



Commodity Comments

A Weekly Farm Publication by Jonah Bowles

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MAY 18, 2016

The old farmer had recently passed away and it was time for the reading of the will at the family attorney's office. While waiting in the reception area for their appointment, sons Tony and Luke began yet another bickering session about which of them was the favorite son and which of them would receive the farm.

They were invited into the office. After a few preliminaries and disposal of some small items to cousins and friends, the subject of the farm was next. The lawyer took a deep breath, looked at the eldest brother Tony and said, 'Well, Tony, the farm is yours.'

Tony turned to his brother and said, 'See! I told you he liked you best!'

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PRICES AVAILABLE TODAY

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

Top 3rd – Soybeans, Soybean Meal, Lean Hogs, Ethanol

Middle 3rd – Gasoline

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	
		5/18/16	5/11/16			High	Low
Corn	Jul-16	\$3.96	\$3.83	\$0.13	3.4%	\$5.15	\$3.51
	Dec-16	\$4.03	\$3.89	\$0.14	3.6%	\$4.89	\$3.64
	Dec-17	\$4.14	\$4.04	\$0.10	2.5%	\$4.74	\$3.80
Soybeans	Jul-16	\$10.74	\$10.89	(\$0.15)	-1.4%	\$12.16	\$8.59
	Nov-16	\$10.62	\$10.72	(\$0.10)	-0.9%	\$11.65	\$8.50
	Nov-17	\$9.72	\$9.79	(\$0.07)	-0.7%	\$11.36	\$8.57
Soy Meal	Jul-16	\$369.10	\$365.80	\$3.30	0.9%	\$366.30	\$261.70
	Dec-16	\$361.80	\$359.10	\$2.70	0.8%	\$359.60	\$267.20
Wheat	Jul-16	\$4.80	\$4.63	\$0.17	3.7%	\$7.66	\$4.42
	Dec-16	\$5.04	\$4.92	\$0.12	2.4%	\$6.52	\$4.76
	Jul-17	\$5.30	\$5.20	\$0.10	1.9%	\$6.10	\$5.04
Cotton	Jul-16	\$62.18	\$61.01	\$1.17	1.9%	\$68.97	\$54.33
	Dec-16	\$61.60	\$60.90	\$0.70	1.1%	\$80.40	\$54.19
Feeders	Aug-16	\$148.75	\$150.30	(\$1.55)	-1.0%	\$190.00	\$138.10
	Oct-16	\$145.05	\$147.65	(\$2.60)	-1.8%	\$180.10	\$137.50
	Jan-17	\$136.80	\$139.10	(\$2.30)	-1.7%	\$150.15	\$129.40
Live Cattle	Aug-16	\$119.80	\$119.75	\$0.05	0.0%	\$145.75	\$110.90
	Oct-16	\$119.20	\$119.05	\$0.15	0.1%	\$147.00	\$110.90
	Aug-17	\$106.80	\$107.50	(\$0.70)	-0.7%	\$113.00	\$103.25
Lean Hogs	Aug-16	\$82.65	\$80.90	\$1.75	2.2%	\$82.90	\$71.30
	Oct-16	\$70.65	\$69.65	\$1.00	1.4%	\$70.95	\$62.10
	Jul-17	\$78.15	\$78.00	\$0.15	0.2%	\$80.60	\$75.30
Class 3 Milk	Jun-16	\$12.39	\$12.50	(\$0.11)	-0.9%	\$16.90	\$12.20
	Dec-16	\$14.86	\$14.75	\$0.11	0.7%	\$16.84	\$14.54
Natural Gas	Jun-16	\$2.03	\$2.17	(\$0.14)	-6.5%	\$4.25	\$1.84
Crude Oil	Jun-16	\$48.51	\$44.80	\$3.71	8.3%	\$92.50	\$30.79
Gasoline	Jun-16	\$1.64	\$1.50	\$0.14	9.3%	\$2.05	\$1.15
Ethanol	Jun-16	\$1.59	\$1.53	\$0.06	3.9%	\$1.61	\$1.37
Diesel	Jun-16	\$1.46	\$1.35	\$0.11	8.1%	\$2.71	\$0.92
		Top Third				New High	New Low
		Middle Third					
		Bottom Third					

PLAN LONG TERM AND ACT SHORT TERM

When a risk management or marketing plan is short term and the actions taken are short term that can best be described as emotional reactionary decision-making. It might work out occasionally, but it should not be counted on for consistency.

Long term plans can have short term actions, but those short term actions are expected to produce long term results. Some examples of short term and long term decisions/actions are –

- Short term – Sell December 2016 corn if it gets to \$4.00.
- Long term – Sell 20% of 2016 and 2017 new crop corn when they achieve 10% profit after projected costs and returns. Add to sales as corn prices rise \$.25 using \$.10 trailing stops (explained in more detail below). Be open to marketing at least two crop years at a time with the process.

For the 15-year period 2000 through 2015, the following were the average yields for corn, soybeans and wheat. Also listed is an average cost per acre for each crop and the current local basis that is being used.

- Corn – 119.3 bushels per acre, \$475 cost per acre, December plus \$.50.
- Soybeans – 34.3 bushels per acre, \$335 cost per acre, November price.
- Wheat – 61.9 bushels per acre, \$350 cost per acre, July minus \$.45.

If a grower wants a 10% return for his/her efforts, acceptable profitability is achieved by a combination of production and price and would be obtained with –

- Average corn yield of 119.3 bushels and a Chicago price of \$3.88, or...
- ...current Chicago price of \$4.04 and a production of 115 bushels.

