

This Week in Agriculture

News That Could Make a Difference: December 18, 2015

- It has definitely been awhile since we have seen a week as volatile as this one. Bearish news out of Argentina appeared to have the markets against the ropes and preparing to test old lows before short covering prompted by condition concerns in Brazil and some uncertainty over what exactly will unfold in Argentina pushed the markets higher, testing recent highs for both corn and wheat before settling back into the close. As the dust settled we saw corn left basically unchanged for the week, with wheat down 4 and beans up 12.
- As mentioned news out of Argentina was the center focus of the market from the start of the week. We started Monday with confirmation that President Macri would indeed follow through on campaign promises, removing export tariffs on corn, wheat and beef as well as lowering the soybean export tax 5% to 30% for at least the next year. What really spooked traders the most however, was the announcement Wednesday he would allow the country's currency to float freely.
- Over the years former President Fernandez had kept tight control over how the currency could trade. These controls prompted the development of a secondary currency market in the country. This market showed a much larger devaluation than the controlled value Fernandez had locked in place, with some believing that converting to a free floating currency could prompt a 40% drop in value basically overnight. Some of those worst fears were unfounded however, with the currency losing about 30% of its value before recovering slightly into the end of the week.
- It is interesting to note that the country's inflation is currently running at 24%. With the drop in currency value the country's buying power will be limited. Some believe this could force inflation up in the first half of 2016 anywhere from 35-47%. How the population reacts to this adjustment will likely be key in whether or not policy shifts in the year ahead. History has not shown brightly on political leaders—in Latin America especially—that have allowed inflation to run rampant in their country.
- With all of the talk about currency conversions and what we have been seeing from a competitive standpoint in the global market with our rallying dollar, the idea of a falling Peso in Argentina supporting prices for the Argentinean farmer is not a new one for us to wrap our head around. The drop in value of course has resulted in a price increase on paper, also encouraging traders in the country to believe that upwards of 13 million metric tonnes (nearly 500 million bushels) of soybeans will make their way into the global market in the coming months.
- While increased sales have been confirmed, all is not perfect in paradise. Reports that the increase in supply availability has limited the basis values buyers are willing to pay has resulted in some farmers taking less than what was offered to them before the devaluation took place. Also interesting to note, as with other countries in the world, the increase in selling power the farmer is enjoying will likely be offset by a decrease in buying power due to the fact that their inputs (which have to be imported) will rise by that same percentage. Growth in production is likely, but with all ag exports limited at 9 million metric tonnes a month, the idea that we will wake up tomorrow with a plethora of Argentina supplies choking out the minimal global demand we already have is likely overblown.
- Though we have been hearing extensively about El Nino for what feels like forever now, this week it appears the trade is starting to recognize the potential production issues developing as a result. Talk about dryness in Northern and parts of Central Brazil have been ongoing for several weeks, but discussions this week over just how warm and dry it has been and the fact that we're entering the critical development period for much of the crop got the attention of the buyers. According to a well followed weather source the November 1st through current period is the warmest and driest seen since they began keeping records in 2002. A large grower group in the region cut their production outlook by 6% this week because of the warmth and dryness experienced as well, with some local groups stating that nearly 80% of the crop in the Northern areas of the country could be rated as poor to very poor.
- It is important to keep in mind though that from an overall standpoint only 10% of Brazil's crop is believed to be stressed to the point of hurting production potential, with some areas poised for above normal production due

to good conditions seen throughout the growing season. As this point the market will be watching next week's weather closely to see if the advertised rains appear as expected or if we see conditions further deteriorate.

- El Nino keeping the Northern Hemisphere warmer than normal is prompting some concerns for the Winter Wheat crop as well. Though we have no significant cold snaps forecast, the idea that the lack of snow cover in most areas as well as the lack of temperatures cold enough to send the crop into dormancy could be an issue if the pattern were to break down and temperatures were to drop. Traders will be monitoring developments in the El Nino pattern as some forecasters are discussing a possible break down in conditions as we head into 2016.
- Record setting drought conditions have also impacted production potential in South Africa. Experts believe that the cut in production seen there could result in an additional 3.5-4 million metric tonnes (137.8 to 157.5 million bushels) more in imports than what the USDA is currently projecting. The country is usually a small exporter in the region.
- This week was a busy one for outside market developments as well. The biggest attention getter of course was the increase in interest rates by The Fed on Wednesday. The increase is viewed as a sign our economy is returning back to "normal" after the worst recession since The Great Depression. The fact that it has been over 9 years since the last rate raise by The Fed had the market and traders going into it with uncertainty. Fed Chair Yellen believes the group will take a slow and steady approach to any further increases, with some believing the next rise could come in March. At this point it appears the only market this adjustment was bullish for was the dollar, with a continued rally in the buck noted into the end of the week.
- Congress passed a 1.8 trillion dollar omnibus spending bill this week as well loaded with all kinds of goodies. From the agriculture perspective the repeal of COOL (Country of Origin Labeling) would be one of the most positive developments. Just recently the World Trade Organization ruled the rule was illegal and hindered free trade, as a result Mexico and Canada were open to retaliate with over a billion dollars in trade tariffs. The repeal in today's bill will make that a non-issue and should hopefully help open up a more free trade with our neighbors.
- Also in the bill congress made the Section 179 \$500,000 tax deduction on equipment purchases permanent. This will do away with the last minute decision making we've seen made over the last couple of years. One final development of note in the bill was the lift of the 40 year old crude oil export ban. With the U.S. thought to be the 3rd largest producer of oil in the world the lift of this ban may perhaps help to offset some of the recent buildups in inventory, though the lack of a slowdown in imports will make achieving that offset difficult.

This afternoon's Cattle on Feed report showed the number of cattle on feed is consistent with a year ago though the number of cattle being placed into lots is down significantly. This likely means we will see consistent feed demand from that portion of the livestock sector, but the fast pace of marketings could begin to eat into that number if not monitored careful.

At this point it appears as though we are stuck in a range bound trade. This week showed hesitancy to test lows, but at the same time an inability to break through to new highs. The next 2 weeks will be interesting as a thin trade could allow for moves we may not usually see or expect. Having target orders in just outside of the recent range may not be a bad idea when it comes to capturing that volatility. We have seen basis levels weaken as of late as ethanol margins have suffered and grain has made its way to the pipeline, but opportunities remain in place for many-especially those of you in the Eastern Corn Belt.

In the meantime please don't hesitate to call with any questions, we're here to help. Stay safe and have a very merry Christmas.

All the Best!

Angie Setzer

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