

This Week in Agriculture:

News That Could Make a Difference: August 28, 2015

- **For some this week will forever be emblazoned in their memory as volatility unlike anything we have seen since the 2008-09 economic downturn returned to the markets. Continued concerns over a global economic slowdown led by China and its subsequent effects on commodity market demand trumped any thoughts on potential production declines. When all was said and done we saw December corn and November soybeans down 3, while September wheat was down 22.**
- **As we touched on last week, concerns over the economy as a whole both domestically and globally have traders on the sidelines. Ideas that slow growth and a lack of money flow will result in less overall demand has pushed oil, gold, copper, soybeans and others to multi-year lows, while other commodities like corn and wheat can't seem to catch a bid. While commodities have been struggling against economic concerns for awhile now, it was only last week we saw the outside equities markets run into a string of strong selling.**
- **After yet another significant move lower in the Chinese stock indices Sunday night traders could do nothing but watch as the Dow plummeted soon after it opened Monday, losing over 1000 points at one point in time. Slightly cooler heads prevailed as the day went on though, helping to pull us out of the monstrous hole that had been dug. The drop in futures and further outside economic turmoil pushed many market analysts to change their target date on the long expected September rate hike from The Fed early in the week, before positive economic information and dip buyers helped stabilize the market.**
- **Early Thursday updated 2nd quarter GDP numbers were released coming in much higher than traders had anticipated. In initial reports we saw GDP estimated at 2.3% for the 2nd quarter, yesterday's revised number came in at 3.7%--over a half a percent higher than what traders were anticipating. Jobless claims came in better than expected as well, good economic information and the subsequent market rally that followed put the September rate hike back on the table.**
- **Economic numbers weren't the only supportive thing we saw Thursday. The announcement of weekly export sales indicated lower prices had in fact spurred significant demand on the export side of things. With 38.6 million bushels of new crop corn booked and 53.6 million bushels of new crop beans booked the week's sales were some of the best we have seen in several months. However, the slow pace to sales so far this year shows just how badly we need these types of weeks.**
- **At this point in time new crop soybeans booked for export is the second lowest we have seen in 5 years, while new crop corn sales are the lowest for that same time period. Large crops coming out of South American and a currency conversion that continues to benefit sellers has produced a significant headwind when it comes to our ability to sell on the global market. While it is likely we will see an eventual shift back in our direction when supplies run tight, some wonder if it won't be too little too late by that point. Of course actual crop size out South America as we move forward will likely hold the key to our demand.**
- **At this point many are anticipating a slight decline in corn acres in both Brazil and Argentina due to high input costs and low sale value, whether or not the corn cuts are offset by soybean increases remains to be seen. Brazil's largest co-op anticipates a 3% increase in soy plantings from a year ago, while officials in Argentina are expecting a 20% cut in corn production in the new crop year.**
- **Also interesting on the export front is the continued slow pace of sales out of Chinese government reserves. With an estimated 150 million metric tons (just under 6 billion bushels) sitting in the government's hands and another "record" harvest anticipated, the fact that the government has only sold 4.3% of its total holdings has many traders envisioning a plugged pipeline of epic proportions. How China handles that plug could have ripple effects well beyond its borders. The multi-million dollar question in all of this is just what kind of shape the corn is in as quality issues have been cited by some buyers, while price at \$9.04 a bushel has worked as an inhibitor when it comes to purchases as well.**
- **One last point of interest, some traders were a bit surprised by the International Grain Council's increase in their corn production estimate versus a month ago. However, few pointed out the fact that at 968 million metric tons their estimate is still well below the current USDA global production estimate of 985.61 mmt, a**

693 million bushel difference. The IGC came in 220 million bushels lower than the USDA on their global wheat production estimate as well.

After several claims it had to trade to \$20 or below crude oil gave the entire commodity sector hope when it bounced back late this week. As mentioned, better economic indicators combined with concerns over supply after tensions grew in Yemen and Nigerian supply disruptions occurred pushed crude over \$6 off its low hit just earlier this week. Whether the strength continues Monday or not will likely hinge on the direction tropical storm Erika heads over the weekend. Any type of continued short covering could give a shot in the arm to grains as potentially higher gas prices help to improve margins for both ethanol and biodiesel.

In the meantime there is not much else to trade on until we get further into the harvest season and get a solid feel for production potential. At this point reported yields out of the South have come in lower than expected, but with such a small amount ran it is still too early yet for the market to bite. Weather forecasts are calling for much above normal temperatures throughout the bulk of the Corn Belt, with above normal rainfall expected in the Northern sections of the Western Corn Belt. Now is the time to start seriously thinking about what you're going to do with new crop supplies. Basis shifts are also telling you to sell any old crop supplies you have left either at home or in commercial storage. Until next week, give us a call with any questions, we're here to help!

All the Best!

Angie Setzer

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