- Average soybean yield of 34.3 bushels and a Chicago price of \$10.75, or...
- ...current Chicago price of \$10.67 and a production of 34.0 bushels.

- Average wheat yield of 61.9 bushels and a Chicago price of \$6.20, or...
- ...current Chicago price of \$4.82 and a production of 89 bushels.

The likelihood of any of these combinations being experienced in the market is something that each grower must evaluate and then make decisions accordingly. In the case with wheat, Virginia did not see average yields of 89 bushels during the period that would be necessary for today's Chicago prices to be profitable. Both corn and soybeans did see average yields during the 15 seasons that would allow current Chicago prices to cover costs of production plus a 10% return.

CONSIDER THIS

Locking in profits is almost as important as cutting losses, but not quite. Profits are nice, but it's the losses that can be damaging. Losses and cold temperatures can be very similar when compared by magnitude and duration –

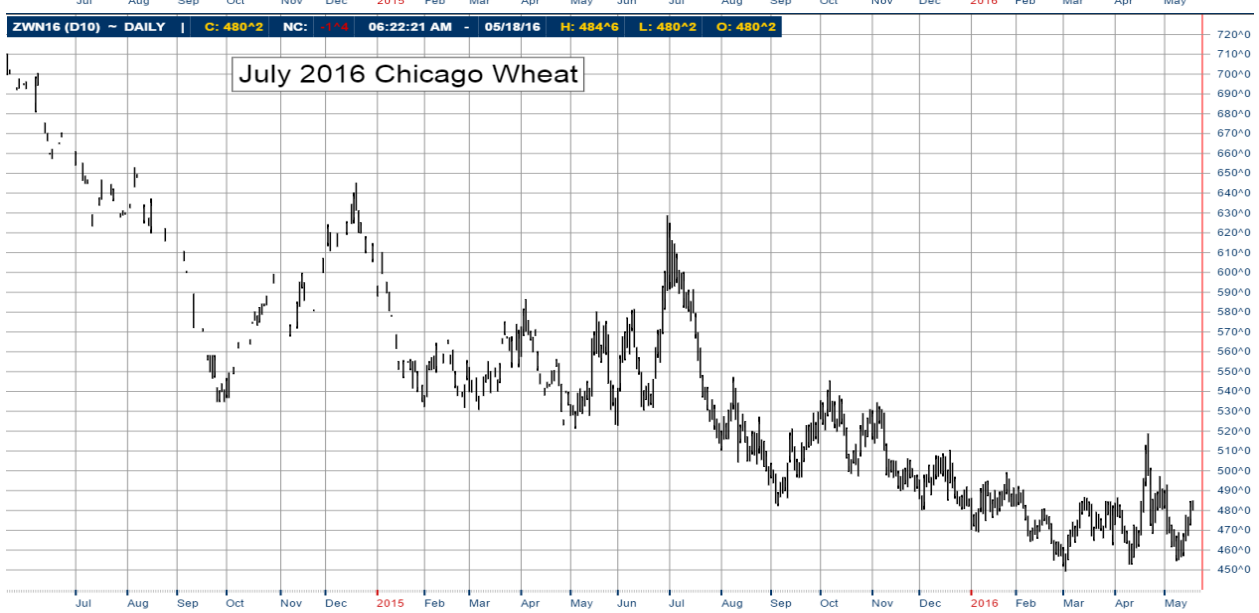
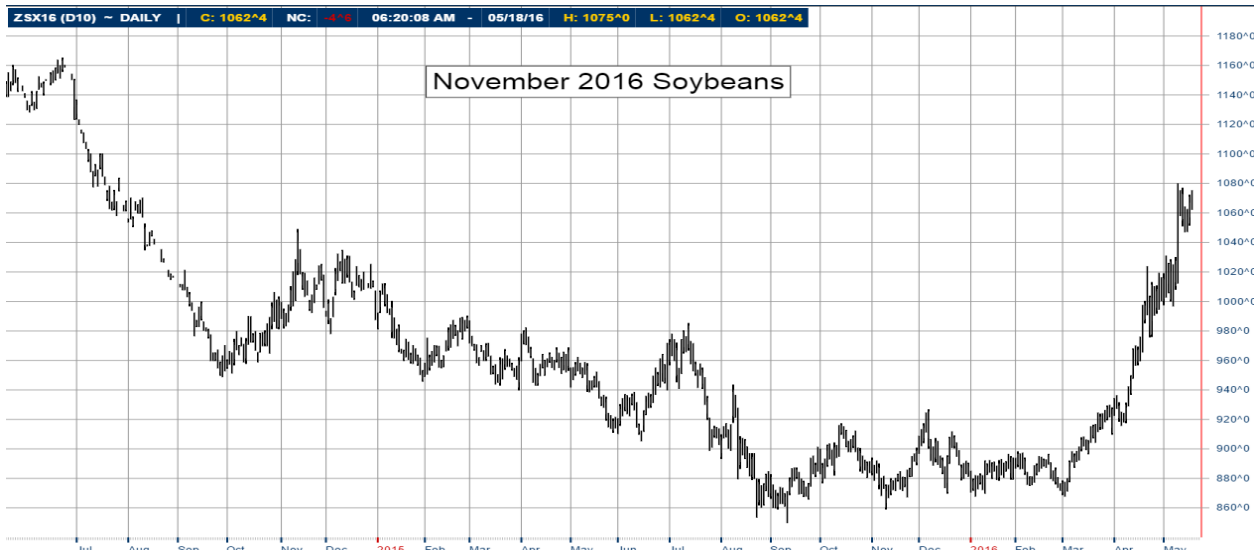
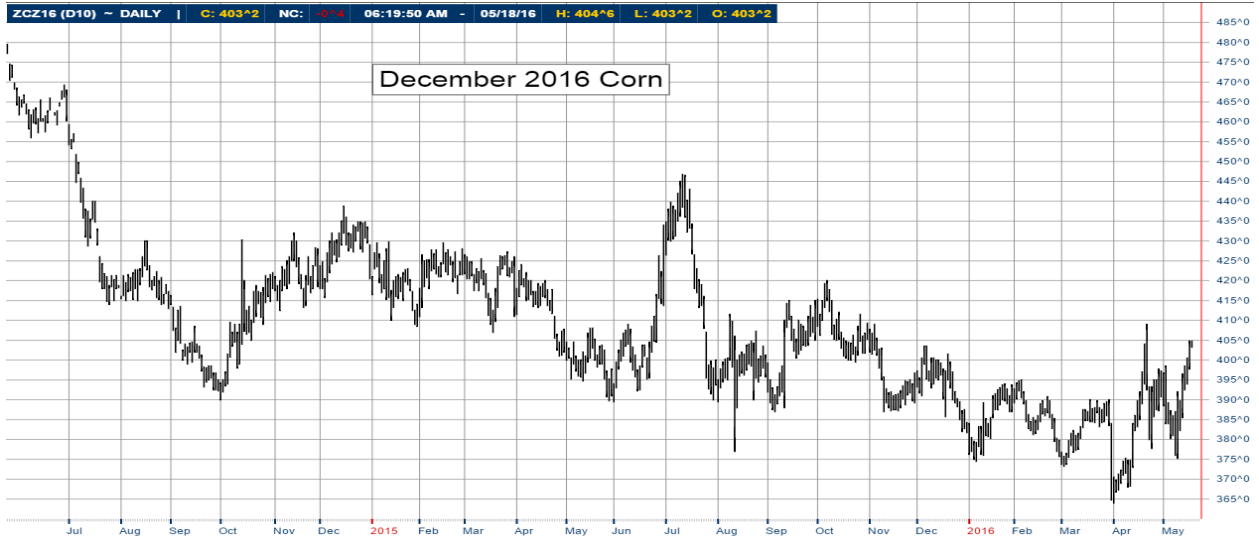
- A short term spike down in temperatures can be uncomfortable and can have slight, negative, uncomfortable implications for humans (and plants and other animals). But, an extended drop in temperatures can be deadly for anyone and anything not prepared for it.
- A short term drop in profits can create an adjustment in cash flow and spending habits for a period of time. But, a sustained decline in income can be the ruination of an agricultural operation that has not prepared for such occasions.

