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

A Mixed Bag of Information from the Week that Was: January 27, 2017

- **After reaching multi-month highs a week ago all three major markets seemed to want to take a breather this week. Many traders are trying to figure out what new trade policies and changing weather patterns in South America could mean for overall supply and demand economics in the year ahead. As the final closing bell rang for the week we saw March wheat down 8, March corn 7 lower with March soybeans down 18.**

- **President Trump's first week on the job brought a lot of good and bad for agriculture as a whole. Many applaud his efforts to roll back regulatory burdens but question what his "America First" trade policies could mean for agricultural exports as we move ahead.**

- **While his decision to withdraw from the Trans Pacific Partnership did not come as a surprise since neither candidate favored the proposal during the election the actual withdrawal caused major ag groups to pause and question whether or not it was in fact a good idea. TPP included 10 other likeminded countries and our withdrawal from the potential agreement left Australia and Japan working to find ways to save what remained. Some believe the countries in question may approach China to join in place of the United States while others believe after some negotiating and rewriting of terms the US may rejoin.**

- **While our withdrawal from TPP grabbed headlines at the beginning of the week issues over NAFTA and a potential trade war with Mexico as we grapple with covering the costs of President Trump's proposed wall along the Mexican border dwarfed those concerns. Trump signed his executive order on the wall Wednesday reiterating Thursday Mexico would foot the bill—something the current Mexican President contended whole heartedly. The subsequent war of words that followed resulted in the cancellation of a scheduled meeting between the 2 and the Trump camp floating a proposed 20% tax on all Mexico imports to the US.**

- **It is important to recognize that Mexico is our largest buyer of US corn so far this year in our export sales breakdown, responsible for nearly 20% of all export sales with just over 400 million bushels worth of purchases so far. Mexico is also our second largest soybean and wheat purchaser as well as a major customer when it comes to beef and pork exports. It is also important to realize that an import tax would not only trickle down to hit consumers wallets it is also against NAFTA terms and could likely only come after a withdrawal from the agreement that has been in place for over 20 years.**

- **Late in the day Friday many breathed a sigh of relief as Mexican President Pena announced that he and Trump had had a very "friendly" phone call discussing terms of the wall deciding to withhold further public comment until terms have been agreed upon.**

- **While the markets luckily did not necessarily respond in a knee jerk reaction to these reports, it is in the forefront of trader's minds with the unknown likely keeping buyers on the sideline in the short-term. Many continue to wait and see how President Trump will address his assertion that China is a currency manipulator as well. With China celebrating their New Year holiday over the next several days however it is not likely we will see something develop there until their return.**

- **Aside from trade developments we continue to monitor production potential out of South America. We are getting a clearer picture of the potential production cuts to Argentina soybeans after late December and early January's flooding rains. At this point many believe production there could be cut by as much as 250 million bushels from current USDA estimates, with most official estimates coming in around 150 million bushels lower at this juncture.**

- **It is important to note the USDA pegs Argentina's current year soybean carryout at 1.2 billion bushels (nearly 3 times the amount leftover in the US) meaning any cut in production could be muted if domestic prices improve enough to encourage shipment of stored bushels. It is also important to note solid production in Brazil will likely offset most losses, however recent wet conditions in some Brazilian locations will need to be monitored closely.**
- **Discussions over spring plantings are just starting. Many private analysts believe the soybean to corn ratio hitting a 20 year high in early December will spur a significant shift away from corn into soybean plantings. Some private groups believe we could see more bean acres than corn for the first time since 1983, while others feel the lowest winter wheat acreage since 1909 will keep plantings high for both crops. With the USDA not releasing intended plantings until the end of March talk on this subject is just beginning and is likely to heat up as we work towards spring.**

At this point there are a lot of knowns mixed with just enough unknowns to keep things interesting. What is considered known at this point is carryout levels for both domestic and global supplies are more than adequate. As the South American growing season wraps up through the month of February watching what takes place when it comes to Brazil's second crop corn will be key. There has been talk warmer, drier weather could appear in April causing issues, but of course as always take any extended weather forecast with a grain of salt. Be sure to monitor trade developments and don't be afraid to speak up whether through contacting your legislators or ag groups if policies become dangerous to agricultural exports and your bottom-line.

Local market-wise vom concerns and weight restrictions have limited grain flow as of late. Bean basis remains historically weak however as many are using bean sales as a way to generate quick cash flow (the 70 cent rally a week ago did a lot to spur heavy sales as well). Corn values are remaining supported for those of you with corn on hand that is low vom, while those with potential vom issues have a bit more limited buyer pool. With all of the talk beginning to surface about spring plantings it may not be a bad time to get target orders in place just in case the market decides to get crazy ahead of the March report. In the meantime don't hesitate to contact us if there are any questions, we're here to help!

All the Best!
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