

This Week in Agriculture:
News That Could Make a Difference: August 17th, 2012

- **A sideways but volatile week as traders had more of a “buy the rumor, sell the fact” mentality initially after Friday’s USDA Supply and Demand Report. Last week’s numbers released by the USDA were the closest to pre-report expectations we’ve seen in recent memory. Cooler temperatures and increased rainfall kept the market from adding another leg to the upside as well as traders debate whether or not the weather change is too little too late to help the crop.**
- **Overall for the week corn closed down a penny and beans closed up 2. After starting the week bottoming out to nearly 4 week lows wheat was able to rebound back to within 11 cents of last week’s close.**
- **Traders continue to debate demand as we move ahead. The ethanol mandate is still a hot topic. Governors from North Carolina and Arkansas joined governors from Maryland and Delaware in petitioning the EPA to waive or reduce the ethanol blending mandate as outlined in the Renewable Fuels Standard. These 4 governors are joining forces with 25 senators and 150 representatives. Secretary of Agriculture and former Iowa governor Tom Vilsack said this week that a waived or modified mandate will cause the ethanol industry to “suffer.”**
- **Many ethanol makers question the assertion from political officials and members of the livestock industry that a reduction or complete waiver of the mandate would impact prices. A few weeks ago an Iowa State University professor released a study stating a waiver would impact the price of corn by less than 40 cents. Another study released this week by an energy policy expert out of Perdue concluded that corn prices could see a range of impact from zero to \$1.30 depending on the market conditions at the time.**
- **Ethanol makers also question the idea that 40% of the nation’s corn crop is being used exclusively for ethanol. They argue that once the production and marketing of by-products is factored in the “real” corn used for ethanol percentage is around 16% of the crop. The EPA has until late October to address the petitions for a waiver and most feel even at that time they will delay any major decision until after the November election.**
- **Corn demand out of China is up in the air as well. The USDA adjusted their Chinese corn production estimate in last week’s report to a record high. This week however, the Ag Ministry in China made a somewhat unusual move reducing their corn estimate to 3 mmt (118 mbu) below the current USDA estimate. The Ag Ministry claims an Army Worm infestation is causing stress to nearly 10% of their crop. Out of that 10% nearly half is suffering “serious damage.”**
- **While corn and wheat have managed to get their prices high enough to ration back demand, soybean demand continues to surge. NOPA soybean crush numbers for July were the highest monthly total in 4 years. The massive crush pace has many traders feeling that the USDA will have to adjust old crop bean crush up another 20-25 million bushels, this would lead to a similar reduction in new crop bean carryout.**
- **On top of the surprisingly strong crush pace new crop bean sales are well ahead of the five year average. Generally this time of year we see around 24% of the USDA’s export sales projection booked. At this point so far we have 54% of the USDA’s projected sales locked in place and the pace remains strong.**
- **The Chinese are doing their best to monitor vegetable oil prices and mitigate possible losses on the side of crushers. The Chinese government continues to offer up beans out of their reserves to help keep the supply line full. It is estimated that the Chinese government has sold nearly 223 mmt out of their reserves since April. It’s generally unknown just how many beans they continue to hold in reserves as we move ahead.**
- **Traders will continue to watch South American production closely as well. At this point early season weather is decent, but concerns we could see El Nino develop (leading to a warmer, drier pattern in the Southern Hemisphere) will keep traders on their toes. Another possible hiccup mainly in Brazil is the lack of logistical capacity to get the inputs to farmers in a timely manner. It is estimated that over a million tons of fertilizer is sitting on 60 plus bottlenecked ships waiting to be unloaded at port.**

- **Weather-wise here in Michigan we just made it through the 2nd strongest La Nina documented since 1950. After relentless heat and scant rainfall we've turned the corner and have managed more rainfall in the last 8 days than in the 41 days prior. The comparisons to 1988 become even more eerie as we work our way through a much cooler and wetter August-a very similar pattern to the one seen in '88. Hopefully the comparisons will fade after this month because October of 1988 was the 5th coldest and 8th wettest on record (Yes, I am just loaded with great news sometimes!).**

Acreage will be the magic word as we work out way towards harvest. Numbers released by the FSA yesterday had traders scrambling. Initial word based on what was released is that there may be up to 3 million acres of additional land planted to corn and beans than seen in the most recent USDA reports. Right now most traders will continue to trade the USDA numbers until we get a better feel for what's really going on. The two groups will meet in September with updated acreage numbers scheduled to be released in October. At this point we seem to be somewhat range-bound. For both corn and wheat we seem to be at comfortable levels to discourage demand, while in soys we seem to be a way off from making that happen. A well-followed and respected crop tour starts Monday, giving us something new to chew on for a bit until the next batch of fresh information from the USDA is released. In the meantime give us a call with any questions, we're here to help!

All the Best!

Angie Maguire

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