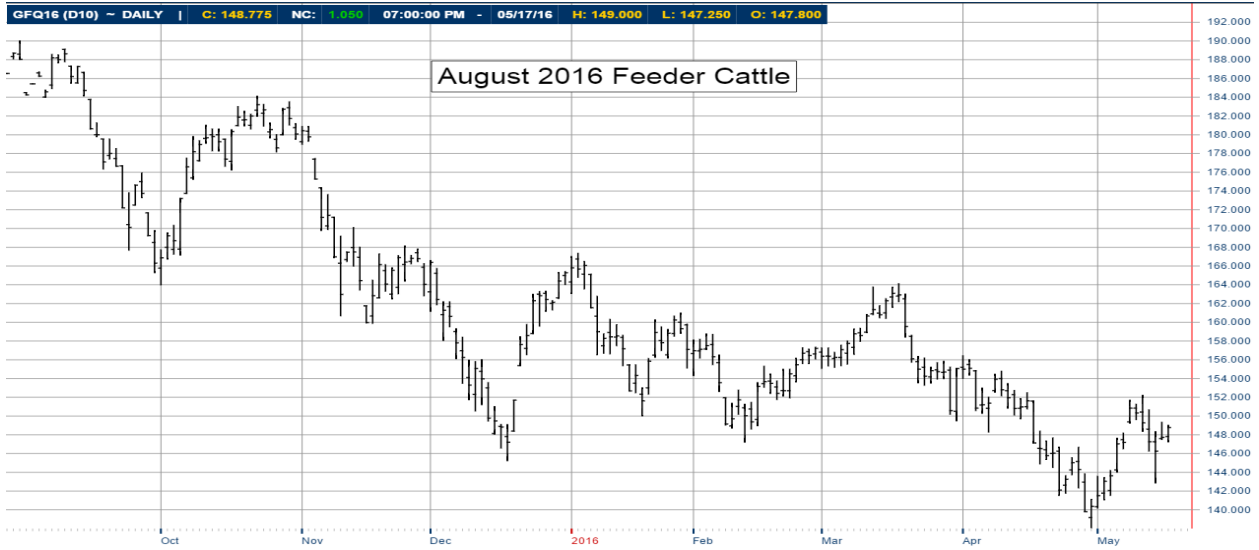
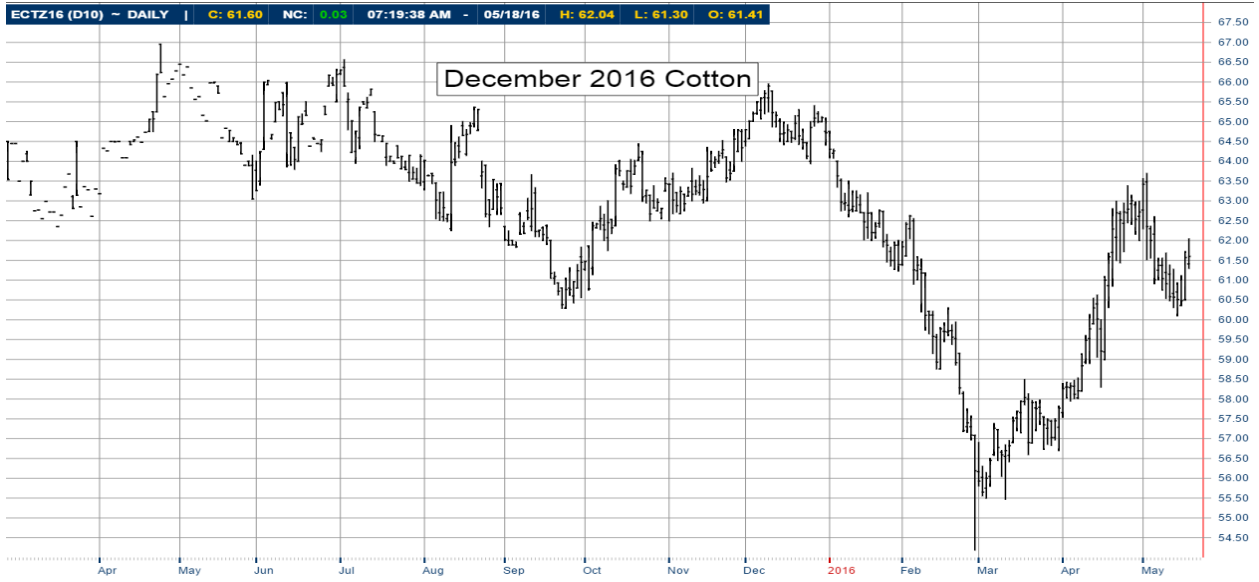
One approach to limiting/cutting/preventing losses is with the use of a strategy called 'trailing stops'. It allows for the possibility of a favorable move in the market, but never tolerates a large harmful market move. The use of 'stop loss orders' in any strategy considers several criteria that should not change during the process, but only one is a constant – the amount of risk that is acceptable.

