



Commodity Comments

A Weekly Farm Publication by Jonah Bowles

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In the greatest days of the British Empire, a new commanding officer was sent to an African jungle outpost to relieve the retiring colonel. After welcoming his replacement and showing the courtesies (gin and tonic, cucumber sandwiches) that protocol decrees, the retiring colonel said, "You must meet Captain Smithers, my right-hand man. He's really the strength of this office. His talent is simply boundless."

Smithers was summoned and introduced to the new CO, who was surprised to meet a toothless, hairless, scabbed and pockmarked specimen of humanity, a particularly unattractive man of less than three feet tall. "Smithers, old man, tell your new CO about yourself."

"Well, sir, I graduated with honors from Sand Hurst, joined the regiment and won the Military Cross and Bar after three expeditions behind enemy lines. I've represented Great Britain in equestrian events and won a Silver Medal in the middleweight division of the Olympics. I have researched the history of..."

Here the colonel interrupted, "Yes, yes, never mind that Smithers, the CO can find all that in your file. Tell him about the day you called the Witch Doctor an inconsequential quack."

IN THIS ISSUE

Prices Available Today

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PRICES AVAILABLE TODAY

The following prices are available on the various futures exchanges, the same markets that determine local prices for producers and consumers.

Top 3rd – Soybeans, Soybean Meal, Lean Hogs

Middle 3rd – Gasoline, Ethanol

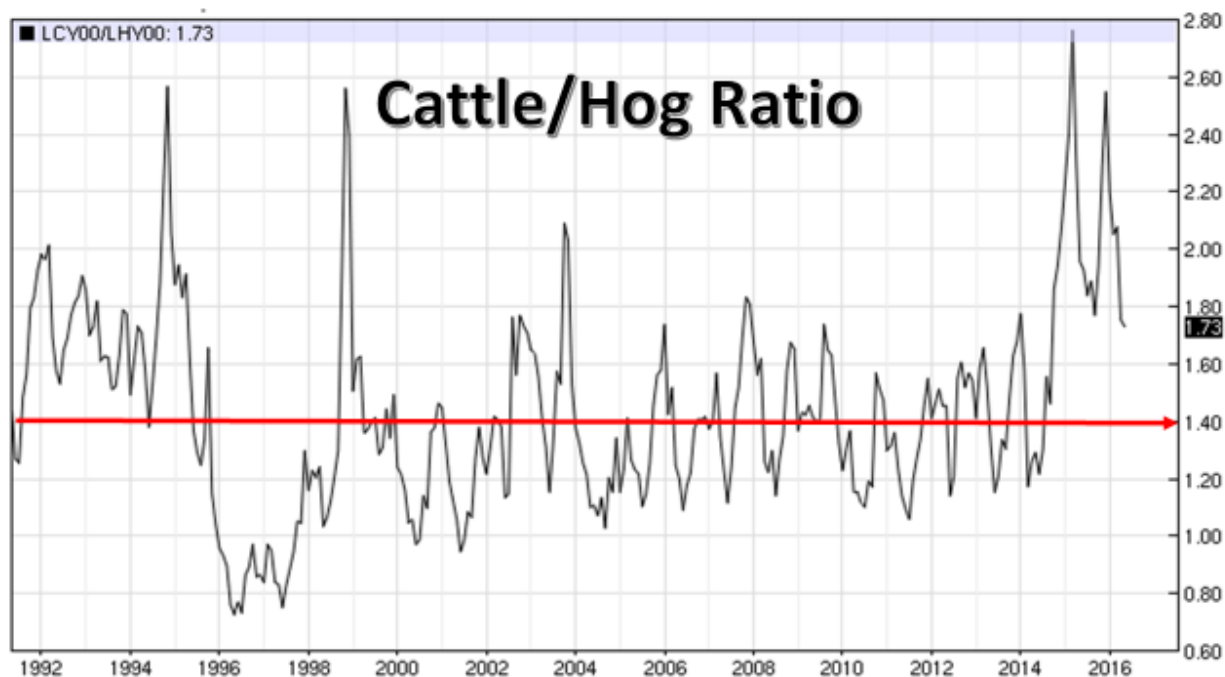
Bottom 3rd – Corn, Wheat, Cotton, Feeder Cattle, Live Cattle, Class III Milk, Crude Oil, Natural Gas, Heating Oil

Commodity	Month	Today	Week Ago	\$ Chg	% Chg	Life of Contract	
		5/11/16	5/4/16			High	Low
Corn	Jul-16	\$3.83	\$3.76	\$0.07	1.9%	\$5.15	\$3.51
	Dec-16	\$3.89	\$3.84	\$0.05	1.3%	\$4.89	\$3.64
	Dec-17	\$4.04	\$4.02	\$0.02	0.5%	\$4.74	\$3.80
Soybeans	Jul-16	\$10.89	\$10.24	\$0.65	6.3%	\$12.16	\$8.59
	Nov-16	\$10.72	\$10.07	\$0.65	6.5%	\$11.65	\$8.50
	Nov-17	\$9.79	\$9.56	\$0.23	2.4%	\$11.36	\$8.57
Soy Meal	Jul-16	\$365.80	\$336.40	\$29.40	8.7%	\$366.30	\$261.70
	Dec-16	\$359.10	\$331.60	\$27.50	8.3%	\$359.60	\$267.20
Wheat	Jul-16	\$4.63	\$4.69	(\$0.06)	-1.3%	\$7.66	\$4.42
	Dec-16	\$4.92	\$4.98	(\$0.06)	-1.2%	\$6.52	\$4.76
	Jul-17	\$5.20	\$5.29	(\$0.09)	-1.7%	\$6.10	\$5.04
Cotton	Jul-16	\$61.01	\$62.50	(\$1.49)	-2.4%	\$68.97	\$54.33
	Dec-16	\$60.90	\$61.85	(\$0.95)	-1.5%	\$80.40	\$54.19
Feeders	Aug-16	\$150.30	\$143.05	\$7.25	5.1%	\$190.00	\$138.10
	Oct-16	\$147.65	\$141.60	\$6.05	4.3%	\$180.10	\$137.50
	Jan-17	\$139.10	\$134.00	\$5.10	3.8%	\$150.15	\$129.40
Live Cattle	Aug-16	\$119.75	\$114.35	\$5.40	4.7%	\$145.75	\$110.90
	Oct-16	\$119.05	\$114.30	\$4.75	4.2%	\$147.00	\$110.90
	Aug-17	\$107.50	\$105.35	\$2.15	2.0%	\$113.00	\$103.25
Lean Hogs	Aug-16	\$80.90	\$81.90	(\$1.00)	-1.2%	\$82.15	\$71.30
	Oct-16	\$69.65	\$70.45	(\$0.80)	-1.1%	\$70.55	\$62.10
	Jul-17	\$78.00	\$77.45	\$0.55	0.7%	\$80.60	\$75.30
Class 3 Milk	Jun-16	\$12.50	\$12.91	(\$0.41)	-3.2%	\$16.90	\$12.38
	Dec-16	\$14.75	\$14.75	\$0.00	0.0%	\$16.84	\$14.54
Natural Gas	Jun-16	\$2.17	\$2.07	\$0.10	4.8%	\$4.25	\$1.84
Crude Oil	Jun-16	\$44.80	\$43.84	\$0.96	2.2%	\$92.50	\$30.79
Gasoline	Jun-16	\$1.50	\$1.52	(\$0.02)	-1.3%	\$2.05	\$1.15
Ethanol	Jun-16	\$1.53	\$1.51	\$0.02	1.3%	\$1.61	\$1.37
Diesel	Jun-16	\$1.35	\$1.34	\$0.01	0.7%	\$2.71	\$0.92
		Top Third				New High	New Low
		Middle Third					
		Bottom Third					

DO LIVESTOCK PRICES MAKE SENSE?

