

This Week in Agriculture:
News That Could Make a Difference: January 30, 2015

- **Pressure from outside markets without much in the way of fresh fundamental news allowed grains to be pressured lower this week, testing levels we haven't seen since late September. When the dust settled we saw corn down 17, soybeans down 12 and July wheat down 24.**
- **Deflationary concerns remain in the forefront of the minds of traders and numerous heads of central banks across the globe. This morning's report that the Baltic Dry Index has fallen to its lowest level in nearly 30 years helped somewhat reinforce this idea. Since the index is considered an indirect measure of global supply and demand for commodities shipped aboard via dry bulk carriers this morning's report shows a slowdown in the flow of raw commodities is taking place. The million dollar question of course surrounds whether this decline is primarily due to a drop in demand, caused from an increase in supply (potential stockpiles), or both.**
- **Crude fell again this week before recovering slightly into today's close. Inventories are at a record high, while recent reports indicate production is at its highest level in nearly 40 years. The idea that many producers are making significant cuts to their output going forward and month-end moves helped to lend support to crude before today's close. Of course how we see the market fare as we move through next week will be a better indicator of whether or not we have put in a short-term low for the time being.**
- **Crude inventories are not the only supplies growing. This week's ethanol report showed steady to slightly higher ethanol production versus a week ago. Inventories continue to grow however, and have been weighing heavily on ethanol futures and grind margins alike. The EPA announcing it will revisit blending requirements for 2014, 15 and 16 in the spring and new rules regarding biodiesel imports will likely keep the industry on edge. Keep this in mind when looking at pricing opportunities nearby versus deferred, weak margins for ethanol plants as we move ahead could act as a limiting factor in basis gains.**
- **As mentioned last week, many countries are cutting interest rates in hopes of increasing money flow. Russia was the most recent, cutting their national rate from 17% to 15% respectively. The hope is that an increase in available money will increase demand for goods around the world. The cut in interest rates weighs heavy on the value of currency in the countries doing the cutting. Falling values of foreign currencies continue to prop the dollar index, keeping it at its highest level in over 11 years.**
- **The high value in the dollar has had many traders concerned with how our commodities stack up globally. Luckily though, we have yet to see our buyers shy away from U.S. imports of corn, soybeans, DDGs, sorghum and meal so far. When looking at the soy export pace we have nearly 94% of USDA projections sold versus the 5 year average of 88%. Shipments are running 14% ahead of last year's blistering pace. Meal sales running 7% ahead of the 5 year average indicates domestic crush demand should remain strong in the short term as well.**
- **Corn sales are also doing exceptionally well in the face of a higher dollar. In their supply and demand projections for the year the USDA has been projecting a near 9% cut in exports from last year. So far we are only down 1% from a year ago, with shipments running 3% ahead. At 71% of the current USDA projections, sales are running 5% ahead of the 5 year average pace.**
- **China bears watching as their recent quick pace of DDG and sorghum purchases, and concerns over the quality of the crop in interior locations has some believing they will return as a buyer to the US corn market sooner than later. A Chinese return would likely result in more of a psychological boost to the market in the short term than a true fundamental one, but would be welcomed nonetheless.**
- **After the close today we received updated cattle inventory, with numbers coming in higher across the board than expected ahead of the report. According to the USDA the number of beef replacement heifers is up 4% from a year ago, while steers over 500 lbs are up a percent from last year. Of course more cows means more mouths to feed. It will be interesting to see if the USDA does anything to their feed outlook in the February report, or if they wait until we get 2nd quarter stocks numbers in March to make any moves.**

- **Crop experts out of South America continue to debate potential soybean crop size with one well followed analyst cutting a half a million metric tonne from his Brazilian production estimate, while others have cut 4 to 5 million. One thing is for certain though; the crop out of Brazil will be a record, even if we were to see the bigger of the two cuts mentioned. In the end though it will be the country's ability to ship at a reasonable pace that may keep the U.S. as a competitor.**
- **Rains in Argentina have helped bolster crop prospects lately as well. Though the country is more of a finished product (meal) exporter than raw product, the crop potential there will need to be monitored. Slow farmer selling and falling prices has an estimated 22% of last year's crop still unmarketed in the country, versus 14% unmarketed a year ago. Whether those beans come to market, or remain in the hands of producers as a hedge against currency devaluation could have a decent impact on the global market in the weeks ahead.**

In the end, the lack of fresh fundamental news will make it hard for the markets to break out of their recent funk. However, just as we saw in October, it seems that when the sentiment hits its lowest is when the market tends to surprise us. Demand remains strong it seems, and with foreign countries working to cut interest rates and stimulate money flow it will be interesting to see where that new money moves. A confirmation of short-term lows in outside commodities (oil, copper, etc) would likely help to get grains back on their feet. Basically at this point in time volatility has created a market structure in which significant risk exists. Removal of this risk (real or imagined) should help to get money flowing back into the markets once again.

Low futures values and slower than anticipated grain movement has brought about many different basis opportunities for off farm grain. Pay attention to your carrying costs and your local market outlook, use these stronger basis values to core bins and check quality. In the meantime, if you haven't done so, now is the time to sit down and work on your marketing plan for the year ahead. If you have any questions, don't hesitate to call—we're here to help. Until next week, have a great weekend and stay safe!

**All the Best!
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