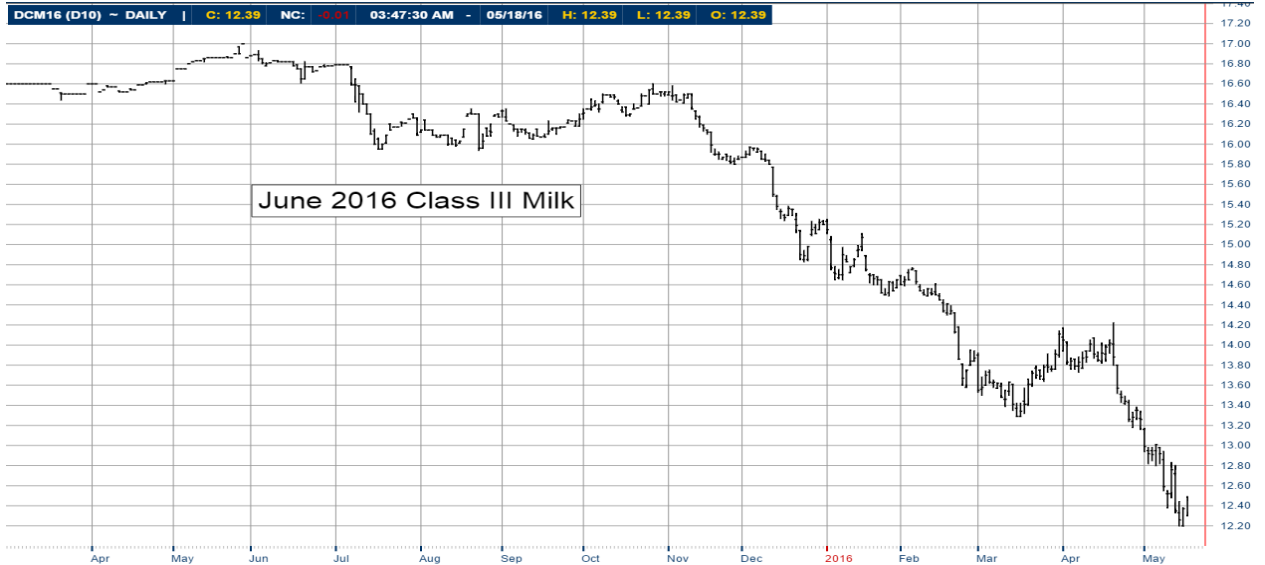
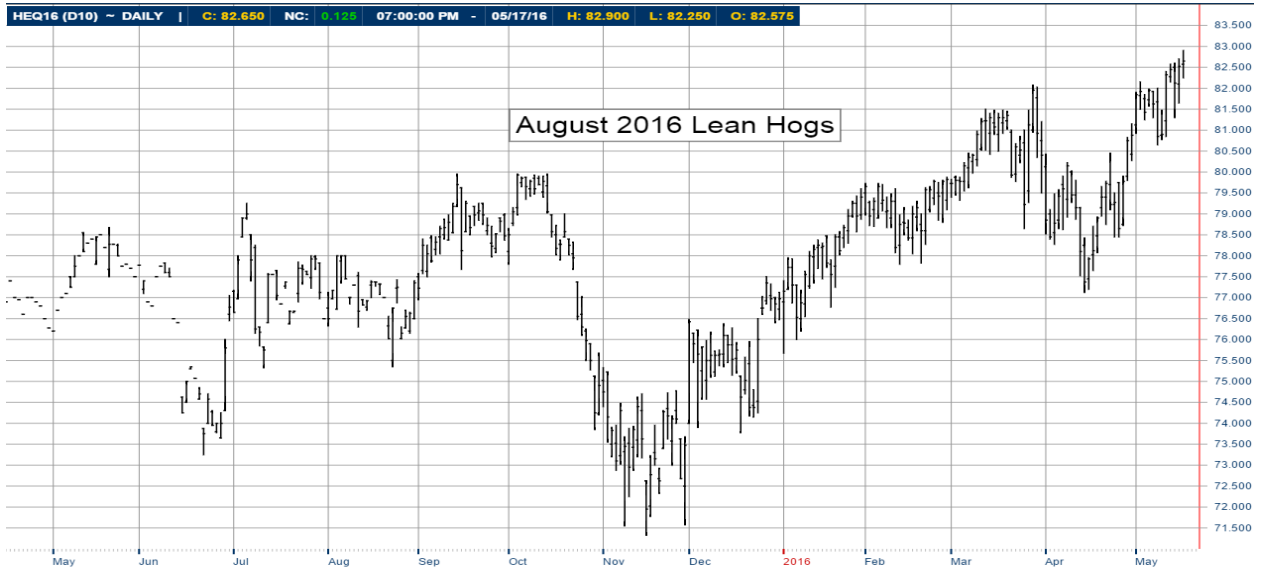
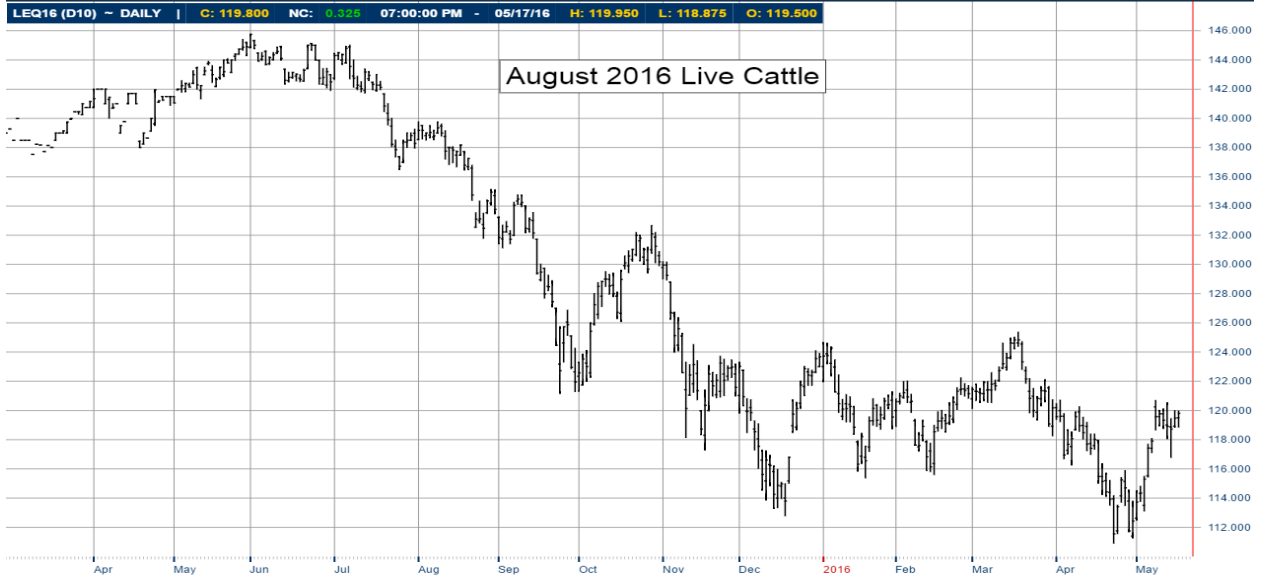
The technique begins with the current market condition and identifies an amount of risk that is acceptable/tolerable. For example, December corn (as of this writing) is trading for \$4.04 and the grower would like \$4.25, but is unwilling to risk more than \$.15. Orders would be placed to 'Sell December corn at \$4.25' AND 'Sell December corn at \$3.89 stop'. If December corn falls to \$3.89, the stop order is filled and the limit order for \$4.25 would be cancelled. If December corn doesn't fall, but moves up to \$4.10, cancel the \$3.89 sell-stop and re-enter it for \$3.95 sell-stop – still risking \$.15. If December corn approaches \$4.25, two things can happen, (1) sell December corn for \$4.25 and cancel the \$3.95 sell-stop, or (2) cancel the sell order for \$4.25 and the \$3.95 sell-stop order and replace the 'trailing stop' now at \$4.10 sell-stop. At some point, either the limit order or the trailing stop will fill – locking in a profit or cutting losses.