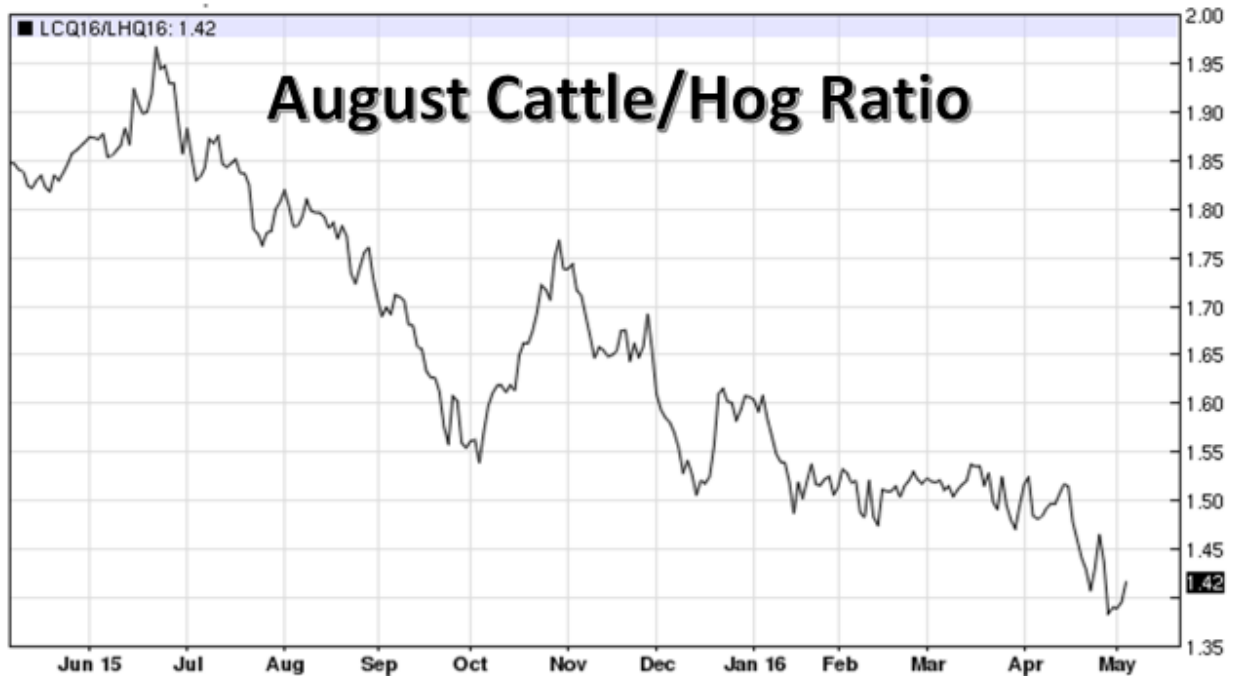
Grains and oilseeds trade trends that seem to follow one another with regard to direction. They also have relationships between them that can sometimes extend past that which has been considered 'normal'. The soybean/corn ratio at 2.6:1 appears to be favoring soybeans as the more profitable crop. The wheat/corn spread, depending on local basis adjustments, shows corn with the profit advantage. Livestock prices also have similar historical relationships that can help analyze strengths and weaknesses in the sector, often suggesting future trends.

Two ratios that have been used in the past are the cattle/corn and hog/corn ratios. Everyone who remembers algebra knows that when two knowns are compared to a common known, the two knowns can then be compared to each other. The first livestock comparison is the cattle/hog ratio -



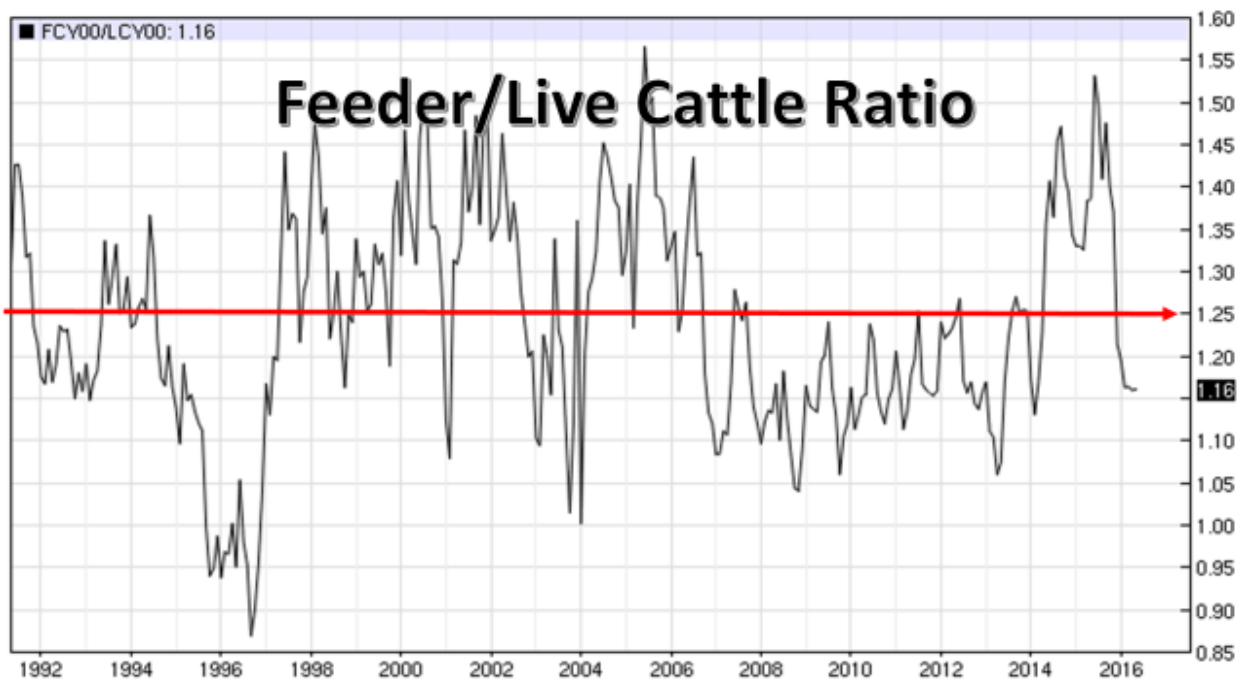
This chart is shown for clarification more than substance. The cattle/hog spread compares prices of live animals, but the Chicago Mercantile Exchange trades hog carcass prices, which are much higher. With that understanding, the chart still shows relative strength between two commodities and it would appear that cattle prices are strong compared to hog prices even though they have been much stronger.

The next chart shows a more recent comparison using August contracts for both the live cattle and lean hogs.

