<u>This Week In Agriculture:</u>

A Mixed Bag of Information from the Week that Was: February 17, 2017

- **The week appears to have seen two very different sentiments. The first half seemed loaded with bullish enthusiasm trading to highs not seen in corn and wheat since last July, while the second was one of somewhat aggressive selling prompting the market to test its more recently discovered support levels. When all was said and done corn finished down 6, wheat was 7 lower with soybeans down 25 cents.**

- **The change in sentiment came without any real warning, starting with a bit of a swoon in soybeans and Minneapolis wheat Thursday before spreading into corn and others. What's most interesting is we came out of Wednesday's trade with the highest level of open interest in corn that we've seen in quite some time. Open interest indicates whether the trades in the market are in fact new or are simply just closing positions. To see a massive increase in open interest in the face of a market moving higher tends to indicate new buyers are entering the scene. It will be interesting to see if those new buyers will eventually defend their position or were/are closing them out.**

- **The market had to battle a bit of resurgence in Mexican corn purchasing concerns this week as the news of a potential trade rift hit large media outlets. The timing of the story is a bit questionable as the market was 20 cents or more higher than where it was trading when the conversation between President Trump and Mexican President Pena initially broke down at the end of January.**

- **Though talk of the wall has all but been tabled since the initial talk of a 20% import tax was discussed a Mexican senator announced this week he would introduce legislation banning the import of US corn in retaliation to any attempt to introduce a tarriff. A trade trip to South America by Mexican trade officials was announced this week as well. It is interesting to note that freight costs among other things would make importing South American corn quite cost prohibitive for Mexican producers. Not to mention the import tax and subsequent ban would both run into significant issues when it comes to NAFTA—meaning the trade agreement would have to be repealed before either could take place.**

- **Speaking of South America, reports of flooding in areas with soybeans waiting to be harvested helped push soys up towards recent high levels at the start of the week. It appears though that while wet weather has slowed harvest in some areas it is not as big of an overall concern as initially thought. Looking at harvest progress reports it appears most areas are still ahead of both last year's progress and their average pace for this time of year. Parana appears to be most behind with only 15% of their beans harvested versus last year's 41% pace.**

- **While there has been talk that some quality and subsequently yields could be reduced ever so slightly the wet conditions and market set up could have a much greater influence on the country's safrinha corn. Analysts in Brazil believe selling of the second crop of corn is less than half of what it was a year ago at this time. This has been contributed to farmers over-contracting and feeling the pinch a year ago as well as a slower planting pace and much lower pricing levels.**

- **With the Brazilian Real trading toward 2 year highs this week farmers in the country are finding currency conversion and large production expectations weighing heavy on expected prices. Current soybean prices are around $9.45 with corn prices around $3.15. With many domestic analysts expecting corn prices to fall to government support levels by June it will be interesting to see if farmers do in fact work as hard to get their safrinha corn planted as initially anticipated.**

- **John Deere is expecting solid growth in South America in the year ahead. After better than expected performance in the first quarter of their fiscal year Deere increased their sale**

expectations. While the company still believes they will see a 5% reduction in US and Canadian purchases they are expecting a 15-20% increase in South American ag equipment sales.

- **With the USDA releasing their updated acreage outlook figures this week and over a month before they release their survey based perspective plantings report the acreage discussion is sadly just getting started. At this point it appears expectations for soybean acres range from the USDA's most recent estimate of 85.5 million acres up to 90.5 million. With all other factors left unchanged and a trendline yield of 47 bushel per acre we could see a carryout range of 315 to 550 million bushels.**
- **Corn acreage expectations appear to have a much tighter range with many expecting anywhere from 90 to 92 million acres. Doing the same type of outlook on corn, leaving all other factors unchanged and figuring in a trendline yield of 171 we could see a carryout range of 1.9 to 2.2 billion bushels. Of course with there being so many unknowns and so much time ahead in the growing season these outlooks and figures are likely to swing dramatically.**

Overall the market will lack any true direction as we work to wrap up February and work towards March. Trade attention will continue to monitor conditions in South America while also watching outside markets and geopolitical developments closely. At this point basis levels are likely to remain weak as the recent run up in price encouraged movement and covered most short term needs. Now is a great time to take a look at what you would like to accomplish in the year ahead and get your target orders entered ahead of any potential volatility that could appear ahead of planting. In the meantime don't hesitate to give us a call with any questions, we're here to help!

All the Best!
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