



# Commodity Comments

A Weekly Farm Publication by Jonah Bowles

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A Mafia Godfather finds out that his deaf bookkeeper, Guido, has cheated him out of \$10,000,000. When he goes to confront Guido he takes along his lawyer, who knows sign language. 'Ask him where the money is!' the Godfather tells the lawyer. 'Where is the money?' the lawyer signs to Guido.

Guido signs back, 'I don't know what you are talking about' and the lawyer relays that to the Godfather. The Godfather takes out a pistol and points it to Guido's head, 'Ask him again or I will kill him.' The lawyer signs to Guido, 'He'll kill you if you don't tell him.'

Guido signs back, 'OK! You win! The money is in a brown suitcase buried behind the shed at my Cousin Bruno's house.' The Godfather asks the lawyer, 'What did he say?'

The lawyer replies, 'He said he doesn't think you have the guts to pull the trigger!'

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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 to producers and consumers.

**Top 3<sup>rd</sup> – Soybean Meal, Ethanol**

**Middle 3<sup>rd</sup> – Soybeans, Lean Hogs, Crude Oil, Gasoline, Heating Oil**

**Bottom 3<sup>rd</sup> – Corn, Wheat, Cotton, Feeder Cattle, Live Cattle, Class III Milk, Natural Gas**

Commodity	Month	Today	Week Ago	\$ Chg	% Chg	Life of Contract	
		5/25/16	5/18/16			High	Low
Corn	Jul-16	\$3.98	\$3.96	\$0.02	0.5%	\$5.15	\$3.51
	Dec-16	\$4.03	\$4.03	\$0.00	0.0%	\$4.89	\$3.64
	Dec-17	\$4.08	\$4.14	(\$0.06)	-1.4%	\$4.74	\$3.80
Soybeans	Jul-16	\$10.62	\$10.74	(\$0.12)	-1.1%	\$12.16	\$8.59
	Nov-16	\$10.33	\$10.62	(\$0.29)	-2.7%	\$11.65	\$8.50
	Nov-17	\$9.45	\$9.72	(\$0.27)	-2.8%	\$11.36	\$8.57
Soy Meal	Jul-16	\$392.80	\$369.10	\$23.70	6.4%	\$398.30	\$261.70
	Dec-16	\$360.90	\$361.80	(\$0.90)	-0.2%	\$370.00	\$267.20
Wheat	Jul-16	\$4.66	\$4.80	(\$0.14)	-2.9%	\$7.66	\$4.42
	Dec-16	\$4.95	\$5.04	(\$0.09)	-1.8%	\$6.52	\$4.76
	Jul-17	\$5.24	\$5.30	(\$0.06)	-1.1%	\$6.10	\$5.04
Cotton	Jul-16	\$63.34	\$62.18	\$1.16	1.9%	\$68.97	\$54.33
	Dec-16	\$62.59	\$61.60	\$0.99	1.6%	\$80.40	\$54.19
Feeders	Aug-16	\$142.10	\$148.75	(\$6.65)	-4.5%	\$190.00	\$138.10
	Oct-16	\$139.10	\$145.05	(\$5.95)	-4.1%	\$180.10	\$136.60
	Jan-17	\$131.55	\$136.80	(\$5.25)	-3.8%	\$150.15	\$129.40
Live Cattle	Aug-16	\$113.15	\$119.80	(\$6.65)	-5.6%	\$145.75	\$110.90
	Oct-16	\$112.95	\$119.20	(\$6.25)	-5.2%	\$147.00	\$110.90
	Aug-17	\$103.80	\$106.80	(\$3.00)	-2.8%	\$113.00	\$103.20
Lean Hogs	Aug-16	\$78.75	\$82.65	(\$3.90)	-4.7%	\$82.90	\$71.30
	Oct-16	\$67.00	\$70.65	(\$3.65)	-5.2%	\$70.95	\$62.10
	Jul-17	\$76.85	\$78.15	(\$1.30)	-1.7%	\$80.60	\$75.30
Class 3 Milk	Aug-16	\$13.82	\$13.63	\$0.19	1.4%	\$17.05	\$13.43
	Dec-16	\$14.94	\$14.86	\$0.08	0.5%	\$16.84	\$14.54
Natural Gas	Aug-16	\$2.24	\$2.20	\$0.04	1.8%	\$4.06	\$1.99
Crude Oil	Aug-16	\$49.60	\$49.22	\$0.38	0.8%	\$65.28	\$32.22
Gasoline	Aug-16	\$1.64	\$1.64	\$0.00	0.0%	\$1.98	\$1.14
Ethanol	Aug-16	\$1.60	\$1.60	\$0.00	0.0%	\$1.61	\$1.37
Diesel	Aug-16	\$1.52	\$1.50	\$0.02	1.3%	\$2.12	\$0.96
		Top Third				New High	New Low
		Middle Third					
		Bottom Third					

