wheat is down 3. With a strong showing today January soybeans have managed to gain 17 and are trading at the highest level seen since the first week of November.
- The big news this week came out of Argentina as Sunday's election brought a new ruling party into power as the pro-business mayor from Buenos Aires was elected with 51% of the vote. Throughout the election candidate Macri promised swift changes in monetary policy as well as big adjustments to the country's export quota and tax system when it comes to grains and soybeans.
- Under the current system Argentina farmers face 20% export taxes on corn, 23% on wheat and an astounding 35% tax on soybeans when they are sold for export. There are also numerous quotas in place to limit the amount of crops available for export in an attempt to keep domestic crop prices low. These high tax rates and quotas as well as the fact that sales are left in a devalued peso versus converted to dollars like their Brazilian counterparts has kept many of the country's available stocks stored on the farm. The idea that a removal of these taxes, quotas and a change in monetary policy had many traders believing a virtual "wall of grain" would come flowing out of the country once the changes were made.
- However, like many candidates turned leader the actual ability to follow through on some of these promises may be more difficult than initially anticipated. While Macri will be able to adjust or remove export taxes as he pleases, any attempt to change or lift currency controls will have to be approved by congress as well as make their way through the country's Central Bank.
- At this point Macri is facing an uphill battle. In congress his "Let's Change" coalition as they are known has only 91 seats out of the available 257, potentially limiting his ability to make sweeping changes without extreme compromise. On top of that he will have to get the current Central Bank president and ally of former President Fernandez to either work with him or resign before he is able to remove currency controls currently in place. This is without mentioning the fact that according to estimates nearly 20% of the government's revenue comes from the export taxes in place. With currency reserves running low and a populace heavily dependent on government programs major fiscal policy changes may be difficult for many to swallow.
- In a final tidbit to chew on when it comes to what Macri is facing, with this win he becomes only the 3rd non-Peronist leader since 1983 with the 2 before him failing to finish their terms. While many hope that he is able to succeed and help steer Argentina and other South American countries in a more free market, capitalistic direction the idea that his election alone secures sweeping political changes is far reaching.
- In other global news many traders and farmers alike are still struggling with getting the bitter taste of the USDA's massive adjustment to Chinese ending stocks last month out of their mouth. If you remember the USDA increased global ending stocks for corn nearly a billion bushels, with much of it coming from a massive adjustment to Chinese stocks. They contributed the increase to lower feeding rates over the last couple of years as well as recent information regarding purchases and sales reported by the Chinese government itself.
- While some analysts applauded the move and believe actual ending stocks could be as much as 35 mmt (1.4 billion bushels) larger than the most recent update, a report from Reuters contends that like with most other pieces of information out of China we should take these numbers with a grain of salt. The report contends that the analysts calling for the higher number are using government information that could potentially be tampered with. Recent reports from buyers in the country indicate that one government purchase can be reported multiple times, potentially showing larger ownership than what is actually held.

- The potential misrepresentation of government purchases is compounded by the fact that many of the stocks being held are reportedly moldy and out of usable condition. The analyst for Reuters goes on to state that the potential shift in stocks could be as much as 12% lower globally than recently reported by the USDA, or just under a billion bushels less than what is showing in current balance sheets. Of course the fact that China is holding over 50% of the world's available corn supply no matter what the actual stock numbers are could skew the global outlook and limit free stock availability as we move ahead.
- As we wrap up the holiday week traders will have visions of the EPA adjusting the Renewable Fuels Standard dancing in their heads. The government group is expected to release their updated mandate levels for 2016 on Monday. In a somewhat surprising change industry sources are pointing towards the likelihood of increases in mandated levels from the numbers initially released in May. Some anticipate the EPA to raise the overall 2016 mandated biofuels requirement to 18 billion gallons from their initial 17.4 billion gallon proposal in May.
- This overall number would include all forms of biofuels including second generation ethanol (cellulosic) and biodiesel. The corn change is only expected to come in around 2-3% higher, but is better than some thoughts that were floated around late summer, especially with oil and food industry groups fighting the RFS with millions of dollars and lots of air time.
- In our Brazilian crop update we are seeing a continuation of "Goldilocks" conditions throughout the country. In the South conditions in many areas are considered too wet, with more rain on the way, while the Central and Northern parts of the country are dealing with too dry conditions in some locations. While it is early yet many traders will be monitoring weather through the middle of December as some areas are entering into their critical production phase. Planting-wise the country reports a 66% completion rate overall vs 74% last year.
- In our miscellaneous information file, the dollar continues to make life difficult when it comes to exports, trading at a near 12 year high. Ethanol production doesn't seem to be impacted though, with plants reporting a record production number for the week.

In the end we really are missing any kind of true fundamental catalyst to send the market soaring higher anytime soon. However as we work our way into December the thinner trade can result in moves that don't necessarily make sense. The USDA will update their supply and demand outlook in a couple of weeks and while the December report is generally pretty ho-hum some traders are expecting a continuation of big crops getting bigger. Whether or not that impacts the market as a whole, or traders just simply turn their attention to the big January 12th reports will remain to be seen.

On the cash side marketing opportunities via strong basis values are showing up throughout much of the Eastern Corn Belt and in areas near heavy demand sectors. Don't be afraid to take advantage of these opportunities if you have grain to move as once the pipeline begins to see supplies again in January (when farmer sales tend to pick up) they could start to fade away. In the meantime don't hesitate to call us with any questions, we're here to help! Please have a safe and happy Thanksgiving!

All the Best!
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