

This Week in Agriculture:

News That Could Make a Difference: April 29, 2016

- **The fund parade in commodities continued this week as what appears to be unadulterated buying at times is not only supporting the markets but pushing them higher. For the week we saw July corn up 17, July wheat up 14, with July soybeans up 33 cents. Even more impressive are the monthly gains, for the month of April July wheat was up 8, July corn up 36 and July soybeans up an incredible \$1.12.**
- **The extent of the role Chinese players are having in these market moves is becoming much clearer as all commodities have seen extensive gains as of late. Steel futures on the Shanghai index have rallied over 50% so far this year, while iron ore futures have gained over 60%. Many believe the collapse of the country's equity markets at the end of last year as well as government based stimulus has pushed a lot of money back towards commodities as folks want to own something they can touch as opposed to paper.**
- **To put this flow of money into perspective, according to Bloomberg the amount of cotton traded in just one day last week on the Zhengzhou Commodity Exchange was enough to make every person in the world a pair of jeans. There have also been days where trading volume in iron ore futures on the Dalian Exchange have exceeded China's total import volume for 2015.**
- **As a result of these extreme moves China's securities regulator ordered the country's major commodity futures exchanges to control this speculative activity. Increases in margin requirements, transaction fees and wider daily limits have been put into action slowing some of these moves, but not stopping them completely.**
- **Chinese speculators aren't the only ones to join the party. Hedge funds here in the U.S. are diving in head first as well, with traders ramping up their bullish bets (buying) at the fastest pace in over 6 years. Fund activity as of last Tuesday showed the speculative net long in soybeans at its largest level in over 2 years with more buying this week. Speculators have also moved to the long side on corn, with some experts surprised by just how aggressive they have been on the purchase side. It is estimated the last time we saw a move this aggressive on the speculator side was in mid-2010.**
- **The new struggle in the market is no longer if we will see a rally, but how long this buying interest will in fact last. Farmers in Brazil saw beans move above \$15.00 this week once currency conversions were factored in but feel unable to sell as their aggressive sales pace the first half of the year and uncertainty surrounding farm policy has left them frozen. Many growers in the US are experiencing similar uncertainties as very few of their acres have been planted and no one knows what will happen weather-wise as we move into summer.**
- **Fund money flow is not the only reason we have seen recent strength (though it may be the biggest). The recent drop in the dollar to 8 month lows combined with strengthening in our competitor's currencies has allowed for a return in global demand. After relentless talk about the lack of corn export demand the first half of the marketing year we have seen an extraordinary pace of sales in recent weeks, with this week showing the biggest weekly sale seen since January of 2015.**
- **The recent quick pace in corn exports has brought us to only 8% behind last year's pace, with the USDA expecting an 11% decrease. Just a few short weeks ago this gap was nearly 25%. Soybeans are on track to meet USDA export expectations, while wheat continues to struggle, down 14% from last year's pace with the USDA expecting a 9% drop.**
- **Weather-wise experts continue to debate how quickly we will transition from El Nino into La Nina. Some indicators have shown the transition from warm pools of water to cold has taken place in certain zones of the Pacific possibly showing La Nina could be in place by mid to late June. While these indicators are in place what they may mean for weather patterns is far from seeing a consensus.**

- **In a more short-term fashion the National Weather Service extended forecasts are calling for cooler weather to stay in place throughout the Eastern Corn Belt through the 9th of May, above normal temperatures are expected in the Western Belt for that timeframe with below normal precipitation anticipated throughout the bulk of the country. Above normal temperatures are expected to spread throughout the Northern part of the US beyond that with above normal precipitation expected far West.**

As we look ahead we will continue to monitor developments on the money flow side. While we have seen a slight shift in fundamentals due to production reductions in South America and a resurgence in some aspects of demand, the flow of money has been behind the wheel. It's important to remember that the worst part about a fund driven rally is having no idea when and how quickly it might end. Keep this in mind when looking at your open sales and putting a plan in place when it comes to making further commitments.

In the meantime we will look to crop progress on Monday. Traders are expecting nearly 50% of the corn crop to be planted with a reasonable start to soybeans. It's likely we will start to hear more about USDA supply and demand expectations as the May 10th report will be the first to give us insight into what the group is expecting for the new crop outlook. As always don't hesitate to give us a call with any questions, we're here to help! Until next week, have a great weekend and stay safe!

**All the Best!
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