## WHAT CAN YOU DO?

2015 proved to be an economic challenge for the agricultural community. Unless there are remarkable changes in prices, 2016 could prove to be at least as harrowing. With this comes a multitude of scenarios that must be confronted. What can you do about them?

The following are some of the subjects that have come up in conversation with producers who have asked for guidance –

1. ***Can you help put together a plan to come out of bankruptcy?*** Maybe the toughest question is how long to withstand losses that could ultimately lead to the necessity of declaring bankruptcy. Prices won't stay low and costs won't stay high, but the ability to withstand short term adverse conditions is different for every grower. It's not hard to see why the dairy industry is suffering – prices have been down for an extended period of time. But, if the market can be credited with value-discovery, prices should be improving over the next two years. Current Class III prices are \$12.50; one year out prices are \$15.50; two year out prices are \$16.10. No one knows what they will offer in 2017 and 2018 but those are the offerings today. They may not reach optimum target price levels, but they are much better than current prices. Lenders will want to know this, but also the steps that will be taken to capture these improved values and/or prevent them from deteriorating to prevailing valuations.
2. ***I've hedged some anticipated production, but now am not sure it can be planted due to wet weather.*** Merchandisers are not licensed as commodity brokers and are not allowed to permit trading in and out of contracted product unless the ability to produce the product changes. If bushels have been contracted for delivery with a merchandiser and there is some certainty that the delivery will not be possible, the contract may be able to be cancelled. If the market has moved higher since contracting then it will be necessary to pay the difference in contract value. If the market has dropped since contracting, the merchandiser can allow the cancellation of the contract with no expense, but also with no return of the hedge profits – they would be acting as a commodity broker. In all cases of uncertain production the crop insurance agent should be contracted as soon as practical so every option can be considered.
3. ***My banker doesn't understand lending for possible margin calls.*** Even lenders who understand the necessity for loans for margin calls may not be willing to offer them. Loans have limits – margin calls don't. Having a commodity broker to facilitate hedging gives much more flexibility with managing price risks, but also exposes margin calls. Hedging through a merchandiser removes the ability to trade in and out for price opportunities, but it also removes the potential for cash-flow damaging margin calls.

4. ***How many seasons should be considered when hedging/pricing production?***  
One of the more important examinations is why the pricing is being done in the first place. If it coincides with harvest then maybe additional pricing is not advisable. If it is because current prices have achieved a target price, it is very probable that following crop-year prices may have also. This is particularly true in down-trending years when distant prices are normally higher than the nearby prices (corn and wheat). Some products trade years into the future (December 2019 corn is on the books) while others trade prices over a much shorter period of time (feeder cattle only trade one year out). When thinking about pricing multiple crops, basis becomes more of an unknown and basis offerings may have a 'protection' factor with them.
5. ***What is the best month for contracting/hedging new crops?*** In some parts of the country growers have a choice between using old crop or new crop months for pricing new crop production. There are several things to consider when deciding on the contract month – expected delivery period; ability to store and maintain quality; carry that is reflected between periods; probability of local basis and price fundamentals changing from old crop to new crop; liquidity with contracts; time that coincides with crop insurance. There is a spreadsheet that can be very helpful when comparing delivery of a product over several time periods (it can be emailed to you).

