

This Week in Agriculture:

News That Could Make a Difference: October 23, 2015

- **Déjà vu all over again this week as soybeans tested and failed to break through recent highs, while corn and wheat remained range bound. Continued strong harvest pace and a lack of new and exciting fundamental news was the main factor behind this week's somewhat slow trade. When the dust settled we saw corn up 3, with November soybeans finishing 5 lower. December wheat finished the week down 2.**
- **Monday night's harvest progress report showed national pace for both corn and soybean harvest ahead of the 5 year average. At 59% harvested corn was 4% ahead of the pace we generally see this time of year. Dry weather throughout the bulk of the Corn Belt has allowed soybean harvest to advance to 77%, 9% ahead of the 5 year average. Here in Michigan soybean harvest is 66% complete, 8% ahead of the 5 year average and well ahead of last year's 22% pace. At 30% complete corn harvest is in line with the 5 year average and 10% ahead of last year's slow start.**
- **It is interesting to note that Illinois, Indiana, Ohio and Missouri are all well ahead of their 5 year average harvest pace in corn (17%, 12%, 21% and 12% ahead respectively) and over half complete as basis in the Eastern Belt continues to firm. Meanwhile in the Western Belt, Iowa is in line with their 5 year average, while Nebraska and South Dakota lag by 6%. Minnesota is ahead of its 5 year average by 11% and just over half done, but questions over bin availability may slow the flow of grain as space constraints become apparent.**
- **As mentioned, the majority of bean harvest is winding down across the Corn Belt. Nebraska is the only major state to lag its 5 year average pace on soybean harvest as many of the beans across the nation have made their way to bins or ground piles. Trade expectations going into Monday's report have traders thinking 87-89% of bean harvest will be completed across the countryside, while 74-77% of corn harvest will be wrapped up as well.**
- **Global economic issues continue to plague the grain markets as announcements this week out of both the European Central Bank and China had heavy influence on outside market moves as well as the dollar. ECB president Draghi announced Thursday that another round of economic stimulus is likely for the region. This announcement comes on the heels of continued slow economic growth and recent strength in the Euro which has a limiting influence on the region's ability to export.**
- **While the extent of the stimulus will be discussed further during the next European Central Bank meeting December 3rd, the idea of continued dovish fiscal policy and easy money flow pushed the Euro lower and sent the dollar soaring.**
- **Not to be outdone government officials in China announced cuts to deposit and lending rates in an attempt to further ease monetary policy and stimulate growth.**
- **It is interesting to note out of China that though many have been anticipating significant cuts to overall demand for soybeans and grains export strength remains evident. Positive crush margins for soybeans and a now expanding hog herd (after continued reports of slow herd growth) have pushed soybean imports for the country well above expectations.**
- **Though overall sales pace continues to lag last year the recent heavy buying interest for U.S. soybeans by China cannot be ignored. This week alone China and "Unknown Destinations" accounted 33.7 million bushels of soybean purchases, with shipments running well ahead of the 5 year average.**
- **The same cannot be said for corn unfortunately, with our current export pace running nearly 20% behind the 5 year average and this week's sales number coming in at a marketing year low. Though corn exports only account for 13% of the total overall demand picture, the slow pace could result in a 50 to 100 million bushel cut in the overall export outlook that's unlikely to be soaked up by a different demand sector at this point in time.**

- **Changes in Chinese government policy when it comes to corn have caught the eyes of traders and will likely keep them watching in the months ahead. As mentioned last week the government has given the green light to corn based ethanol, but at the same time the outlook for government purchases is looking a little bleaker. Government officials announced this week the support price for government purchases will fall to around 8.06 a bushels versus the price paid last year of 9.17. They also expect to buy about 50% less for government reserves than they did a year ago as well.**
- **While burdensome stocks (many of which have gone out of condition) are the driver behind this change in policy, it will be interesting to see whether or not these adjustments will push Chinese farmers to plant something else with a better return on investment in the growing seasons ahead.**
- **Weather conditions in Brazil will continue to be monitored closely. As we mentioned last week dryness in the Northern growing areas has the attention of traders, many of whom were expecting decent rains to fall this week. The rains forecasted a week ago did not materialize, but have shown back up in the 7 day forecast, keeping buyers at bay for the time being. At this point it is early yet, but if dry conditions persist into Mid November concerns over a drop in production could be real.**
- **Traders will also be watching this weekend's presidential election in Argentina. Christina Fernandez is not allowed to run for a third term, opening the door for a new elected official to step in. Farmers have applauded the fact that Fernandez is on her way out as she has been less than friendly when it comes to agriculture. Excessively high tax rates on soybean exports, as well as heavy taxes levied on corn and wheat have pushed farmers in the country to stockpile grain.**
- **The leading candidates heading into Sunday's election have both suggested cutting these rates, with thoughts that corn and wheat export taxes will be done away with completely. Though policy is not likely to officially change until sometime next summer at the earliest, the idea that some of these stockpiles could make their way into the global market will remain a bearish elephant in the room for the time being.**
- **From our "Good News So Far" file: officials were happy to announce this week that the over 750 ducks tested in Minnesota during the start to hunting season there were all negative for the Bird Flu virus that had wreaked havoc on much of Iowa's egg producing hens earlier this year. The ducks were thought responsible for the spread of the deadly illness and will continue to be monitored closely as they begin their migratory route to the South. The USDA and poultry producers alike remain on edge in the meantime.**

At this point in time it appears as though we'll continue to trade by status quo. It is unlikely anything earth shattering will develop in the market place in the short term, but there are a lot of small developments that could capture market attention in the meantime. Traders will continue to monitor the huge gap in where supplies are versus where they are needed and its interesting impact on not only basis, but spreads as well. Keep in mind there will come a point where basis strength will be offset by a flow of supplies, however the process in discovering where that point is could bring both opportunity and heartache. Keep cash flow and space needs in mind when it comes to moving your grain and make sure you're making sales to accommodate both sets of needs.

Here in Michigan bean harvest is beginning to wrap up, but corn harvest is just starting to get underway. Basis opportunities continue to present themselves in corn especially, don't be afraid to take advantage of them. In the meantime don't hesitate to ask any questions, we're here to help! Until next week, have a great weekend and stay safe!

**All the Best!
Angie Setzer
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