

This Week in Agriculture:

A Mixed Bag of Information from the Week that Was: January 20, 2012

- An interesting week as traders work to process last week's bearish USDA surprise. The markets were closed Monday and started to recover slightly as further cuts to South American production combined with a slightly lower dollar helped provide some much needed support. For the week March corn finished 14 cents higher, with December corn nearly unchanged. March soybeans were up 27 cents while November soys were 14 cents higher. July wheat finished off just slightly.
- South American weather remains in the spotlight as conditions continue to deteriorate in Argentina and Southern Brazil where the hot and dry weather pattern has remained entrenched. Government officials in Argentina believe corn yields could be reduced anywhere from 20-50%. Some traders feel as much as 1.4 million acres of corn and 6.18 million acres of soybeans remain unplanted in Argentina. In some parts of the country corn can be planted up until the end of January, while soys can be planted into February.
- Decent rains are anticipated for the weekend. Many feel they may come just in time to stabilize the soybean crop, while the corn crop in most locations is too far gone to save. The opposite story is true in Northern Brazil where too much rain is delaying early harvest and causing concerns over Rust and White Mold.
- Looking back at last week's numbers traders are beginning to question USDA corn demand projections. At this point in the year cumulative ethanol production indicates the USDA may need to increase their corn used for ethanol projection by nearly 150 million bushels. Total November ethanol exports also set an all time record at over a billion gallons exported in the month.
- Export numbers are also strong as of late. This week's export sales report showed 29.9 mln bushels of corn sold into the export market. This is well above the 19 million bushels needed a week to meet USDA projections. At this point exports are only down 2% from last year, while the USDA anticipated a 10% drop.
- On the feed side of things traders are questioning the USDA's math as well. Many feel that the higher than anticipated 1st quarter stocks number could be more of an underestimation in crop size rather than a lack of demand. Grain consuming animal units are up 0.4% from last year, while the USDA is predicting a strong drop in feed use. The grain only feed rate the USDA is using is down 3% from last year and at its lowest level ever. The USDA claims this is a result of increased DDGs usage.
- Soybean usage is being brought into question as well. Exports are starting to show signs of life. Traders were expecting Brazilian beans to already be hitting the pipeline. Poor weather has delayed early harvest and left vessels waiting to load. Crush numbers released Thursday were also higher than traders expected. Poorer quality beans have resulted in lower oil yield; this could have an impact on bean usage as we move ahead.
- Wheat remains a follower behind corn, with Soft Red Wheat trading nearly even to corn on the nearby month. One interesting thing to watch as we move ahead is how the funds balance their position. Funds have a record short position in Chicago Wheat. Some traders expect some buying interest as we move forward. Globally though the pipeline is full of wheat leaving most traders to feel comfortable with the idea we could weather any sort of production downturn in the short-term.
- A well followed private analyst released their updated spring acreage projections late this morning. They anticipate 94.7 million acres of corn to be planted, up significantly from last year's 91.9 mln. This thought process will likely keep a lid on new crop corn prices until we get closer to the spring planting season. On soybeans they're anticipating a small drop in planted acreage down to 74.6 mln from this year's 75 million acres.

It will be vital to watch further developments in South American weather. The direction the dollar moves and usage adjustments will remain key as well as we move ahead. Traders will definitely continue to watch weekly export sales and ethanol production as they will continue to give us insight into usage. Take advantage of any sale opportunities as the market provides them. Target orders will catch those quick bursts upward and keep you in the scale selling mode as we plod our way through the rest of the winter. Give us a call with any questions, we're here to help!

All the Best!

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