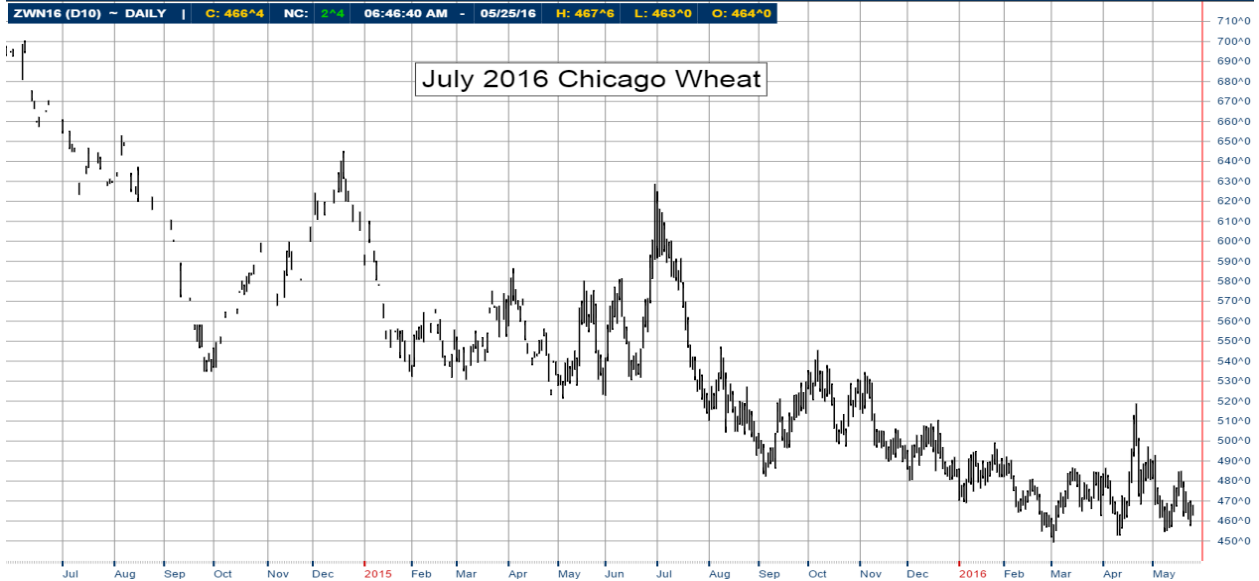
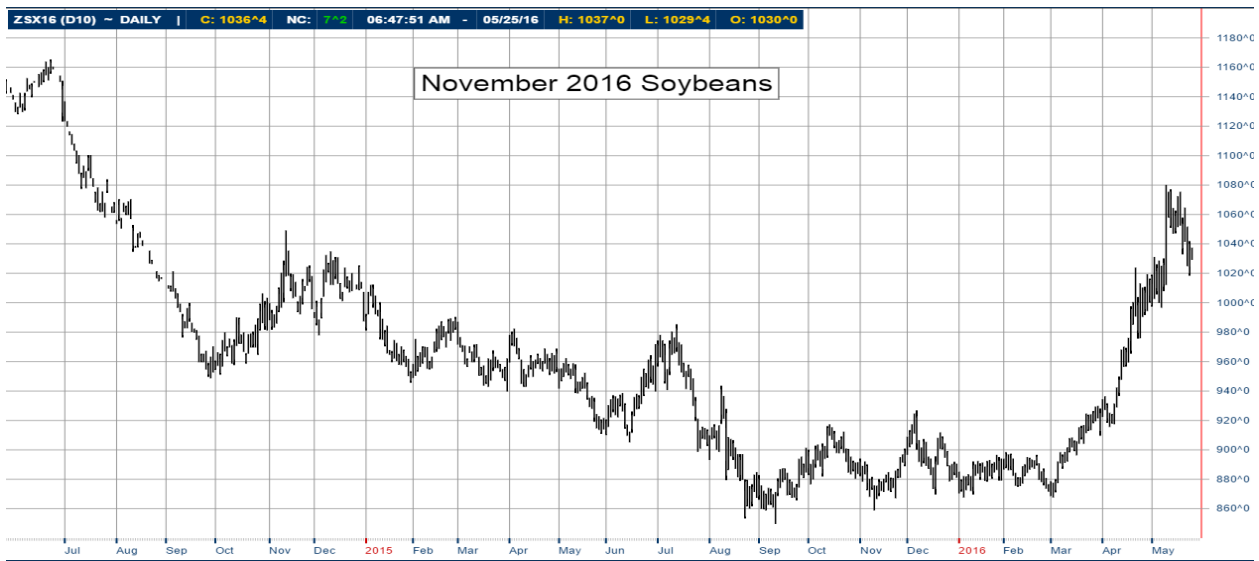
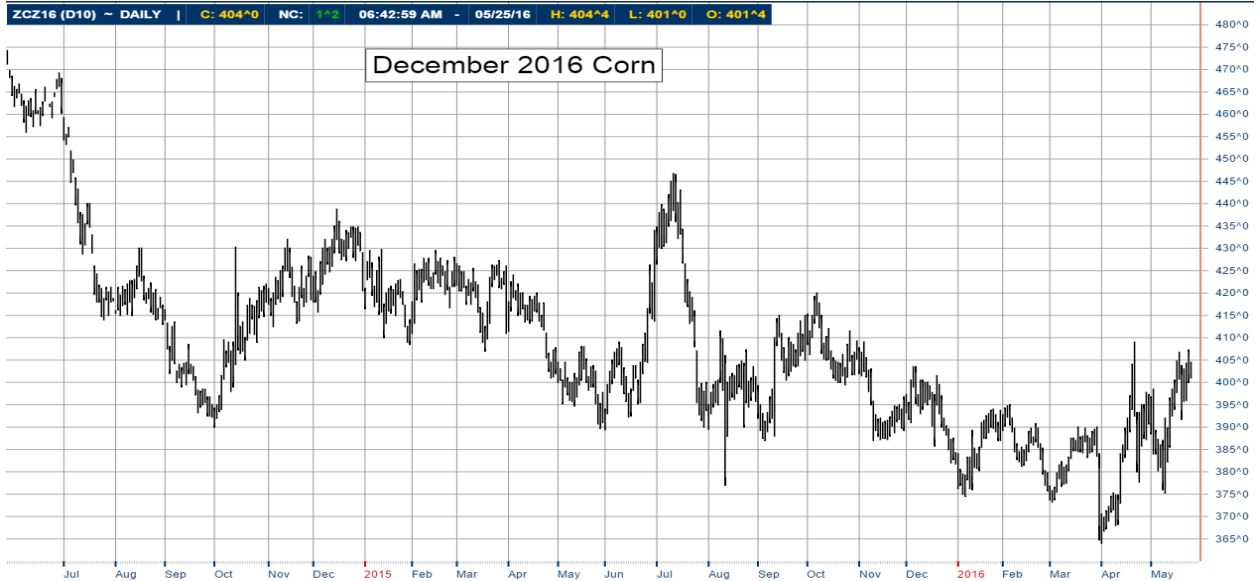
### **CONSIDER THIS**