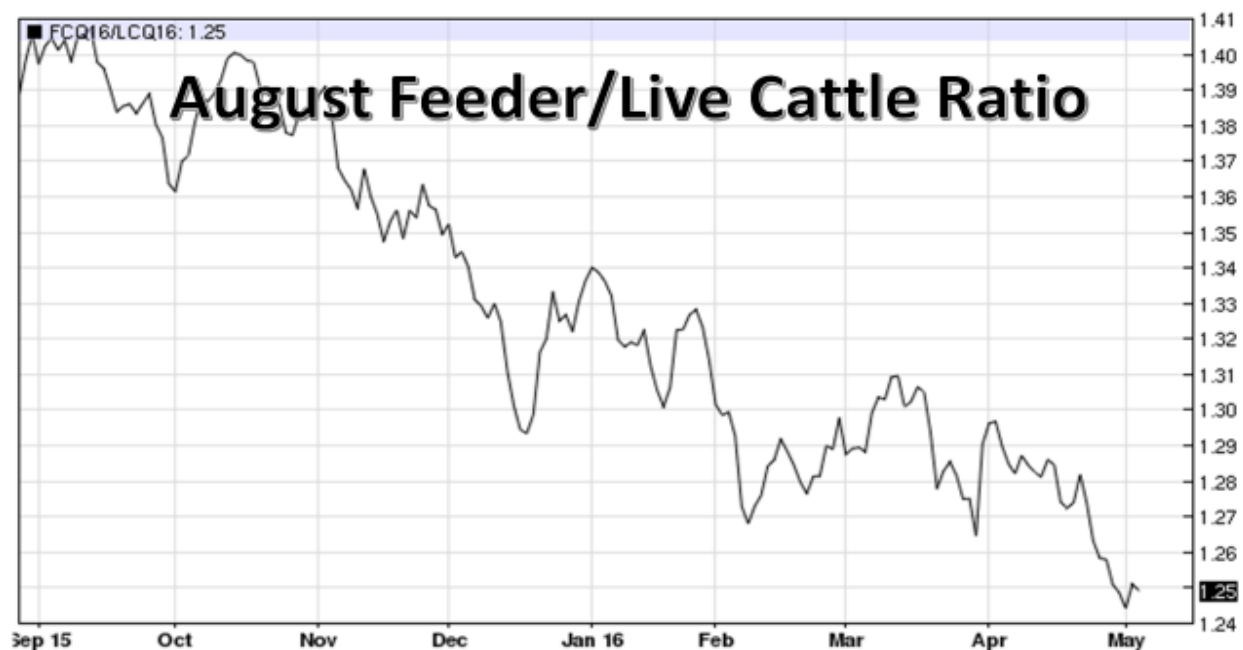


It becomes more evident in this chart that live cattle have been losing ground compared to the lean hogs during the past 12 months.

The feeder cattle/live cattle ratio can suggest a couple of things, (1) the trend in profits for feedlots and (2) the demand by feedlots for animals compared to the demand by consumers at the retail level. The next chart illustrates this over the past 25 years –



Not only are feeder cattle 'inexpensive' compared to live cattle, they have lost a lot of value in a rapid descent from the spike a year ago.



All of this has some bad news for Virginia growers as well as some good news for those who are able to withstand current prices. The bad news is that most of the beef production in Virginia is feeder weights and those values have been depressed. The good news is that feedlots can get more aggressive when buying feeder weights because their profitability is improving – provided retail demand remains firm.

From a timing standpoint, hogs peaked much earlier than cattle – January 2014 with hogs compared to November 2014 with cattle. During the downtrend, hogs lost 59% of their value, but cattle have only lost 29% so far. The hog market began a rebound in November 2015 while the cattle market may still be trying to find a bottom. As they currently stand from a price perspective, lean hogs are stronger than live cattle and live cattle are stronger than feeder cattle.

At some point in time pork will begin pricing itself out of the market and beef will price itself back into more of the market. A lot of what each sector can do will also be determined by the poultry and other meat sources, which have held an advantage over the red meats, primarily due to better marketing.

Markets don't always make sense, but they are always right (because they are the market).

CONSIDER THIS

Livestock producers in Virginia are fortunate to have Livestock Risk Protection (LRP) available as a risk management tool for consideration. Unlike the Chicago Mercantile Exchange contracts, which are in units of 50,000 pounds for feeder cattle and 40,000 pounds for live cattle and lean hogs, LRP can be purchased to protect the value of a desired number of animals - up to 1,000 per endorsement and 2,000 total per year.

A valid question for producers is, ‘How does the cost of insurance compare with the price risks?’ The following table shows the intermediate downtrends with livestock over the past 12 months –

August Feeder Cattle				August Live Cattle				August Lean Hogs			
Top	Bottom	Change	% Chg.	Top	Bottom	Change	% Chg.	Top	Bottom	Change	% Chg.
\$190.00	\$164.00	\$26.00	15.9%	\$146.00	\$121.00	\$25.00	20.7%	\$78.50	\$73.50	\$5.00	6.4%
\$184.00	\$160.00	\$24.00	15.0%	\$132.00	\$118.00	\$14.00	11.9%	\$79.00	\$75.50	\$3.50	4.4%
\$168.00	\$145.00	\$23.00	15.9%	\$124.00	\$113.00	\$11.00	9.7%	\$80.00	\$71.50	\$8.50	10.6%
\$167.00	\$150.00	\$17.00	11.3%	\$125.00	\$116.00	\$9.00	7.8%	\$82.00	\$77.00	\$5.00	6.1%
\$161.00	\$147.00	\$14.00	9.5%	\$125.00	\$111.00	\$14.00	12.6%	Average		\$5.50	
\$164.00	\$139.00	\$25.00	18.0%	Average		\$14.60					
Average		\$21.50									

The next table shows (2) costs of coverage for each period available for feeder cattle –

