This Week in Agriculture:

A Mixed Bag of Information from the Week that Was: May 27, 2016

- **After a slow start to the week the market seemed to shake off a strong dollar in favor of seasonal strength closing higher ahead of the extended holiday weekend. When the closing bell rang this afternoon we saw July corn up 19 for the week, with December corn up 14. July soybeans were up 12, with November up 8. July wheat finished the week 13 higher.**

- **Concerns over what is taking place production-wise in South America continue to garner trader attention. Continued questions over Argentina's soy supply as well as quality has kept beans and meal firm—with soybean meal seeing an astounding 56% rally in only 6 weeks. Late in the week we saw the Buenos Aires Grain Exchange keep their soy production estimate unchanged at 56 mmt, claiming that though 1.65 million hectares (4 million acres) were destroyed by flooding record yields in other parts of the country managed to help salvage some production potential.**

- **In Brazil uncertainty over Safrinha production potential remains high as some traders believe current estimates are not fully factoring in losses. In May the USDA left their production estimate at 81 mmt for the full crop year, while experts in the country believe late season losses could drop overall production into the 76-77 mmt range, a difference of 150 to 200 million bushels of overall supply. As we discussed last week, the aggressive export pace taken by the country early on has depleted stocks causing prices in some areas to rally nearly 90% from a year ago. Reports of domestic prices nearing $7.00 a bushel and isolated issues of poultry flocks dying due to lack of feed are beginning to surface.**

- **What's most interesting at this point is what this will mean not only for US demand in the upcoming months, but for South American planting potential this fall. Record prices for both corn and soybeans in Brazil as well as tax policy changes in Argentina could result in interesting market developments for everyone in the months ahead. Many feel that Brazil will increase their soybean plantings (perhaps helping solidify the USDA's recent 103 mmt production estimate) relying on increased corn plantings in Argentina (after the removal of Argentina's corn export tax) to help them out of their corn supply pickle until Safrinha production returns to the pipeline in June of 2017. Of course these ideas haven't even begun to factor in what La Nina development could mean for production.**

- **As for the US the reduction in production out of South America has resulted in a significant change in export demand. Just a few short months ago many traders felt as though the USDA was too high on export estimates for both corn and soybeans, pointing to massive crops and currency conversion rates as an extreme hindrance in our ability to be competitive globally. Those ideas have all but disappeared as we now have 99% of our soybean export projections sold, with 95% of projected corn exports committed.**

- **At this point to meet export projections for the year we just need to sell 16 million bushels of soybeans and 79 million bushels of corn. Wheat exports are nowhere near as nice, with the marketing year ending June 1st we are still lagging well behind USDA estimates. At this point without a surprise announcement of donations or gifted wheat to other countries the likelihood of the USDA adjusting exports lower and subsequent ending stocks higher is pretty good.**

- **Of course how the dollar trades will have an impact on our ability to export—though lesser available global supplies will make this matter a little less than it did the first half of this year. Fed Chairwoman Yellen spoke again this afternoon hinting towards the likelihood of rate increases taking place in the months ahead. At this point while June doesn't appear to be a guarantee many traders are leaning towards a hike taking place in July. As a result the dollar hit 2 month highs today.**

- **Also interesting to watch on the global demand front is just what exactly is taking place in China. The country has returned to auctioning reserve stocks, electing this week to offer a large chunk of 2012 supplies. The country sold 35 million bushels of corn in their auction, less than half of what was offered, but more than what was seen sold in auctions earlier this marketing year. Of the 35 million bushels sold just under a million bushels were of US origin.**

- **In a fun twist this morning the USDA announced a 4 million bushel sale to China before backtracking and saying it was instead "unknown" who made the purchase. Many are beginning to recognize the quality issues the country is facing when it comes to their reserves thinking that more stocks for blending will be required as we move ahead. With everything else happening in the global marketplace this will definitely need to be watched.**

- **Just when you thought it was safe to assume you knew what we were dealing with acreage-wise the debate over what the USDA will say in their June 30th report is beginning to heat up. While some traders are taking the overall acreage pie the USDA presented in March and adjusting their outlook from there some are quick to point out the nearly 6 million acre reduction in overall plantings from a year ago and what that could mean as we move ahead. Price action has been supportive to both corn and soybeans since the March report's release leading some to believe that an additional 3 million acres or more could show up in June numbers.**

- **An increase of that magnitude has been seen before and would not be supportive to price action without a weather issue. At this point though the market seems to feel anywhere from 500,000 to 1.5 million acres less corn has been planted than initial expectations and switched into soybeans. Even with an acreage increase of that type soybeans would have to see what August weather may bring as a 2 bushels adjustment higher or lower has the potential to swing carryout from burdensome to tight using current demand projections.**

- **Traders will also begin debating the quarterly stocks outlook in the June 30th report as we move through the month ahead. After the close last Friday the USDA released their updated Cattle on Feed numbers showing the largest number of cattle being fed since May of 2012. While this is supportive to feed outlook the question as to whether the herds are eating corn or feed wheat will remain in play until we see updated quarterly stocks.**

The USDA will update planting pace and give their initial corn crop ratings when we return Tuesday. At this point many feel that corn plantings will come in around 95% complete, with soy plantings in the 75% range. Weather this past week has not been conducive to wrapping up plantings in the Western Belt, but has helped those able to dodge rain drops in the Eastern Belt see progress.

Looking ahead the extended forecast through the 9th of June is calling for a transition into cooler than normal temperatures after the current warm pattern wraps up with above normal precipitation throughout the bulk of the Southern Plains and Eastern Corn Belt. A tropical development in the Atlantic will have to be monitored closely next week as well as its remnants could cause issues with heavy rainfall. Volatility will likely continue as we move ahead giving opportunities to price and potentially taking them away just as quickly. Use target orders to capture the upside and keep profit potential in mind when building your marketing plan. As always, don't hesitate to give us a call with any questions, we're here to help.

All the Best!
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