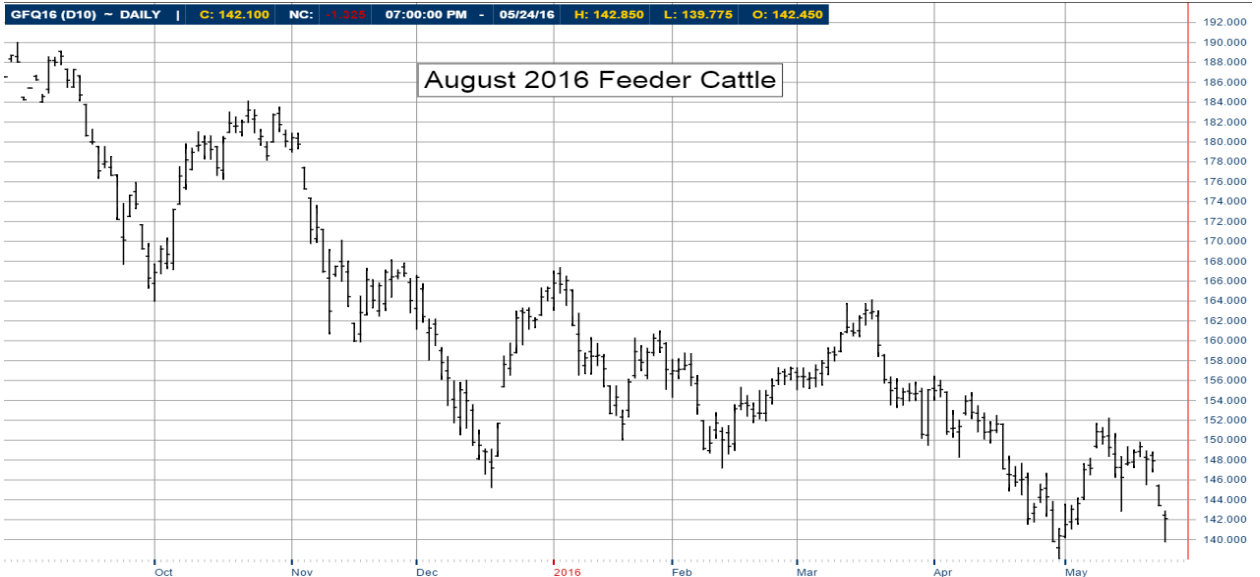
Some analysts are saying that the latest recovery, particularly in the soybean pit, is due to a lack of risk premium in the market; some analysts are saying that the rally has been driven by seasonal tendencies that are positive for corn and soybeans during this time of the year. If it is the seasonal aspect that is being relied upon, that will disappear in the next several days – or maybe it has already faded away.