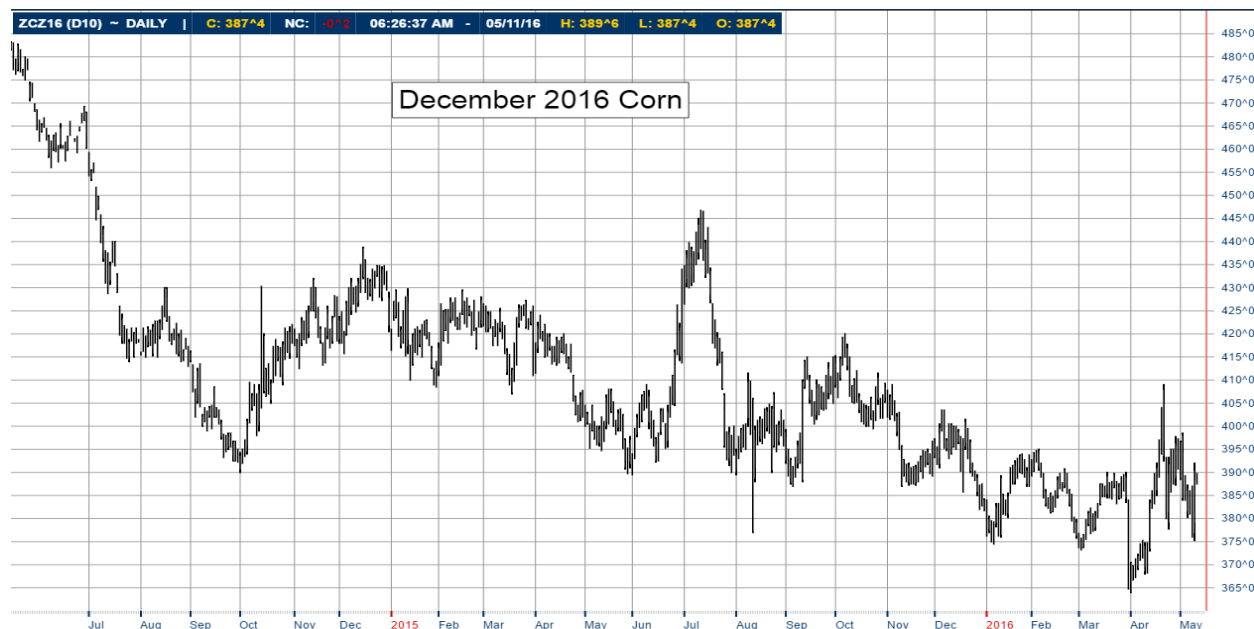
Length (Weeks)	Commodity	Type	Expected End Value	Coverage Price	Coverage Level	Rate	Cost/CWT	End Date
13	Feeders	Wt. 2 Steers	\$147.15	\$146.01	99.2%	4.1%	\$6.03	8/5/16
13	Feeders	Wt. 2 Steers	\$147.15	\$130.01	88.3%	0.9%	\$1.17	8/5/16
17	Feeders	Wt. 2 Steers	\$146.72	\$144.67	98.6%	4.7%	\$6.75	9/2/16
17	Feeders	Wt. 2 Steers	\$146.72	\$130.67	89.1%	1.6%	\$2.06	9/2/16
21	Feeders	Wt. 2 Steers	\$145.93	\$145.58	99.8%	5.5%	\$8.00	9/30/16
21	Feeders	Wt. 2 Steers	\$145.93	\$135.58	92.9%	3.0%	\$4.03	9/30/16
26	Feeders	Wt. 2 Steers	\$141.95	\$141.48	99.6%	5.8%	\$8.25	11/4/16
26	Feeders	Wt. 2 Steers	\$141.95	\$131.48	92.6%	3.3%	\$4.39	11/4/16

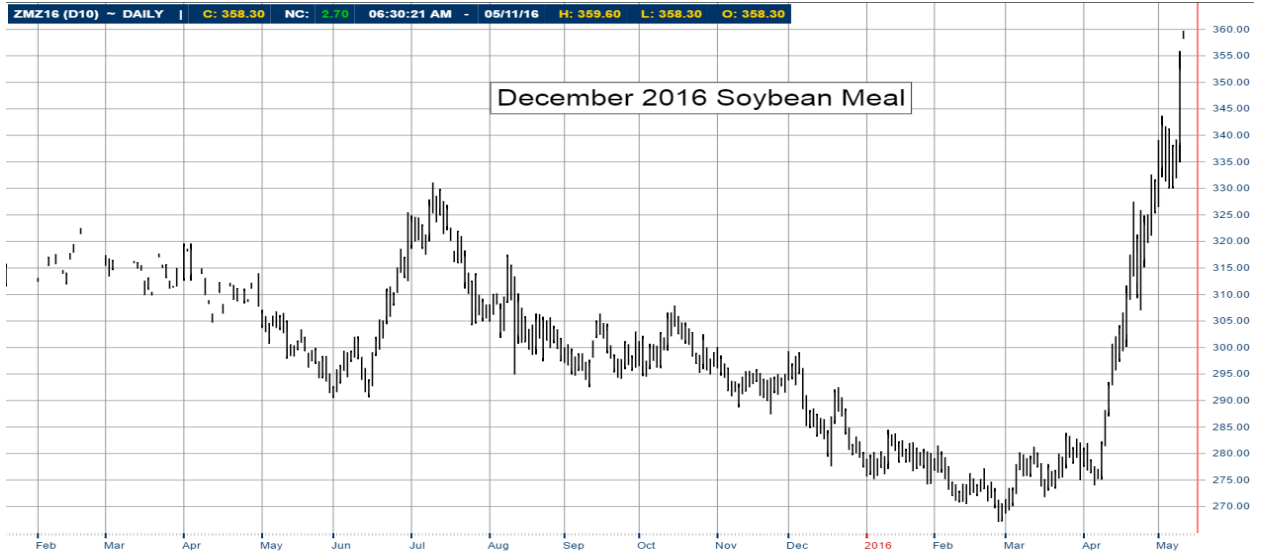
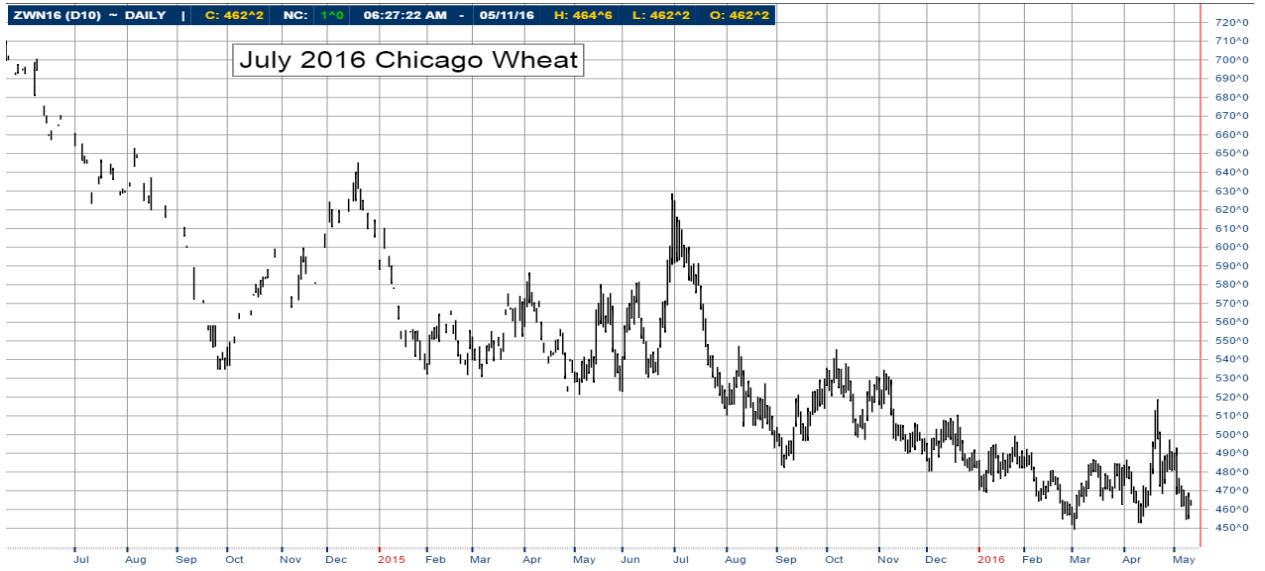
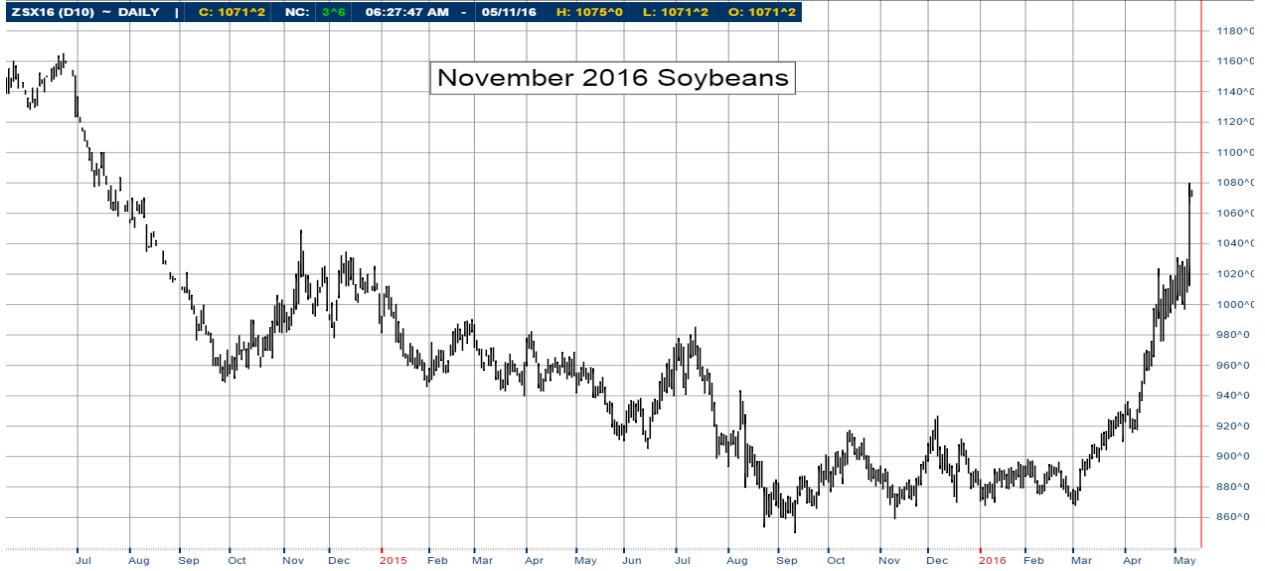
As is the case with most types of insurance, the buyer has the choice of insuring the (almost) entire value, or taking a deductible and insuring a lower value at a lower cost of premium. All of the numbers shown above are as of this writing (Monday) and should not be relied upon – contact a good crop insurance agent who is qualified to explain and offer this product.

