

This Week In Agriculture:

A Mixed Bag of Information from the Week that Was: March 9, 2018

- While the week was mostly dominated by tariff talk traders continued to closely monitor South American weather, potential changes to the RFS and updated supply and demand outlooks from the USDA. When all was said and done we saw May corn up 5, May wheat down 10 with May soybeans down 31 cents.
- With this month's supply and demand report coming out only a couple weeks ahead of quarterly stocks and perspective planting numbers set to be released on the 29th of this month anticipation ahead of the report was centered much more on adjustments to South American production than anything in the domestic realm. With talk of Argentina soy production falling to 40 mmt or below traders were hesitant to short the soy complex much just in case the USDA were to get aggressive with their overall production outlook.
- What's most interesting with this production season in Argentina is though they have experienced their driest December, January, February period in decades their temperatures have been relatively normal. Of course we don't have to think back too far to a growing season that was drier than normal with limited high temperatures as the 17 production season was similar across many parts of the US. While we definitely maintained much better conditions than the reported 3% good to excellent ratings seen across much of Argentina many traders have this thought in mind when determining what we could really be looking at when it comes to production loss as a whole.
- The USDA agreed with the idea that losses may not be quite as bad as currently being reported, lowering production 7 million metric tons from February's 54 mmt estimate. Though 47 mmt is a substantial reduction, one even slightly lower than the pre-report trader estimates the lack of aggression on the USDA's part to reduce production any further had buyers take a pause, especially with talk of rain in the forecast over the next couple of weeks.
- As we've discussed before, while Argentina has been dealing with troubling weather Brazil has been experiencing relatively benign weather. With the lack of weather issues in Brazil we are continuing to see production estimates continue as harvest ramps up across the countryside. Talk recently of major adjustments higher when it comes to Brazil's soy crop has been picking up steam with some even saying production could come in at 120 mmt—an astonishing 6 mmt higher than the record crop seen last year.
- Keeping course the USDA was conservative in their production adjustments, raising the crop 1 mmt from last month to 113 mmt. This matches the most recent estimate from CONAB (Brazil's version of the USDA). The reduction in Argentina's outlook and conservative adjustment higher in Brazil allowed global carryout to move a touch lower from last month.
- Of course you can't talk about South American soybean production without looking at corn. It is interesting to note that both Argentina and the US are slow to reduce the corn production outlook for the country even though that crop is obviously experiencing the same conditions causing problems for soybeans. Argie corn production came in at 36 mmt this month, similar to Buenos Aires Grain Exchange estimates and down 3 mmt (119 mbu) from last month.
- What many find most interesting when it comes to South American production estimates though is the USDA's hesitation to reduce Brazilian corn production. While the USDA was quick to match CONAB's bean number they seemed to have ignored it when producing their corn estimate. Officials in Brazil expect second crop corn planting to be down nearly 6% from last year, that and an expected return to normal yields after last year's record production has officials there believing

the BRZ corn crop comes in around 87.2 mmt, 290 million bushels lower than the current USDA estimate of 94.5 mmt.

- While there are several reasons the USDA may be hesitant to reduce Brazil's production—timing for one as the second crop is just getting planted—the idea that global supplies are seemingly sitting in the hands of Chinese and US farmers is causing concern. While many continue to point to the large overall global stock number the fact that 40% of world stocks are in China with 27% in the U.S. shows just how skewed overall supply availability really is.**
- Domestic numbers yesterday were encouraging to corn as well as it appears value has encouraged demand. Over the last several weeks we have seen corn export sales take off, while corn used for ethanol has also been better than expected over the first half of the marketing year. Taking both of these things into consideration the USDA increased corn exports 175 million bushels from last month, with ethanol usage up 50 mbu. These adjustments higher in demand brought carryout down to 2.127 billion bushels. Still more than adequate of course, but definitely interesting considering we managed to produce a record large crop last year.**
- Domestic soybean numbers didn't fare so well as the continued slow pace to expected exports weighs on overall demand. The USDA lowered exports 35 mbu from last month, with overall expectations now sitting 109 million bushels lower than last year. Some of the reduction in exports was offset by a 10 mbu increase in crush, pushing carryout to 555 million bushels—the largest in over a decade.**
- The continued slow pace in wheat exports as we work into the final quarter of the marketing year were not ignored by the USDA. With another 25 million bushel cut to anticipated exports overall wheat carryout crept back up above a billion bushels. So while yes, current production issues across the country are not something to ignore the idea of more than adequate ending stock availability may keep a lid on the market in the short-term.**
- In other news, President Trump did announce a 25% tariff on steel imports and a 10% tariff on aluminum imports will be placed into effect in just over 2 weeks. While this announcement was not entirely unexpected the fact that Canada and Mexico are exempt from these levies is interesting to say the least. Some feel it could be an indication that this round of NAFTA talks are going better than expected.**
- Traders will be watching the White House closely next week as officials from both the renewable fuels and oil industry will come together Monday to talk further on any potential changes to the RFS and RINs policies. Many industry officials feel a cap on RIN pricing could result in a significant drop in corn values—some claiming up to 25 cents a bushel would be lost. While I'm slow to believe a nearly 10% drop in price would be necessary it is definitely something to watch closely.**

In the end it does appear as though the Argentina story has been priced into the soybean market, and while we are some time from knowing where exactly final production numbers will fall trader attention will start to turn towards planting acreage prospects. Concerns over potential retaliatory trade policies from other countries, especially China will remain at the forefront of trader minds' as well.

Values are still incredibly solid versus lows seen mid-January with plenty of opportunity still present across many parts of the Corn Belt. Make sure to not get bogged down in one day worth of pricing action when making your selling decisions. As always don't hesitate to give us a call with any questions, we're here to help!

**All the Best!
Angie Setzer**

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