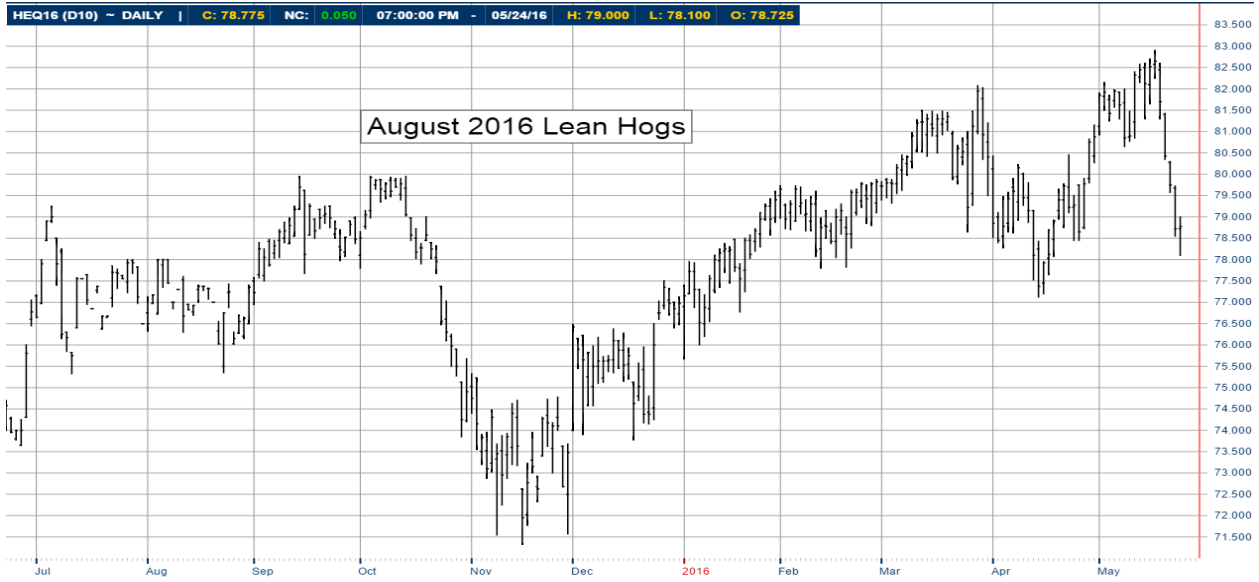
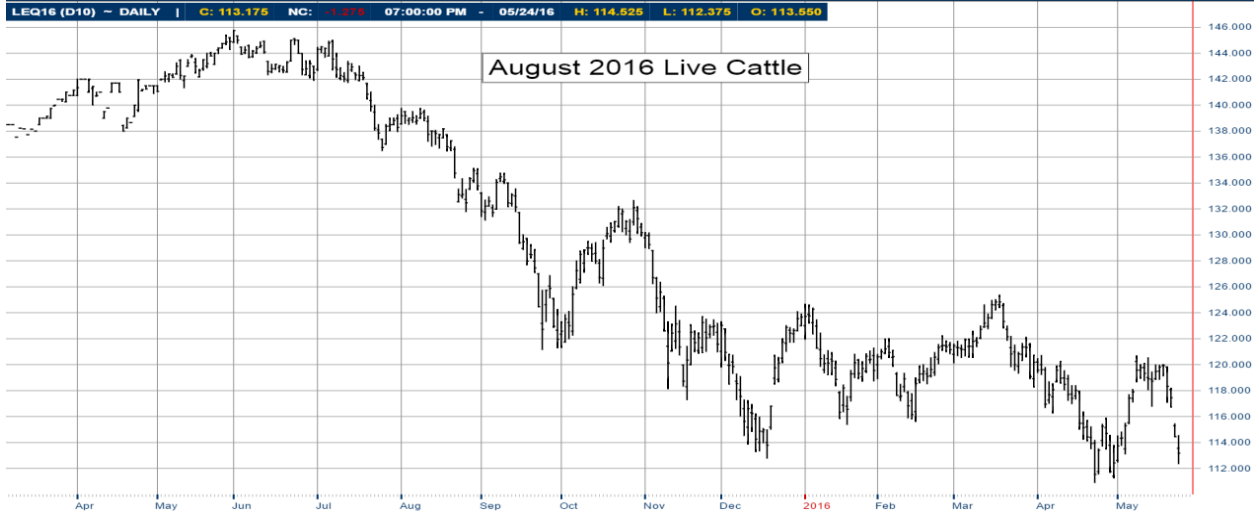
Most agricultural markets have rebounded off of their lows. Low prices trade for a reason; rebounds occur for a reason; and all too often both of them surpass common sense value, both to the upside and to the downside. Both strengthening and weakening markets must be examined for justification.