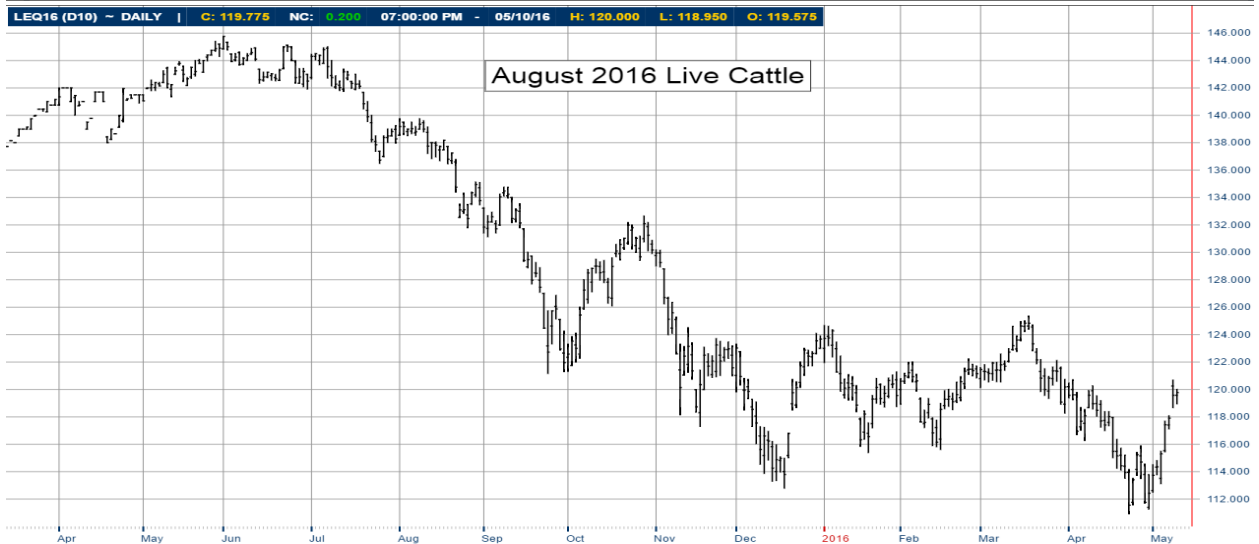
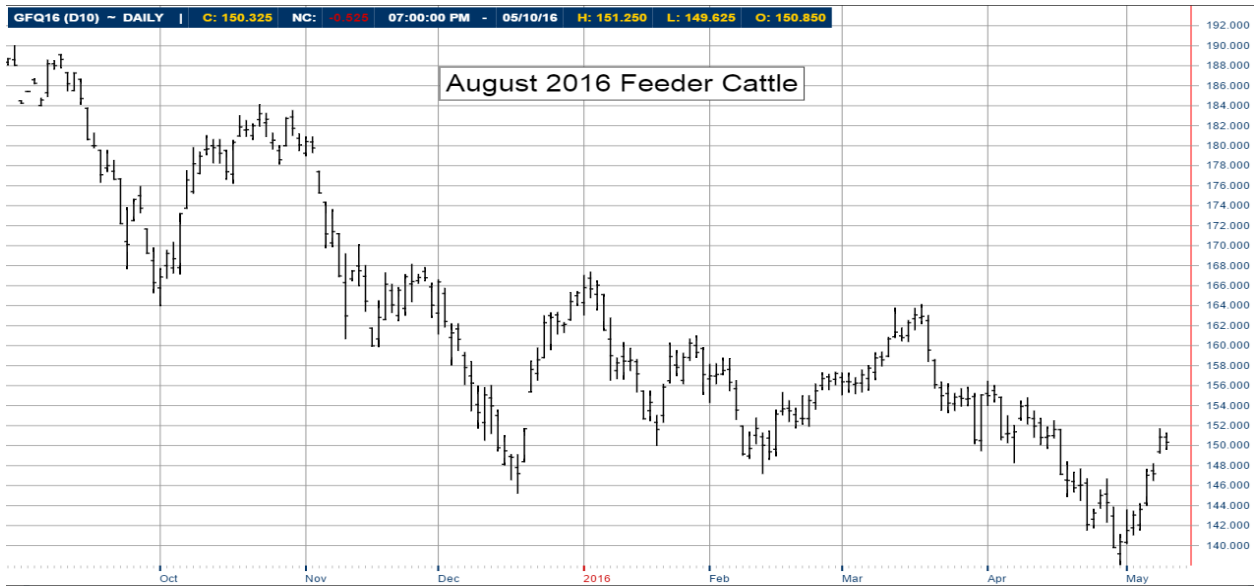
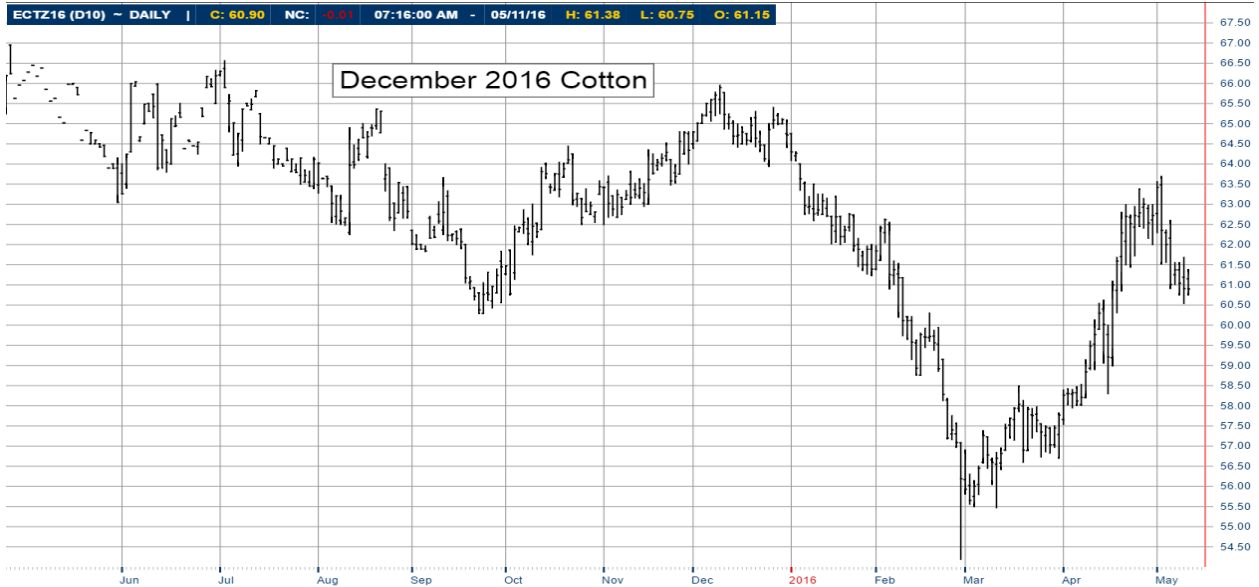
WORLD AGRICULTURAL SUPPLY DEMAND ESTIMATES