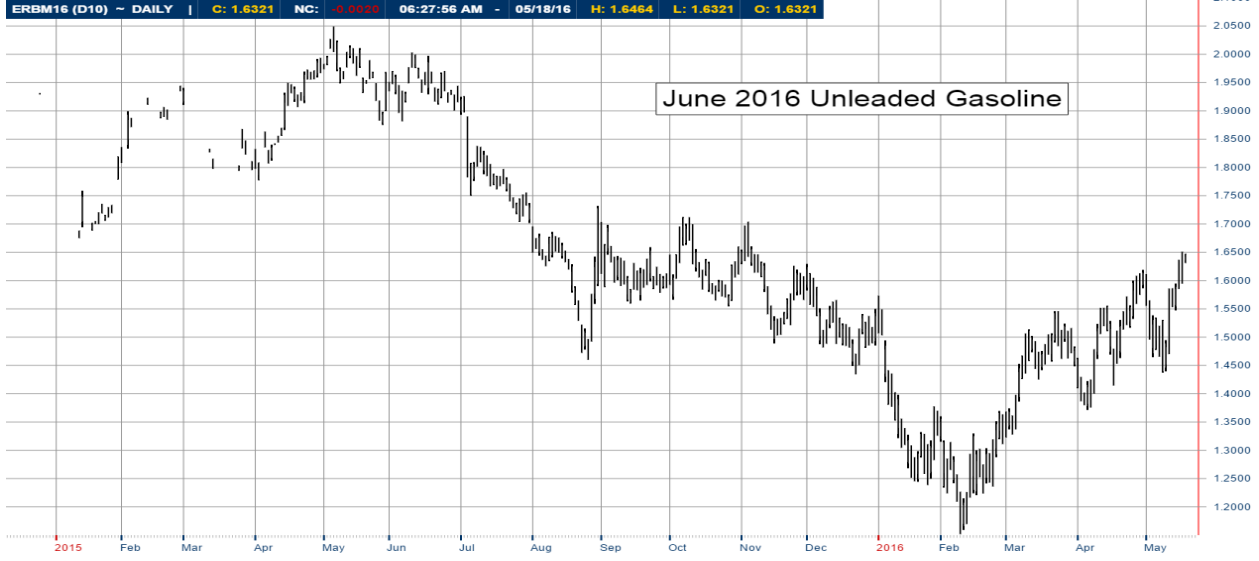
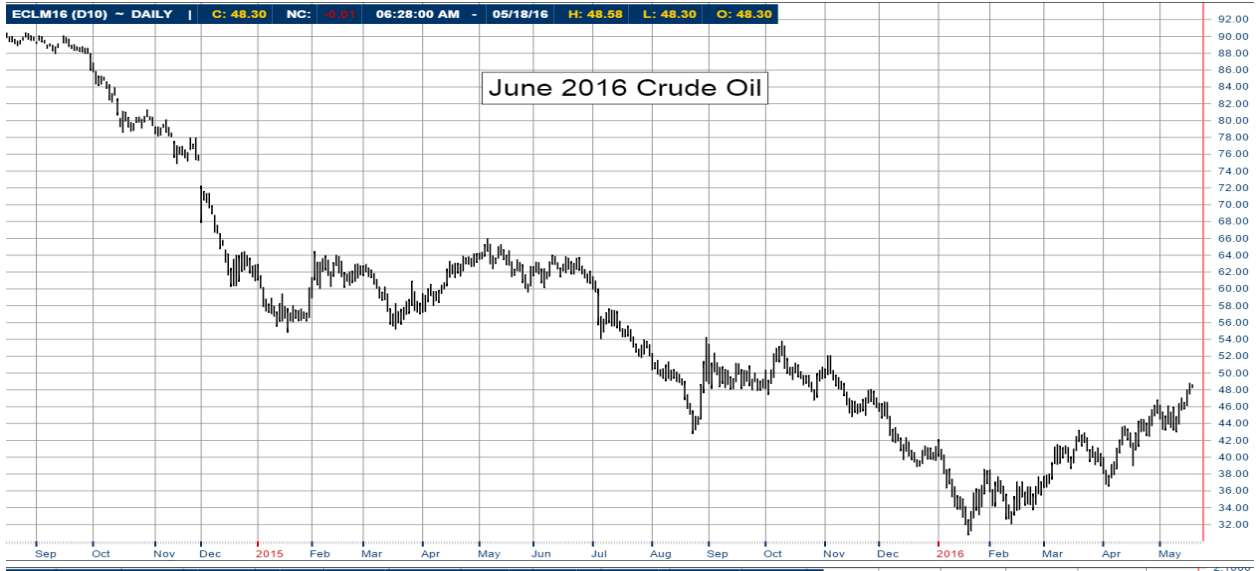
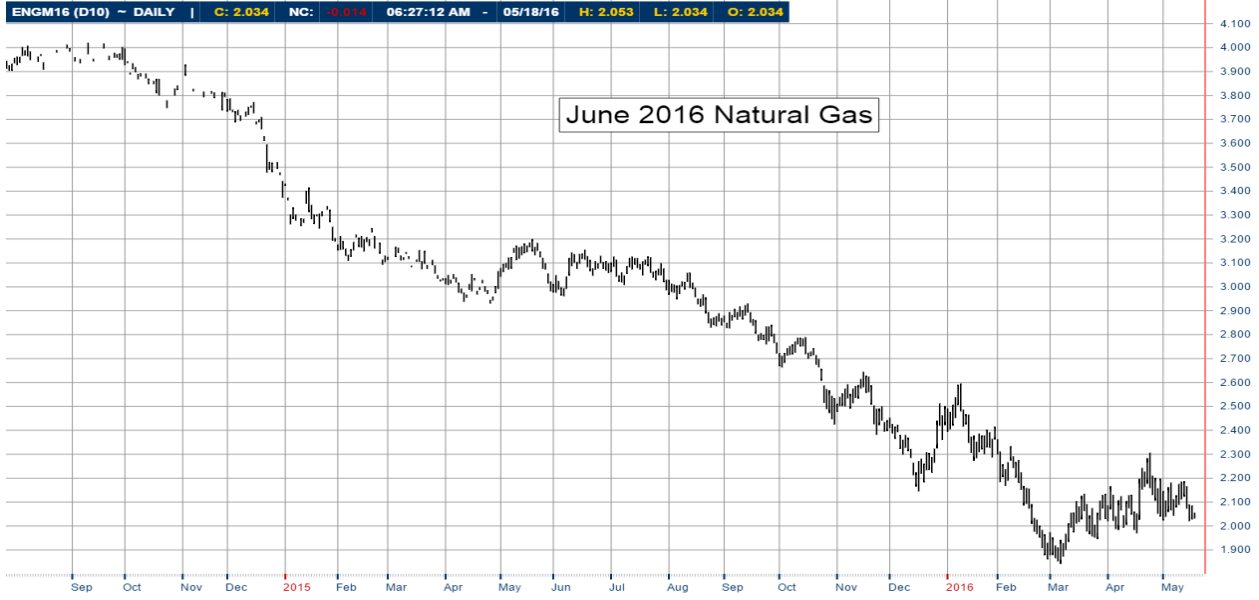
If the market moves higher during the course of this strategy the stop can be raised, but NEVER lower the stop once it is entered. All orders should be placed as good until cancelled (GTC) so protection will remain in place during all trading sessions.

