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

News That Could Make a Difference: May 29, 2015

- **Continued pressure on the market feels almost relentless as traders continue to grapple with ideas on production, demand and potential changes to biofuel mandates as we move ahead. When the dust settled we saw both July and December corn down 9. July soybeans were buoyed by supportive old crop demand potential finishing the week 10 higher, while early indications of more than burdensome new crop supplies had November soybeans down 1. July wheat had been the golden child recently in the eyes of buyers, but concerns over quality transitioning from a bullish to bearish scenario in the eyes of traders had July wheat down 37 for the week (but still higher for the month).**

- **Recent heavy rains and flooding in the Southern Plains dominated much of the market talk early in the week as traders try to gather a sense of what it means for overall production potential and whether or not it will offset perceived decent conditions in other areas of the Corn Belt. Record setting precipitation for much of the last half of April and the bulk of May has the states typically furthest ahead in the growing season struggling to catch up. With prevented plant determination dates creeping up traders are beginning to sense we could see an eventual reduction in corn plantings from the USDA's March estimate.**

- **Tuesday night's crop progress report showed 92% of the corn crop had been planted as of Monday night, up 7% from last week and remaining ahead of the 5 year average of 88%. Of the just over 7 million acres of corn that appears to remain unplanted an estimated 2.8 million acres are in the wettest parts of Texas, Colorado, Kansas, Missouri and Nebraska. Here in Michigan a warm, dry start to the growing season has allowed rapid planting pace. At 91% planted the state is 16% ahead of the 5 year average and off to a relatively decent start.**

- **Frost damage and water logged fields did drag condition ratings down in several states versus the ratings we saw a year ago. The biggest condition drops were seen in Nebraska and Minnesota where the percentage of the corn crop rated good to excellent fell 15 and 14% in each state respectively. The Dakotas showed some struggle with cold temperatures on recently emerged grain as well. North Dakota good to excellent ratings were down 9% from a year ago while South Dakota good to excellent ratings were down 13%.**

- **In an interesting turn of events, the wet weather that had plagued much of the Eastern Corn Belt and Ohio River Valley has given way to warmer, drier conditions allowing for a rapid planting pace and a good start to the corn crop. Here in Michigan the USDA believes 69% of our crop is in good or excellent condition.**

- **At 61% complete soybean planting remains ahead of the 5 year average, gaining 16% on the week. However, continued wet conditions are likely to limit much in the way of progress this week into next, with some traders anticipating planting pace to fall slightly behind average in next week's report. Similar to what we're seeing in corn the wettest states are of course the slowest with Kansas and Missouri both running over 20% behind their average planting pace. Here in Michigan soybean planting progress is nearly 30% ahead of the 5 year average, with some drier conditions ahead of this week's rain allowing for continued seeding.**

- **There was quite a bit of big news on the demand side of things this week as the EPA announced their official mandates for the Renewable Fuels Standard this morning. Though many corn and corn-based ethanol industry representatives were less than impressed by a reduction from the 2007 law, an increase from lower levels proposed last fall were a welcomed sight. Proposed adjustments higher to biodiesel requirements came as a bit of a surprise, but were welcomed as well.**

- **Since 2014 has already come and gone changes to those mandated levels meant absolutely nothing to the market, but proposed changes moving ahead will likely be monitored closely. At this point the EPA requirements for corn-based ethanol would require 13.4 billion gallons of production in 2015, with 14 billion gallons as the target for 2016. Both levels would be lower than the 15 billion gallons proposed when the RFS was initially put together.**

- **A slow start in the industry and a lack of ability in getting solid industrialized production off the ground caused the USDA to drastically cut cellulosic ethanol requirements. When passed in 2007 the RFS required 1.75 billion gallons of cellulosic ethanol production in 2014, with 3 billion gallons in 2015 and 4.25 billion** gallons in 2016 required. Today's updated mandates lowered those levels to 33 million gallons in 2014, 106 million gallons in 2015 and 206 million gallons in 2016.

- As mentioned, increases in the biodiesel production mandate was viewed as supportive to the soyoil market and crush margins. When first proposed in 2007 the EPA required 1.28 billion gallons of biodiesel production through 2015. Today the EPA increased last year's required level to 1.63 billion gallons, with 1.7 billion in 2015 and 1.8 billion gallons in 2016 required.
- It is also interesting to note that an increase in the Argentinean biodiesel export tax to just over 13% should help ease fears much of that production increase will come via imports. With Argentina supplying the bulk of global biodiesel supplies over the last several years this retroactive increase could help further shine a light on US biodiesel production.
- Though at first glance today's RFS announcement did very little to support corn, a secondary announcement of 100 million dollars worth of infrastructure development for ethanol should be supportive. In today's announcement the EPA stated, "The 2015 and 2016 proposed standards are expected to spur further progress in overcoming constraints in renewable fuel distribution infrastructure which in turn is expected to lead to substantial growth over time in the production and use of higher-level ethanol blends."
- Basically meaning this investment is seen as a shot in the arm for the industry and a good start in building the infrastructure that will let the market make the determination on how much ethanol we should be producing.
- On the export side of things soybeans continue to outpace the most recent USDA projection by over 20 million bushels. While it is likely the USDA will have to make adjustments to compensate, large crops in South America waiting to be shipped will have traders hesitant to get too excited out of fear we could see cancellations show up as we move through summer. Corn exports remain strong seasonally, but at this point do not look capable of outpacing USDA projections without a major surprise. China showing up as a buyer for both old crop corn and soybeans this week was seen as supportive.
- Today marked the last trading day for old crop wheat as the new marketing year starts June 1st. We will get the final tally for exports next Thursday, but at this point it appears the USDA will have to make a slight adjustment higher to old crop ending stocks in the June report due to slower than anticipated export sales.
- Next week's much anticipated drier weather will be a welcome sight for wheat buyers as they will get their first chance to get out in the field and judge quality. Head scab, rust issues and potential sprouting has many cash traders hesitant to make offers out of fear grade requirements will not be met. At first the idea we could see substantial quality loss was almost viewed as bullish to the market since usable wheat may have to come at a premium. However, the idea that we could see substantial amounts of cruddy wheat hitting the pipeline has many traders wondering what we will do with it all (hint, their solution is not bullish to corn feedings). In the end harvest progress should be allowed to begin if the drier forecast holds for next week, actual results will most definitely trump hypothesis anytime.

Extended forecasts updated today call for drier conditions out into the 10 day period, with above normal temperatures expected in the bulk of the Corn Belt. Wetter conditions are expected to return in the 11 day period and beyond. Next week's weather will likely play an extremely important role in trader's psychology on planted area as we move towards the June 30th USDA update. In the meantime increased movement locally has softened, or at the very least slowed strength in the basis values we're seeing, but opportunities still remain. Volatility is likely to increase as we work towards July and get a better feel for pollination weather, don't forget to get those target orders in place to capture any price rally that may occur. In the meantime give us a call with any questions, we're here to help!

All the Best!
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