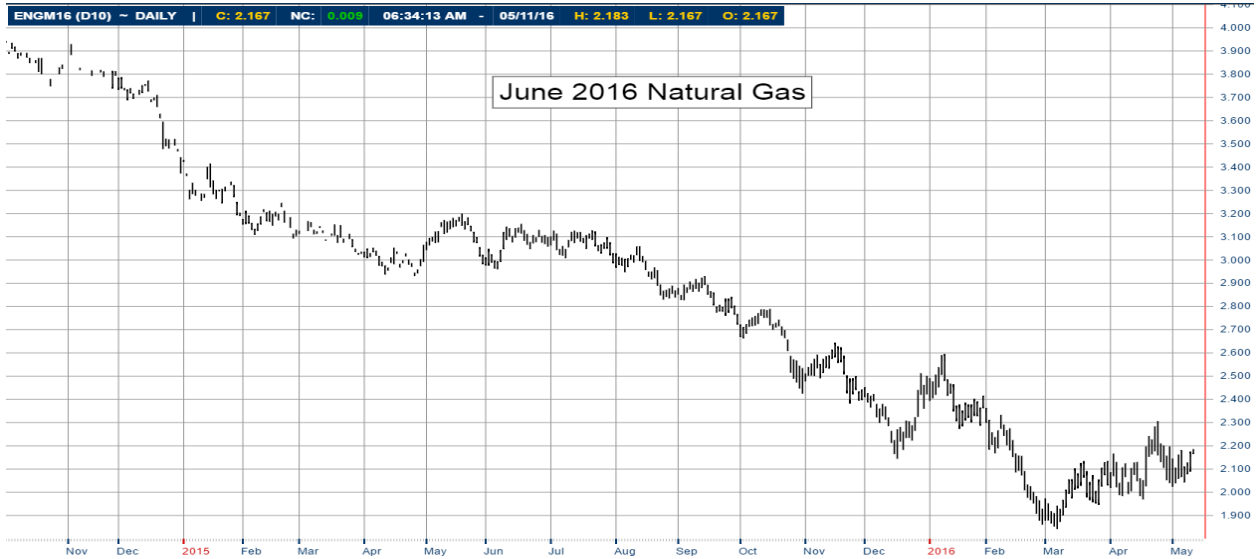
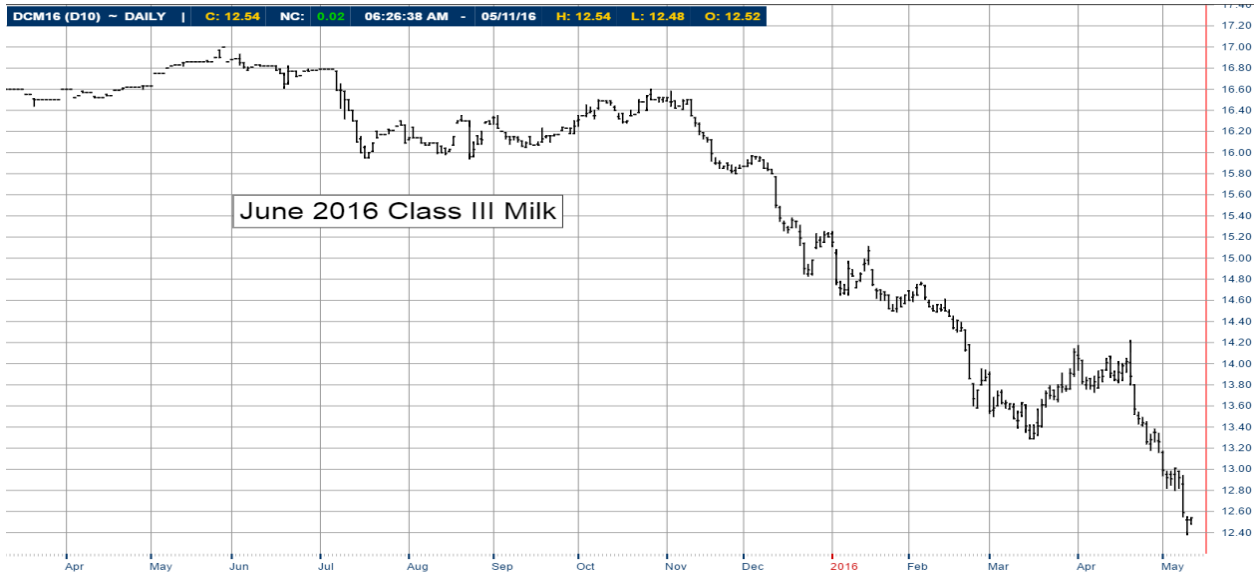
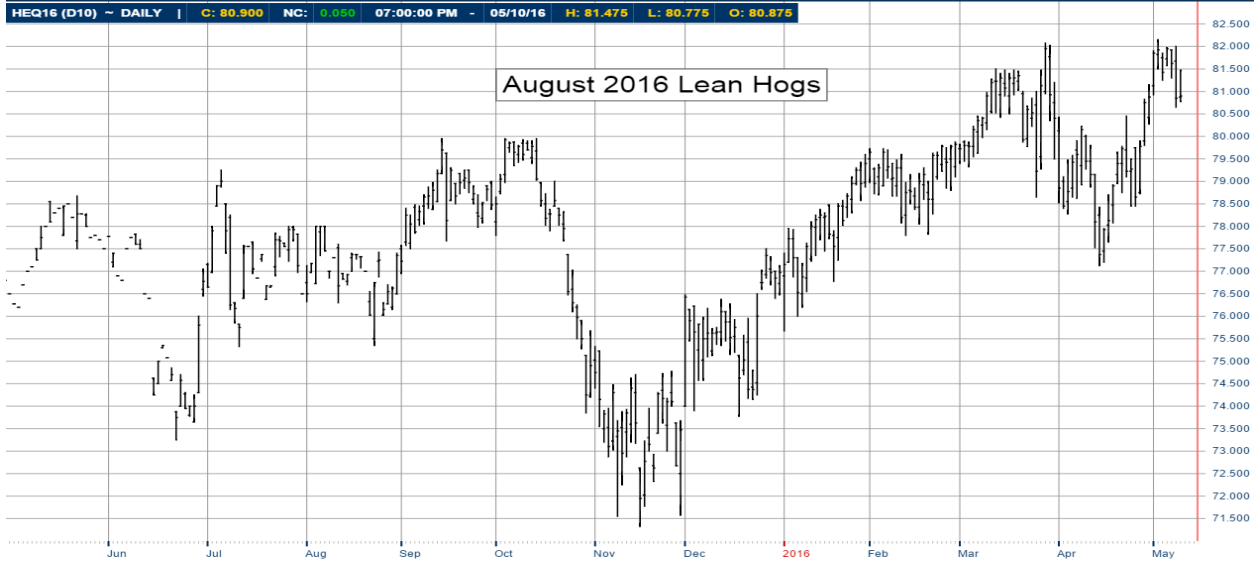
USDA released the estimates yesterday and there were a few surprises, mainly in the soybean complex. Markets responded very strongly to the upside, but gave back some of the gains by end of trading. The exception was the soybean meal market that remained strong into the close. New crop soybeans are now trading in the top third of its life-of-contract range.