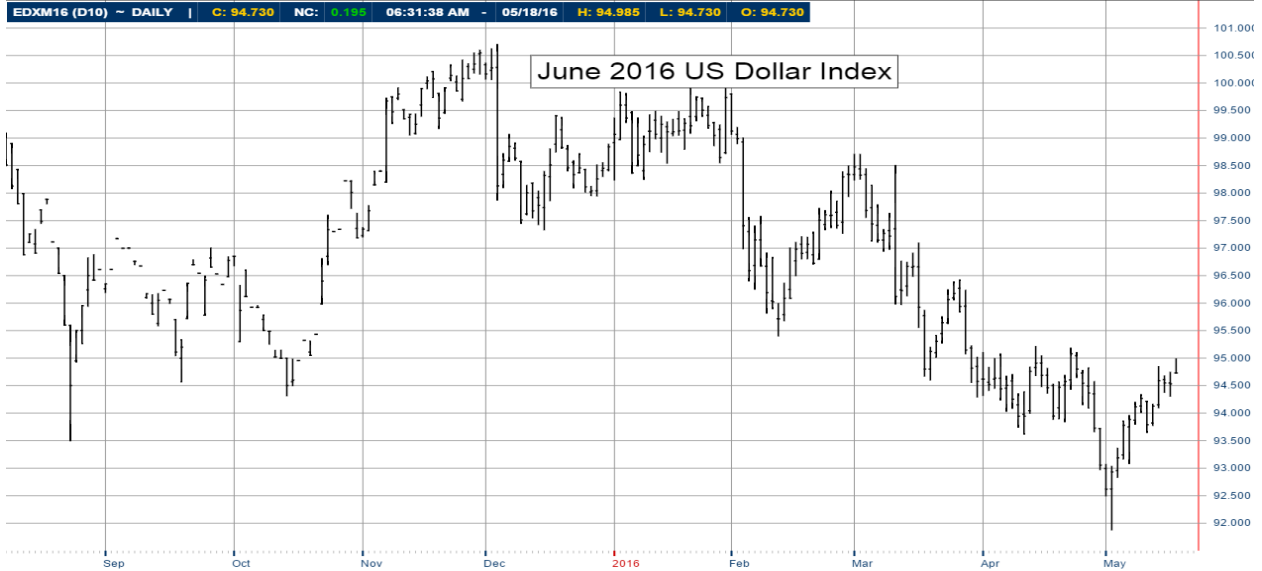
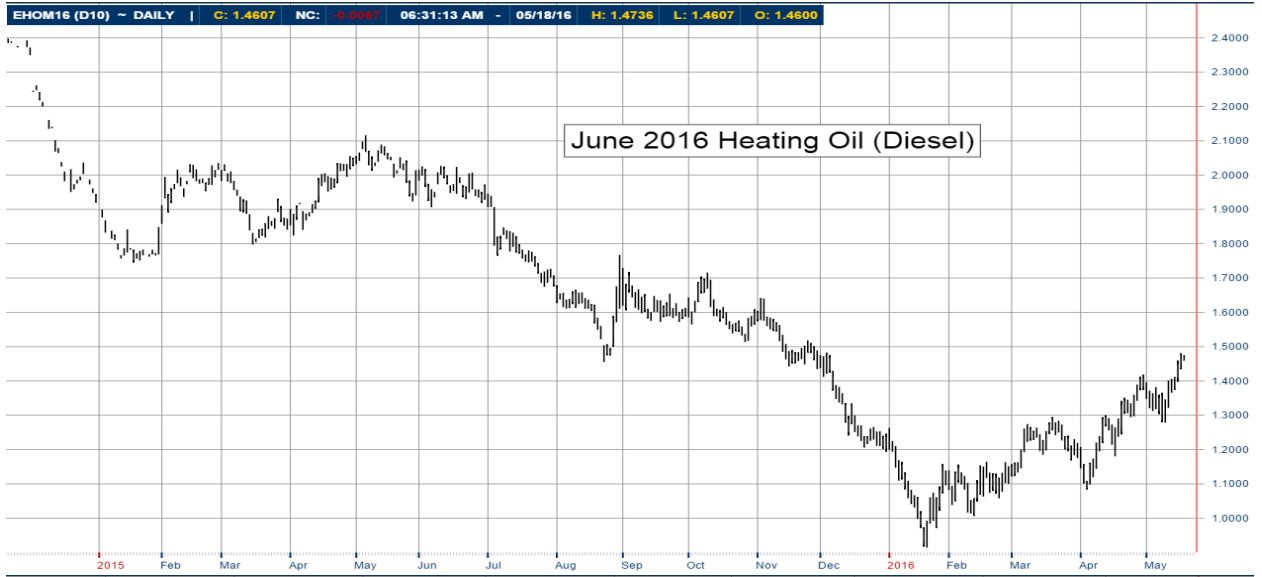
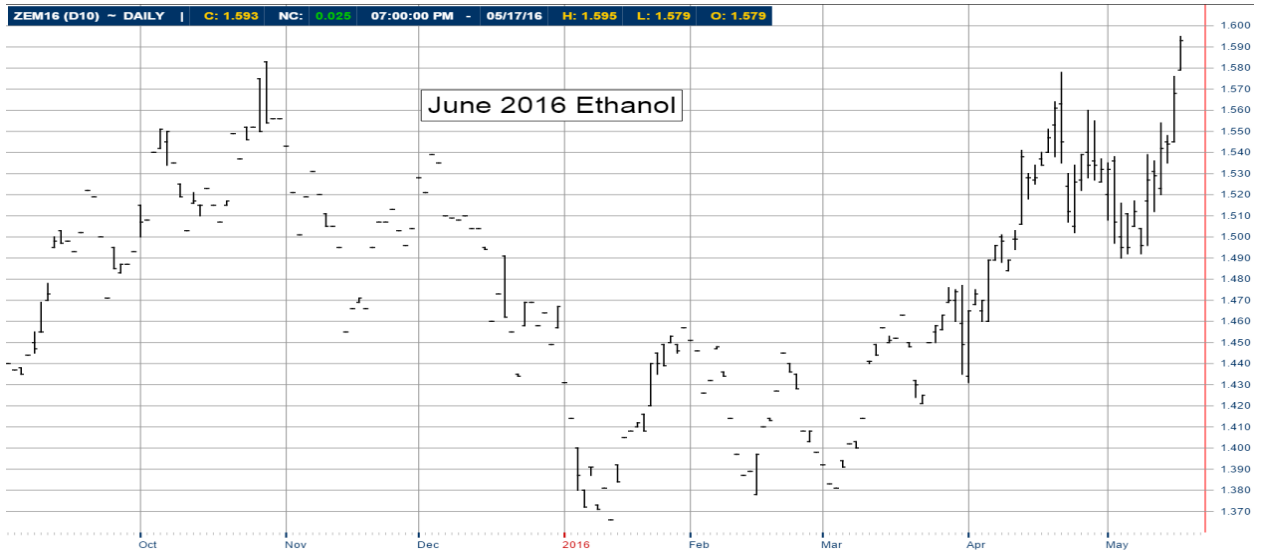
Even if a grower decides not to use the Chicago market, there is still access through a cash merchandiser (in hedge quantities). Same market; same orders; with or without local basis. Contact me if you would like to understand more about this.

