

This Week in Agriculture:

News That Could Make a Difference: October 28, 2016

- **While we are lacking one specific major story to drive the market, the amount of underlying narratives seem to increase by the day. With harvest over half done nationwide cash market developments are starting to give us a better idea on production and where we could head as we work our way through the marketing year. When the closing bell rang we saw wheat down 5 for the week with corn up 3 and soybeans up 18.**
- **Though weaker basis and spreads would indicate we have more than enough supplies of soybeans on hand to satisfy the pipeline the strong indicated demand for soybean oil combined with concerns over unharvested canola in Western Canada as well as a general risk on feel as we watch South America's growing season get started allowed beans to hit their highest level since June before settling back a bit as the week came to a close.**
- **Soybeans strong export pace, though somewhat expected continues to surprise traders as well. Current sales are running 243 million bushels ahead of a year ago with the USDA expecting an 89 mbu increase. In fact soybean exports for the month of October were so strong many economists are giving them credit for the surprise strength seen in GDP announced this morning, with one well-known financial analyst referring to them as being a "fluke" when it comes to valuing the performance of the overall economy.**
- **Fluke or not their contributions to overall economic strength, as well as other recent strong economic indicators have prompted many to believe the Fed will have nothing left to do but raise interest rates at its December meeting. At one point this morning the likelihood of a December rate increase was pegged at over 80% likelihood.**
- **The potential rate increase and perceived economic strength pushed the dollar to 9 month highs, at least until the FBI indicated it will look into new, recently discovered evidence surrounding the Clinton email probe. The idea that a.) a Clinton presidency (if elected) could be short lived if the probe finds malice or b.) there are a plethora of unknowns when it comes to Trump policy (if elected) was enough to push the dollar, stocks and just about everything but gold lower into Friday's close. The market hates unknowns and at this point we have just about reached our max unknown factor with all that has been developing recently.**
- **Speaking of unknowns, the South American growing season appears to be off to a decent start at first glance. Right now Brazilian plantings are ahead of average for both corn and soybeans, with Argentina corn plantings well underway. At this point aside from some recent heavy rains in Argentina's soy area and some potential dryness in parts of Brazil weather appears to be cooperating. It does appear as though the wet areas of Argentina will dry out over the next 10 days allowing soy planting to get started—though forecasts do point to the wet pattern returning further out, and while it is difficult to get a rally started from conditions considered too wet at the start of the growing season it will definitely warrant watching.**
- **Wet and snowy weather continues to hamper Western Canadian harvest progress as well, as several snow storms and rain events have blanketed the region in recent weeks. In Alberta alone it is estimated 25% of the total crop remains in the field. Of that nearly half the oat crop remains—explaining the nearly 70 cent rally seen recently, as well as 1/3rd of canola acres and nearly a quarter of the wheat crop. Quality issues will definitely impact availability even if the weather were to turn and harvest pace were to pick up.**
- **China continues to make headlines when it comes to their corn supplies. This week several provinces announced a nearly 75 cent subsidy for processors to encourage demand. Some processors in the areas reportedly holding the most corn are only running at 50% capacity, complaining the cheap US byproducts are limiting their margins and making it difficult to be competitive with high domestic**

corn prices. This subsidy will cover grain ground between November 1 and June of 2017. It will be interesting to see if this approach combined with the recent anti-US DDGs policies will help stoke domestic demand.

- It appears as though both the Dow/Dupont and Syngenta/ChemChina mergers will be delayed into the first quarter of 2017 versus their target year-end closing dates. The European Commission on trade is withholding approval of both deals pending further investigation into anti-trust developments.

As of Sunday night the USDA put corn harvest at 61% complete and soy harvest at 76% complete, both in line with the 5 year average. Here in Michigan weather has not been conducive to rapid harvest pace, with corn at 27% harvested-slightly behind the 5 year average and well below last year's 42% completion rate. At 51% harvested in the state soybeans are 12% below the 5 year average and well behind last year's 77% completion rate as well. Rain midweek throughout the Northern Belt is likely to have slowed further pace, though traders are expecting soybean harvest to be close to completed nationally when numbers are compiled at the start of next week. While too wet conditions are causing harvest headaches in our neck of the woods, dry conditions in the Southern Plains warrant watching as many of the wheat acres planted in the region sit idle waiting for a rain to help prompt germination.

Vessels arriving in Toledo as harvest wraps up should help keep soybean basis from weakening, with many local plants starting to firm values as the biggest logistic pinch appears to be over. Corn-wise we have an interesting development in local supply and demand as Western producers received many of the rains that dissipated as they moved East. As a result Western Michigan farmers are very happy with the corn they're harvesting while those in the East are seeing lower yields than expected. This will make for very different setups in your local market structure and will bear watching. If you have any questions don't hesitate to give us a call, we're here to help!

All the Best!

Angie Setzer

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