

## This Week in Agriculture

A Mixed Bag of Information from the Week that Was: January 8, 2016

- A less than stellar start to the New Year shocked traders and analysts alike as all markets seemed to coil in fear over new economic developments in China. Luckily wits seemed to be regained toward week's end, allowing us to see stabilization and even strengthening throughout grains and soybeans. When the dust settled today we saw March corn down 2 (after making new and then testing contract lows throughout the week), soybeans up 1 and Chicago wheat up 8.
- It was deju vu all over again this week as Chinese economic fears dominated headlines and seemed to make everyone a seller. At the start of business Monday news that China's foreign reserves fell for the first time in 22 years, dropping by over \$500 billion in 2015. The fall in reserves was a result of the country's central bank doing what they could to help limit significant drops in the country's currency.
- Throughout the year slow economic news and subsequent devaluations of the country's currency had prompted many in the region and throughout the global economy to contest that China was guilty of currency manipulation and practicing dirty economics-for lack of a better word. As it turns out the country was working to devalue their currency, but at the same time was using their foreign reserves to keep the drop from being too drastic.
- With the drop in currency and less than ideal economic growth indicators the market opened the week wildly lower. However, a new practice of implementing a "circuit breaker" or a type of mercy rule in the market place (think limit down moves in grain) likely caused even more panic than necessary. The new rule was put in place during the economic turmoil last fall and was patterned after several similar rules in markets throughout the world. However while the initial stop of trade was triggered at a 5% loss, the close of trade for the day at a 7% loss prompted Chinese markets to see their shortest trading day in their 25 year history midweek, trading for less than a half hour before shutting down.
- The idea that this stop-loss measure was potentially not allowing the real story to be told, while at the same time not allowing any buyers to come in and attempt to correct the trend prompted government officials to do away with the measure and allow markets to trade as is for Friday (Thursday night for us). Upon opening government officials made it clear they were also not going to allow much more in the way of Yuan devaluation at this point, helping to build a bit in the way of confidence and prompting markets to show a nearly 3% gain before settling back to near unchanged levels.
- The fact that the Chinese markets were able to find footing late in the week allowed many traders in the U.S. and abroad to breathe a sigh of relief, with many hoping that perhaps the worst is behind us. While it is known that growth in China is slowing, the idea that there is still 3.3 trillion dollars sitting in foreign reserves should help soften some of those economic blows that lie ahead. Better than expected payroll numbers for December, as well as higher revisions for both October and November also helped U.S. markets and traders feel a bit more confident going into today's trade. While we're not out of the woods, with many anticipating less than the targeted 2% growth in the last quarter, the idea that we haven't seen a significant slowdown in job growth is positive at this point.
- While China and the U.S. stock markets have seemed to have caught a break, or at least found some footing at this point oil and other energies cannot seem to do a thing right. While in many instances what happens in oil and energies has limited impact on grains, the idea that crude hit its lowest level since 2003 doesn't make anyone look to commodities as a shiny beacon of hope.
- It is estimated that in the first week of the year more than \$100 billion has been lost from the Bloomberg World Oil & Gas Index. Looking at the index shows values of companies and products falling to their lowest level since 2004, with the index off to its worst start for the year since 2003. While many would like to think that we should be reaching a short term bottom, with building Middle Eastern tensions causing concern and prompting the idea we could potentially see a rally, the fact that supplies keep building while demand continues to soften is less than ideal for prices going forward. Couple the fundamental factors with the continued strength in the dollar weakening export potential and we may be in for a long, uphill price battle.

- On the grain side of things most traders are sitting on the sidelines ahead of next Tuesday's updated USDA numbers. Tuesday's report is one of the most important of the year as it not only gives us the monthly supply and demand update, it also will give us a look at quarterly stocks as of the 1<sup>st</sup> of December, final production numbers for the 2015 crop year, wheat seedings forecasts as well as updated global outlooks.
- When looking ahead to Tuesday the biggest wildcard going into the report is always quarterly stock numbers. Expectations ahead of the report are built by trader's overall opinion of actual production combined with usage for the first quarter. If we see stock numbers come in below expectations it would mean either less was produced than initially thought, or more was used. While if numbers come in higher the opposite would be true. These stock numbers will have direct implications on ending stocks for the crop year, driving the entire market performance most likely until we get updated numbers at the end of March.
- Most traders are expecting slightly higher stock numbers versus a year ago for the major markets. As for ending stocks when looking at all trade estimates the average belief is that we will see wheat carryout increase, corn carryout remain unchanged, with soybean ending stocks coming in 3 million bushels higher than last month. Globally traders are expecting corn and wheat ending stocks to increase, with global soybean ending stocks remaining close to unchanged.
- It is interesting to note that over the last 10 years corn has closed higher the day of the report 6 times, soybeans 4 times, with wheat closing higher 5 times. Basically meaning you can flip a coin going into Tuesday and have a 50-50 chance of guessing market direction correctly. It is important to keep in mind though that exports continue to lag USDA expectations. In the case of corn and wheat the lag is somewhat exceptional—corn sales overall are down 25% from a year ago, with the USDA expecting a 6% drop, wheat sales are down 15% with the USDA also expecting a 6% drop.
- Soybeans and their byproducts seem to be holding their own, soy sales are down 11%, but shipments are only down 8% from a year ago, with the USDA expecting a 7% drop. Meal sales are similar to soybeans with actual sales below the USDA, but shipments close to being in line with expectations. Soybean oil sales though are currently 6% ahead of USDA expectations, with shipments 13% ahead.
- On the domestic usage side though it is also important to keep an eye on ethanol and soybean crush margins as we move ahead. The falling gas prices have impacted ethanol margins significantly, with many plants struggling to stay in the black. The lack of blend margin was evident in this week's ethanol stocks build. And while at this point production is remaining strong, a significant futures rally could push some of those margins into the red causing some plants to slow grind in order to preserve profitability. A drop in meal value and lack of real support in oil values has also pushed soybean crush margins to their lowest level since the summer of 2014. Increased competition for byproducts out of Argentina isn't likely to help firm these margins anytime soon.

In the end Tuesday's numbers have the potential to put solid support under these markets or open the door to future moves lower. While some may say other economic factors will have more of an influence going forward, I fully believe overall supply and demand fundamentals will continue to either encourage or discourage new investors from entering the market place. The fact that we are within shouting distance of record fund short levels may help to provide some support in the short-term, but any new indication of even more bearish fundamentals than what we are already expecting could introduce new sellers.

It's not all doom and gloom of course, but I will feel much better if we can make it past Tuesday with no new negative information to further sway investor mindset. We will have all of the updated numbers out to you once they are released. Until then, don't hesitate to call us if you have any questions. As always, have a great weekend and stay safe!

All the Best!

Angie Setzer

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