

This Week in Agriculture:
News That Could Make a Difference: May 20, 2016

- Following the typical seasonal pattern we tend to see volatility continued to increase this week. Changing global supply and demand outlooks, extended weather forecasts as well as recognized conditions and adjustments to the Fed outlook for the summer were the main driving factors in this week's trade. When the dust settled we saw July corn up 4, July wheat down 7 and July beans up 9.
- The market continues to try and put a finger on just what exactly is shaping up in South America. Brazil continues to struggle with hot and dry conditions in the areas responsible for the bulk of Safrinha corn production. Over the last several years growers in the area have focused on growing soybeans in their first crop cycle before planting corn to be harvested in June. This has allowed growers to increase revenue on the same set of acres and significantly increase Brazil's role in the global corn market. Unfortunately at the same time the last couple years of increasing crop sizes has allowed the country to become somewhat complacent when it comes to supply concerns with many expecting a large corn crop to come to market in the early summer.
- That complacency combined with the weaker Real and strong global demand had exporters heavily shipping corn bushels the first half of the year. Talk of record corn exports from the country was cheered until recently when many feeders and domestic end users discovered the heavy shipments had all but depleted local supplies. The drop in domestic supplies has pushed prices to near record highs, with \$6.50 or more a bushel being reported in some areas.
- Similar to China the Brazilian government has worked to stockpile corn to combat issues such as these, but has not held back near enough. Many believe government stockpiles would only cover about 6 days worth of demand prompting end users to start importing corn as well as looking to wash out of or cancel export sale commitments in the short term.
- The country's agricultural group believes carryout will already come in 30 million bushels lower than current USDA estimates with that outlook dropping each day as the crop matures and production estimates slip. Some experts believe current export projections will have to drop by over 200 million bushels just to find equilibrium on the supply and price side once again. Perhaps opening the door to a continued strong export pace for the US into summer.
- Also on the corn demand side of things we saw the EPA come out with their updated 2017 proposal for ethanol blending and RFS requirements. In this week's proposal the EPA suggested bumping corn based ethanol usage slightly, but still coming in slightly below the initial RFS standards issued. While it will likely take months to make this proposal official its enactment would result in around 100 million bushels of additional corn usage in the 2017 calendar year. The USDA raised their new crop ethanol usage estimate by 50 million bushels in last week's report perhaps already factoring in that potential increase.
- Minutes from April's Federal Reserve meeting were released midweek catching some market participants off guard. After the April meeting many traders were surprised by how Fed Chairwoman Yellen had seemingly backed away from a potential June rate hike, taking a somewhat dovish approach in the face of global economic uncertainty. As a result of the talk in April many traders believed the chance of a June rate hike was well below 10%. However, this week the release of April's meeting minutes indicated the dovish approach wasn't necessarily set in stone with some participants adamant a June rate hike is necessary.
- This more hawkish approach combined with reasonably solid domestic economic indicators released this week have many traders believing a June rate hike is more likely than previously thought. The idea of a June hike pushed the dollar to near 7 week highs Thursday. The thought that a stronger dollar will limit export potential with a rate hike potentially limiting economic growth and subsequent demand for commodities had grains, metals and energies down big for much of the day Thursday. While nothing is set in stone just yet it does appear as though traders will remain hesitant to get too committed to one stance or another until the uncertainty on potential Fed moves dissipates.

- In other ag related news German based Bayer made its desire to acquire Monsanto official this week offering 42 billion dollars for the company. If Monsanto were to agree and the deal were to cross regulatory hurdles it would create a 67 billion dollar super company and the largest seed and chemical supplier in the world. With Dow/Dupont and Syngenta/ChemChina mergers still in the works the idea that we could see 6 of the world's suppliers pared down to 3 in a year has some farmers understandably concerned.
- The Climate Prediction Center released their updated summer weather outlooks this week. Their July-August outlook supports the general extended forecast idea of warmer than normal conditions throughout the bulk of the Corn Belt. However they see little in the way of drought conditions developing for the most part with equal chances for above and below normal precipitation everywhere but the heart of the Plains where they see above normal precip likely.
- NOAA (another group of the National Weather Service) released their drought outlook calling for a similar pattern, with their only drought concern centered in Northern portion of the Western Corn Belt (areas of North Dakota, South Dakota, Minnesota and Wisconsin).

The close to this week's trade was somewhat messy with rumors of large trading groups getting forced out of positions fueling the fire. We are seeing the uncertainty over market developments on the international front resulting in some very crazy market moves that many believed were impossible even a few short weeks ago. At this point it is best not to get bogged down too much with why a market is trading one way or another from one day to the next, but instead focus on not only what you're trying to accomplish from a profitability standpoint, but also the overall trends of the market.

Planting progress looks to come in around average Monday with many who have been delayed able to actually get out in the fields through the weekend and into the first part of next week. The next chapter to this year's production discussion will be whether we see cuts to corn acres in favor of planting beans or if acres were found elsewhere. In any event the idea that bean acres are increasing seems to be more solidly entrenched in the market, however the likelihood of a meltdown in price may remain limited until August weather can be confirmed. At this point don't forget to take advantage of rallies in corn and wheat while continuing to monitor bean moves as we look ahead. As always, don't hesitate to call us 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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