

This Week in Agriculture

A Mixed Bag of Information from the Week that Was: February 5, 2016

- The winter doldrums have definitely entrenched themselves in our market structure as a lack of any new or exciting information in either the bull or the bear camp has created solid trading ranges as of late. After closing near the recent highs of this range last Friday, we managed to find ourselves near the low end when the final closing bell of the week rang today. When all was said and done we saw March corn down 7, March soybeans down 13, with July wheat down 15.
- The biggest news of the week didn't come from the supply or demand side of things as another major merger got growers and business analysts alike talking. We learned on Wednesday that Syngenta had finally found a suitor they could live with, agreeing to join forces with ChemChina—China's largest chemical corporation and state owned entity centered in Beijing. While the deal has been widely discussed since December the idea that the company responsible for the MIR 162 trade dispute will be now owned by the country who had initially screamed foul had some growers and market analysts scratching their heads.
- Perhaps what's most interesting in this development is the fact that though the government in China forbids active cultivation of GMO traits in corn and other widely planted crops farmers have found a way to still plant hybrids. A recent study by Greenpeace showed that the bulk of crops planted in the nation's bread basket contained some type of genetic modification. As the country joins forces with Syngenta this attitude will likely change and change quite drastically, but in the meantime the intention is to crack down on what the government perceives as illegal planting practices.
- From a business aspect this is the largest overseas acquisition by a Chinese firm and shows how eager the Chinese government is to guarantee food safety and how open they are when it comes to enhancing their ability to produce. For now Syngenta will stay Syngenta and will remain headquartered in Switzerland while ChemChina will remain their own entity headquartered in Beijing as well.
- Back to the supply and demand side of things, the market struggled this week to produce anything that could excite the bull camp enough to get a solid push to the upside. Soybeans exports came in at a net negative number this week, as a large Chinese cancellation announced late last week showed up. This was the earliest net negative export sales total we've seen in over 12 years and definitely not supportive to market price in the short term. The fact that Brazil exported 5 times more beans in January than they did a year ago wasn't helping to give bulls a warm and fuzzy feeling either. With China off next week celebrating their New Year holiday sales will likely be nonexistent yet again.
- Overall on the export side of things we're seeing all 3 major markets lag USDA expectations. At this point the USDA was expecting wheat exports to be down around 6% from a year ago, they are currently 17% lower. USDA expectations show corn sales down 9% from a year ago, but actual numbers are closer to a 25% decline. Soybeans are the only bright spot-if you can call it that-in that they are only off of USDA expectations by 3%. The slowdown in exports is likely the reasoning behind traders expecting domestic ending stocks to climb slightly in Tuesday's USDA supply and demand update.
- Unfortunately even the demand sector that has been a bright spot for corn has struggled lately as well. Lower gasoline demand, struggling grind margins and blizzards causing logistical nightmares showed up in this week's ethanol numbers. While production was still somewhat solid from a historical standpoint, it was down 2000 barrels a day from a week ago, hitting its lowest level since November. Stocks continue to cause the greatest headache though as they rose to their highest level since March of 2012 and are within shouting distance of an all-time record.
- While some believe grind margins have improved slightly with the recent (albeit small) recovery in oil and gas prices the poor margins we've seen as of late is prompting one major ethanol producer to think about shedding their dry milling facilities in hopes to regain some profitability overall. This will definitely be something to watch as we move ahead as weak margins and burdensome ethanol stocks could weigh on interior basis values through spring. The one bright spot continues to be exports as Chinese imports of the renewable fuel continue to surge. An announcement by Argentina's president that the country's minimum blending rate will increase from 10% to 12% could off some support eventually as well.

As mentioned the majority of Chinese businesses will be closed next week to celebrate their New Year holiday. At the same time Brazil will be holding their annual Carnival celebration as well. This is likely to create an even slower market structure as trade volume could be somewhat limited. The USDA will release their updated supply and demand numbers on Tuesday giving us a little bit of information to trade on, but aside from that outside markets will likely be the only source of direction.

At this point if you know you have bushels to move or cash flow needs to cover making sales may not be a bad idea. Weight restrictions have gone into effect in 2 Michigan counties with others likely to follow. On top of that the poor outlook on the export side and the struggling soybean crush and ethanol grind margins will limit much in the way of upside potential in basis in the short term as well. Be aware of these issues and the range bound trade we seem to be locked in when determining what to do when it comes to moving your grain. We will have the updated USDA numbers after their release on Tuesday. As always, don't hesitate to call if you have any questions, we're here to help!

All the Best!

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