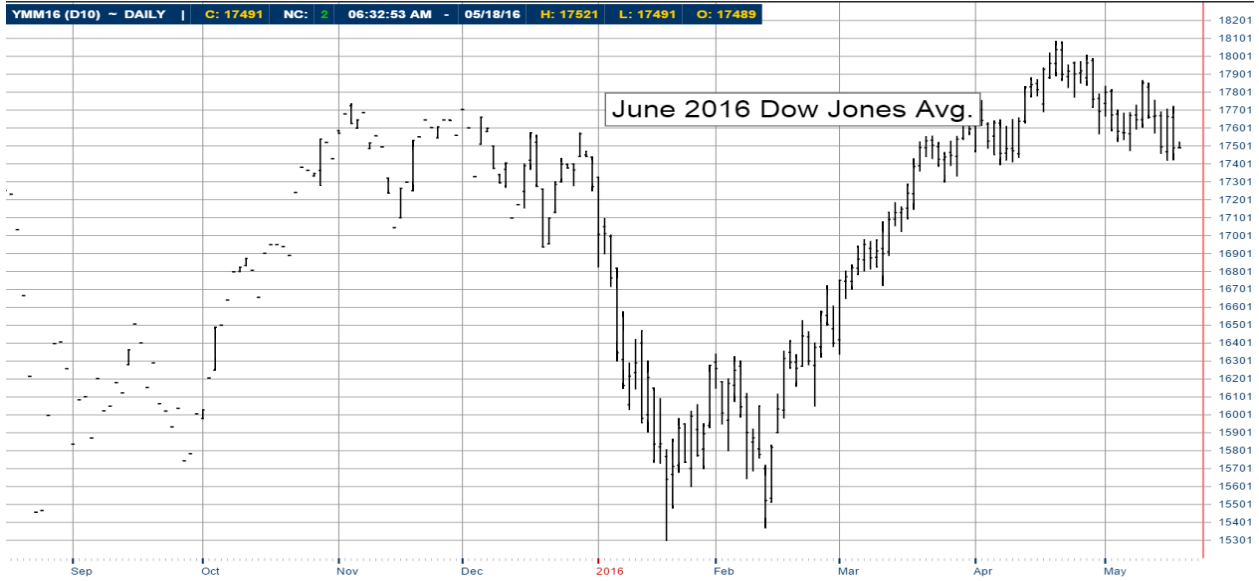












“I’ve got the results of your X-rays.”