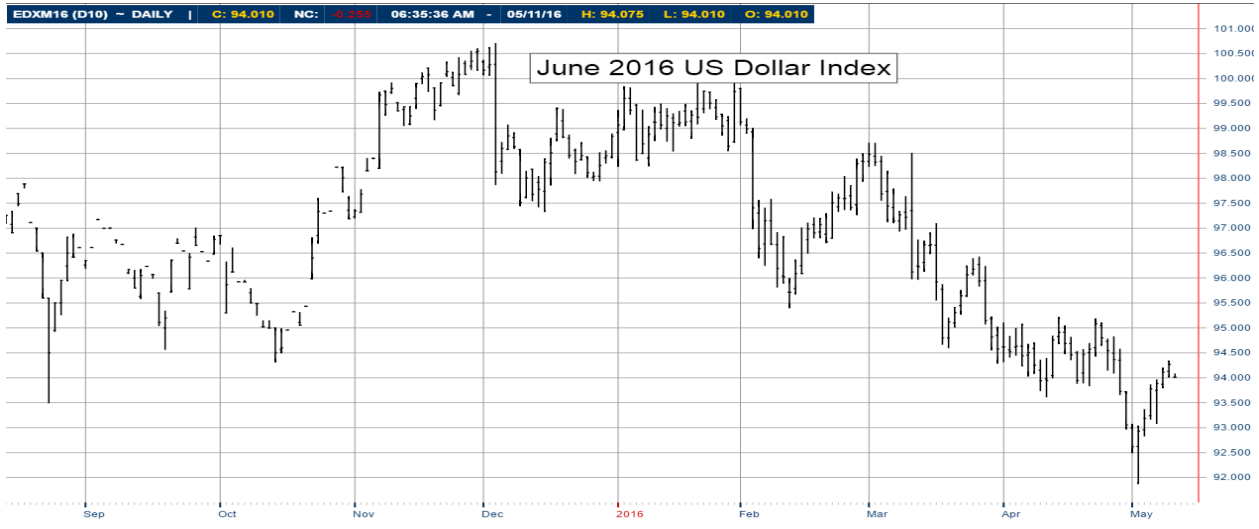
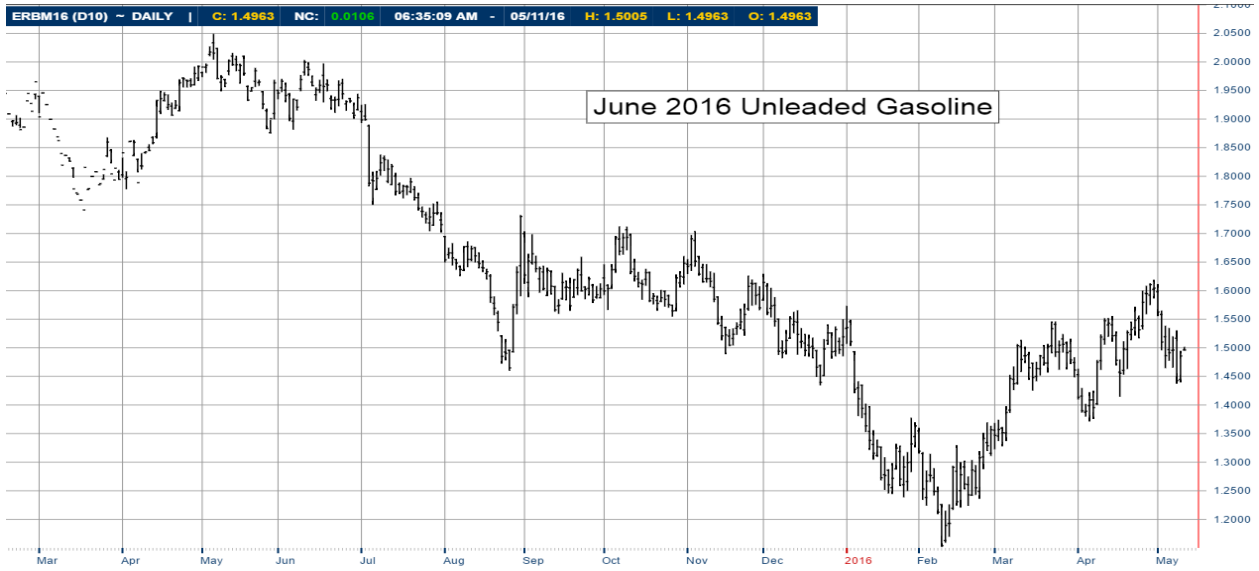
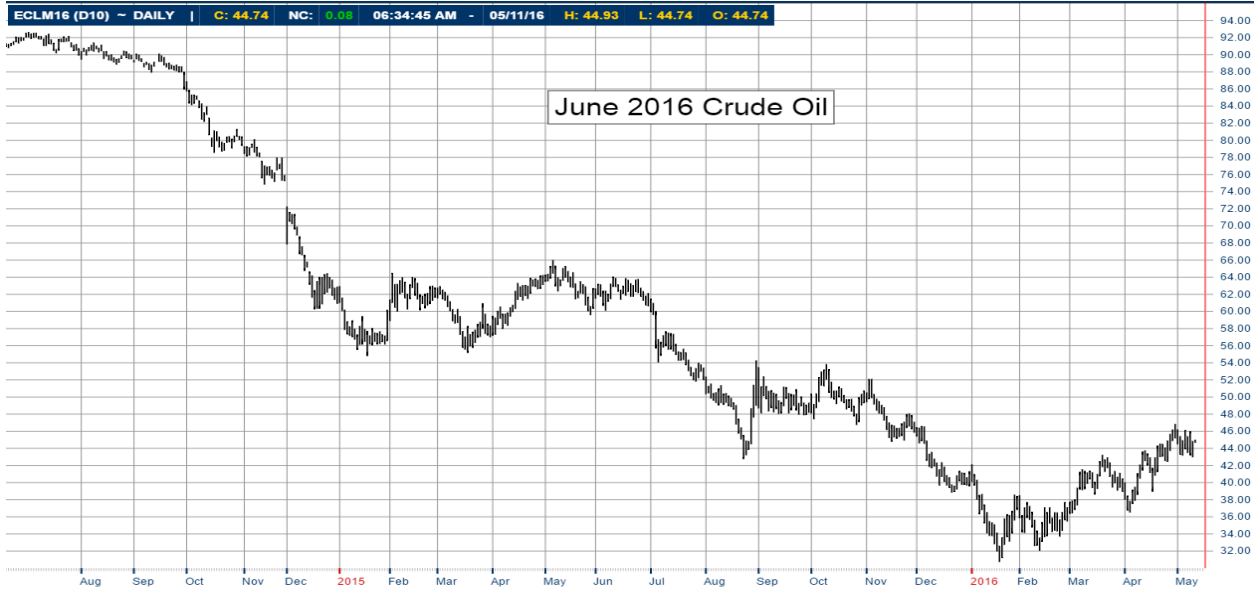
WORLD AGRICULTURAL S/D ESTIMATES					
UNITED STATES					
	<u>2016/17 Production</u>	<u>Avg. Est.</u>	<u>Range</u>	<u>2015/16 Production</u>	<u>Reaction</u>
Corn	14,430	14,151	13,590-14,431	13,601	Negative
Soybeans	3,800	3,788	3,703-3,903	3,929	Neutral
	<u>2016/2017 Stocks</u>	<u>Avg. Est.</u>	<u>Range</u>	<u>April Est.</u>	<u>Reaction</u>
Corn	2,153	2,294	1,950-2,555	N/A	Positive
Soybeans	305	405	290-500	N/A	Positive
Wheat	1,029	997	820-1,140	N/A	Negative
WORLD AGRICULTURAL S/D ESTIMATES					
WORLD					
	<u>2016/2017 Stocks</u>	<u>Avg. Est.</u>	<u>Range</u>	<u>April Est.</u>	<u>Reaction</u>
Corn	207.0	205.8	200.5-209.0	208.9	Neutral
Soybeans	76.9	76.3	71.5-78.3	79.0	Neutral
Wheat	257.3	239.8	238.3-241.2	239.3	Negative

