This Week in Agriculture

A Mixed Bag of Information from the Week that Was: January 22, 2016

- From an outside market and general price movement standpoint this week was an interesting one. From a fundamental standpoint however, this week was like watching paint dry as little happened to change the general fundamental feel to the market structure. When the closing bell rang on this holiday shortened week we saw March corn close nearly 7 cents higher, March beans close 3 cents lower and July wheat close nearly unchanged.

- Oil remained the center of attention this week as it traded to fresh 12 year lows, breaking the psychologically important $30 threshold for a period of time. Continued bearish information from a global perspective and a lack of new or fresh demand news has kept traders pressing heavily on the sell button in recent weeks. However, ideas that we could see a new round of central bank stimulus in the countries struggling the most with deflation, slower than expected growth in domestic supplies, a record short fund position as well as a cold snap and record snow event along the East Coast awakened some buying interest as we worked through the last half of the week.

- At this point some traders seem to be tripping over themselves to be the first to call a bottom in this market, while others continue to point towards the potential of much lower pricing levels before all is said and done. From a grain standpoint a bottom in energies would be somewhat of a blessing as we are beginning to see the first cracks in ethanol's armor. This week we saw production slow from the strong levels seen these last few weeks, and though grind was higher than we saw a year ago at this time, the fact that ethanol stocks are at their highest level since 2012 is hindering a plants ability to ship finished product and make space for a continued strong grind pace.

- The inability to ship ethanol, lower pricing levels for distillers grains due to some bubbling trade disputes with China and poor margins will weigh heavy on what a plant is able to pay. That combined with an increase in futures values these last couple weeks will likely hamper basis strength in the short term and will need to be watched closely.

- Low crude prices are also weighing heavy on the minds of investment bankers as the run up in prices these last several years encouraged massive investments in infrastructure and developing markets. Many fear that a continuation of low energy prices could cause even some of the strongest energy producing enterprises to default on, or have trouble paying back these loans in a timely manner. These concerns will continue to dampen economic excitement as the mortgage debacle of 2008 remains fresh in the mind of many traders.

- The idea of slower than expected economic growth has some central bank presidents alluding to potential developments when it comes to stimulus packages as we move ahead. European Central Bank President Draghi was not shy in discussing the potential for additional stimulus for the Eurozone, indicating those measures could be announced as early as March. Ideas that Japan and China could follow suit with their own forms of stimulus and the fact that our own Federal Reserve may be tough pressed to follow through on their promised 2016 rate hikes has supported commodity prices these last couple of days, as well as helped return some confidence to the overall market structure.

- Speaking of global markets, the corn market has seen a recent stimulus of its own when it comes to exports. Recent market rumblings that Brazil may have overcommitted when it comes to corn exports appear to be accurate, pushing domestic levels higher there, in turn increasing global price levels as well. It was only in the last couple of weeks we discovered Argentina, Ukraine and US corn prices were trading relatively close to parity. With the removal of Brazil from the market structure in the short term buyers turned their interest to the US and for only the 3rd time this marketing year we saw corn exports above a million metric tonne. While we remain 27% behind last year's pace in overall exports (while the USDA expects a 9% decline) the idea that we can sell corn globally has been supportive-however this support is somewhat of a double edged sword as the increase in sales and subsequent price run up has once again made us one of the higher prices in the global market place.

- The overselling of corn in Brazil has prompted the government to act as livestock feeders in the country begin to scream foul. As feeders wait for harvest and exporters continue to ship, low domestic supplies have pushed prices higher in the interior livestock producing regions. This run up in price prompted the government to release just under 20 million bushels of reserve stocks in the hopes of suppressing cash based rallies.

- Speaking of Brazil, soybean harvest pace is expected to ramp up in the next 2-3 weeks bringing with it fresh soybean supplies and giving us a better indication as to what to expect when it comes to their second crop corn. Weather conditions continue to remain Goldilocks-like, but the areas once experiencing hot and dry conditions have flip flopped and are now experiencing cool and wet weather—while the opposite is true for those in the South who were once battling overly wet conditions. At this point it appears weather for the country will moderate next week allowing rapid harvest pace, and potentially opening the door for an increase in second crop corn acres.

- Long term forecasts were released this week indicating the potential for El Nino to now stay in place for the bulk of spring. If realized these conditions could result in warm and dry conditions for the bulk of the Corn Belt, while cool and wet conditions could plague the Southern Plains. El Nino conditions could also benefit the second corn crop in Brazil (which will pollinate in April and May), but of course long term forecasts have a less than desirable track record when it comes to accuracy.

- Weather will have the final say when it comes to planted acreage, as traders continue to debate what the unexpected cut in winter wheat acres could mean this spring. CRP acres continue to be debated, while other traders are focusing on the idea that the cut in Plains and Delta wheat acres could result in potential increases in both milo and cotton plantings as opposed to corn and beans. Early acreage surveys are making it even harder to get a good grasp on what to expect as it seems each new one released contradicts the one prior. After last year's acreage debacle it's likely it could be June before we get a solid grasp on what seed went into the ground.

- After the close we saw Cattle on Feed numbers released for the month. Those numbers could be construed as bearish for the cattle market with on feed numbers, placements and marketings all coming in higher than expected. However in my opinion the increase in animals being fed could be construed as bullish when it comes to a feed products perspective. With weakened export opportunities it's imperative we see continued strong demand for corn, DDGS, meal and other byproducts.

In the end the lack of fresh fundamental news leaves the market to languish through its usual last half of January, first half of February doldrums. The void of new information will likely leave us to follow the outside markets, trade psychology and technical indicators somewhat aimlessly. Keeping the recent high levels of the trading range in mind will be beneficial for those with old crop bushels left to sell. Please keep in mind that while perceived lower supplies may keep basis levels supported, poor margins and a slowdown in usage (for soybean exports in particular as the South American crop hits the marketplace) will keep what buyers are able to pay somewhat limited. Opportunities for both old and new crop pricings will pop up, but will likely be fleeting as volatility will continue to dominate. As always, if you have any questions don't hesitate to call, we're here to help. Until next week, have a great weekend and stay safe!

All the Best!
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