

This Week in Agriculture

A Mixed Bag of Information from the Week that Was: February 19, 2016

- Another week of range bound trade as last week's support levels held well enough to encourage buying. A continued lack of fresh news has both bulls and bears frustrated as volatility remains low and big market moves remain non-existent. For the week we saw March corn finish up 8, March soybeans finish up 7, with July wheat closing 5 higher.
- You know it's a slow market when the USDA baseline projections give traders something to talk about. It's tradition for the USDA to release their 10 year projections the week prior to their yearly Outlook Forum. These numbers give traders and farmers a general feel on what the USDA is expecting from a market standpoint in the decade ahead. While these numbers are usually taken with a grain of salt they are looked at as a way to get a feel for trend expectations when it comes to supply, demand and price projections.
- Highlights from this week's report shows the USDA in general is not anticipating a significant price decline, but at the same time is not expecting a significant rally. On the corn side of things the USDA is expecting corn production to climb over the next 10 years, with yields expected to average 185 bushel per acre by 2025. On the plus side they also anticipate overall demand to climb as well, keeping ending stocks relatively close to where they are today. On the pricing side the USDA feels values will stick relatively close to current futures, trading in a tight \$3.65 to \$3.75 range for many years ahead.
- Contrary to what a lot of market analysts expect the USDA feels soybean production will stagnate in the years ahead while demand continues to climb. This slowdown in production coupled with demand growth is expected to trim ending stocks over the next decade. As a result the USDA believes price support will remain intact with the on farm average price running in the \$8.65 to \$9.35 range as we move ahead.
- One interesting development in the soybean outlook comes from South American production with the USDA expecting both Brazilian production and global market share to increase. By 2025 the USDA expects Brazilian soybean exports to increase by 20 mmt (735 mbu).
- It is also interesting to note the USDA expects crude oil to bottom out in 2016 and slowly climb over the next 10 years to a high end estimate of \$80/barrel.
- Speaking of crude, talk this week that a production freeze by OPEC nations and other closely related oil producing countries helped put some support under the market and send prices back up towards recent highs. Ideas that stocks continue to grow however, and the thought that a production freeze in one region would be offset by increases elsewhere were enough to bring sellers back into the marketplace at the end of the week. Similar to grains it appears as though that market is locked in a range waiting for some sort of news to shock it in one direction or another.
- On the ethanol front we saw production figures increase yet again. Unfortunately this increase in production was coupled with an increase in stocks, pushing overall ethanol stocks up to a new record high level—10% above last year's levels. With exports showing some promise and gasoline demand beginning to increase ever so slightly many are hopeful we could see stock levels begin to plateau or even decline going forward.
- The presence of Brazil in the soybean export market has become clear the last couple weeks as weekly soybean export sales have begun to shrink from levels seen even just a month ago. There has been some talk that backups at Brazilian ports could result in some business coming back to the US, but with Brazilian offers still running 25-30 cents below US values it is unlikely any of these switches would last long term at this point. At the same time no one can say the backups are unexpected as the country works to wrap up their corn export program and begin to work on their soy commitments which are reportedly double that of a year ago.
- On the weather front the Climate Prediction Center released their extended outlooks this week calling for above normal temperatures throughout the bulk of the Corn Belt for the March, April, May time period. From a precipitation standpoint they anticipate above normal rainfall to take place from Nebraska to the South and throughout the Southern Plains, with below normal precipitation to center around the heart of the Great Lakes and throughout the Eastern Corn Belt.

- Traders are also closely monitoring developments with El Nino as ocean temperatures are beginning to show a bit of a cool down. Though conditions are still record strong for this point of the year, many forecasters believe we will see a transition from the current El Nino pattern to neutral before we see La Nina conditions develop. Of course since La Nina is historically associated with hot and dry conditions how quickly this transition takes place could have a big impact on how the growing season unfolds this summer.

While it is unlikely we will see anything dramatic take place to shake the markets out of their current range-bound funk there are some issues that will need to be watched. Though Brazil is through their first crop cycle and working on harvesting what is likely to be a record soybean crop how their second crop corn fares will have a big impact on the overall global supply picture. Also important to watch will be what shakes out in the Southern Plains. Temperatures in the 80's this week shook the wheat out of dormancy unfortunately opening it up to potential damage if temperatures take a turn towards the frigid. While we have plenty of wheat both globally and domestically any type of production scare with the current fund short position we have open could make things interesting.

It is also important to point out that action tends to happen once the market has lulled you to sleep; use this period of time ahead of planting to sit down and think about how you want to approach your marketing plan for both remaining old crop bushels and this summer's production. Having a plan in place will allow you to capture any of the upside swings we might see no matter how fleeting they may be. Frost laws are in place or coming on throughout the next week or so, this tends to give us a slight pop in local basis and I don't expect this year to be much different. If you have bushels you're looking to sell it wouldn't hurt to take advantage of these opportunities if they present themselves for movement during (if you're able) or after restrictions come off. As always, don't hesitate to give us a call with any questions, we're here to help.

All the Best!

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