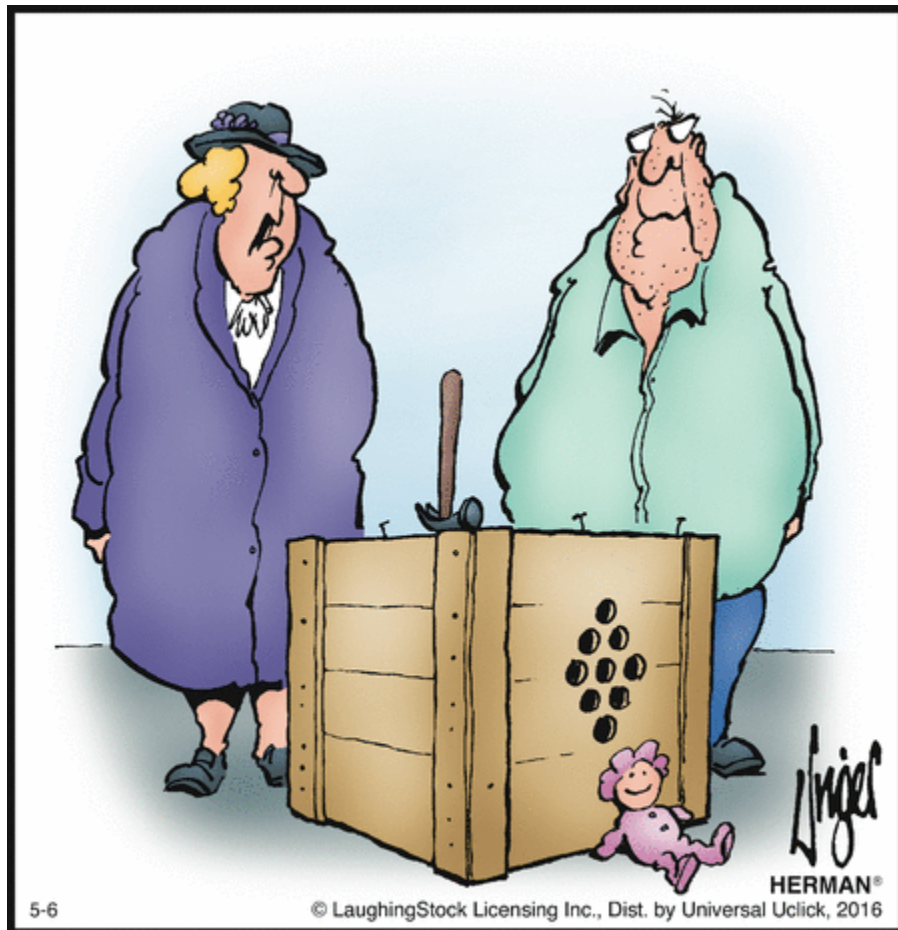
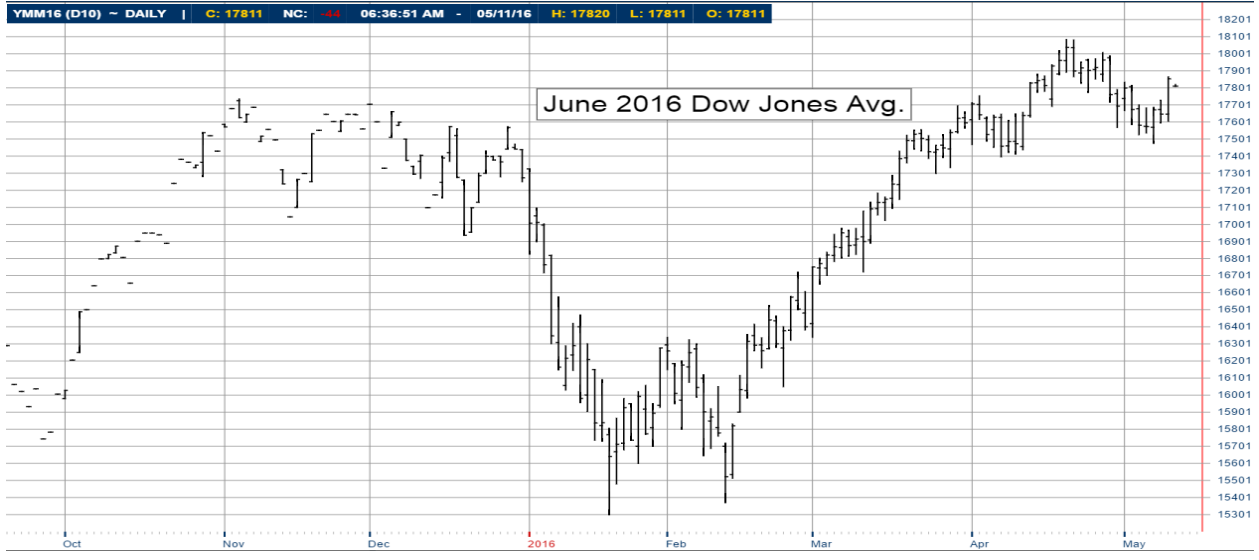












“This your idea of babysitting, is it?”