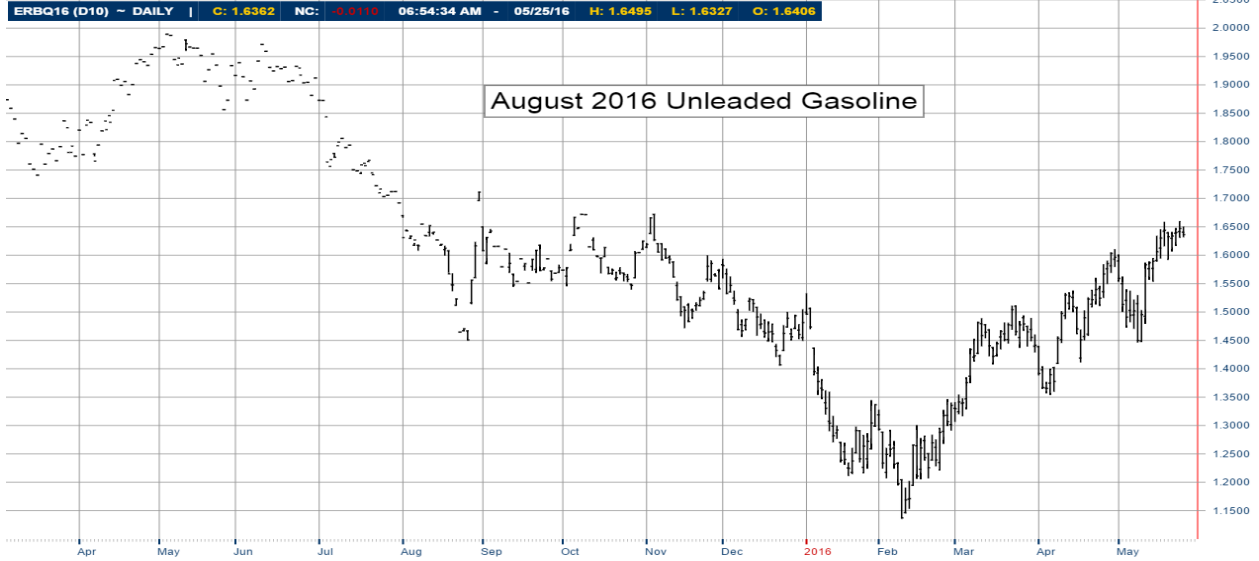
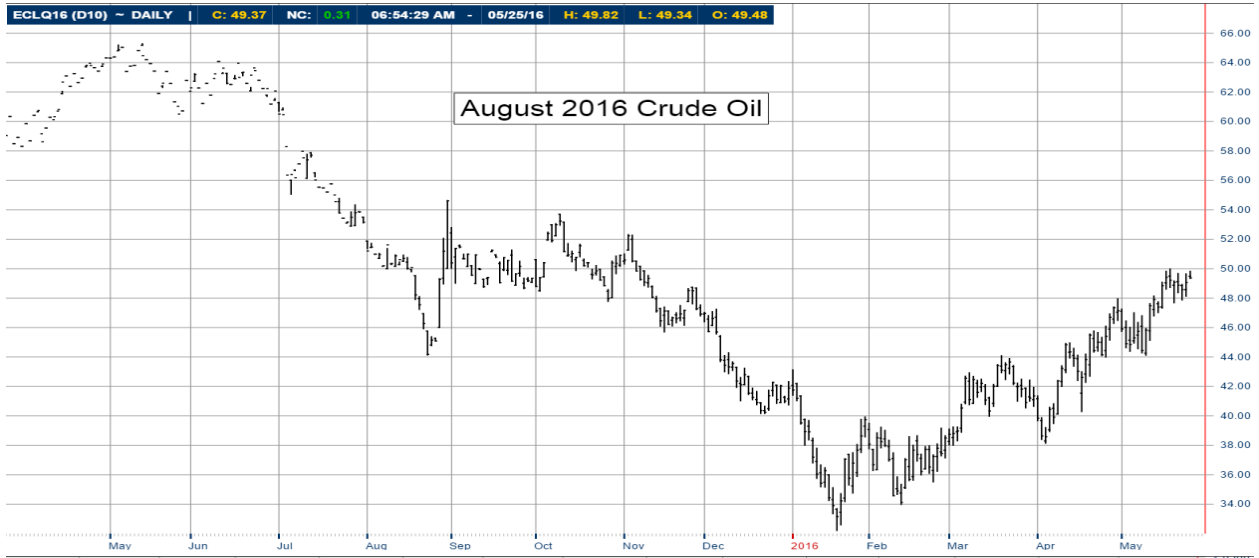
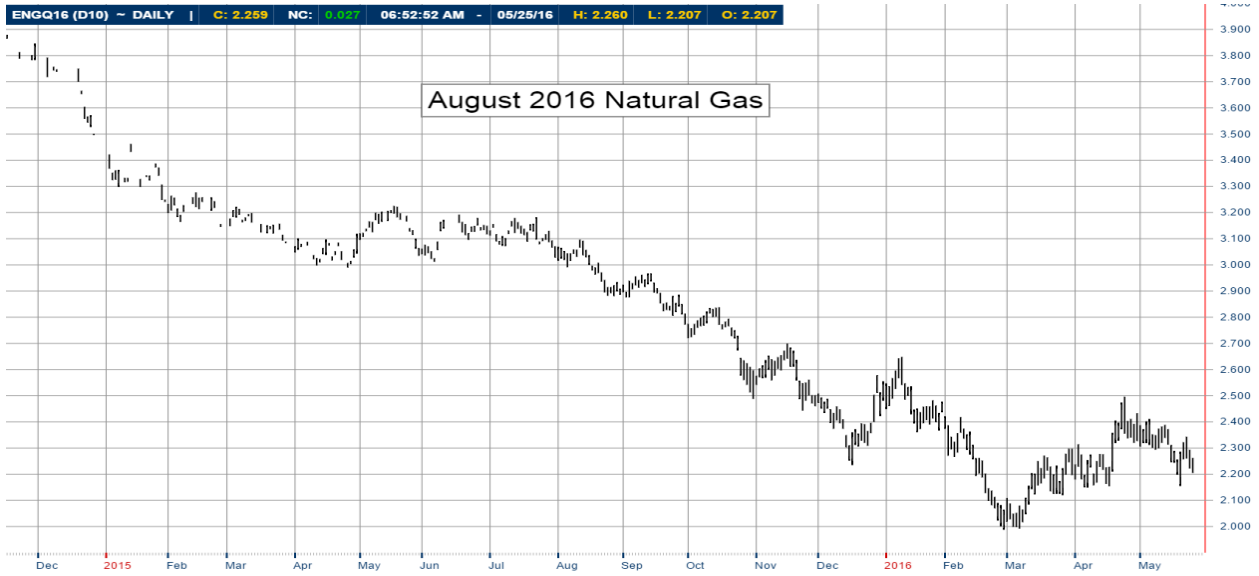
- In less than three months new crop soybeans rallied \$2.00/bushel and then dropped \$.50/bushel. Soybean meal has rallied almost 50% during the time and has not slipped.
- Since New Year feeder cattle have fallen \$28/cwt; live cattle fell \$13/cwt; and lean hogs rallied \$5/cwt (but have given that back in the last week).
- Class III milk has fallen \$2/cwt and appears to be finding support.

The only important price factor is how the current market impacts a grower's bottom line. Nothing else is certain.

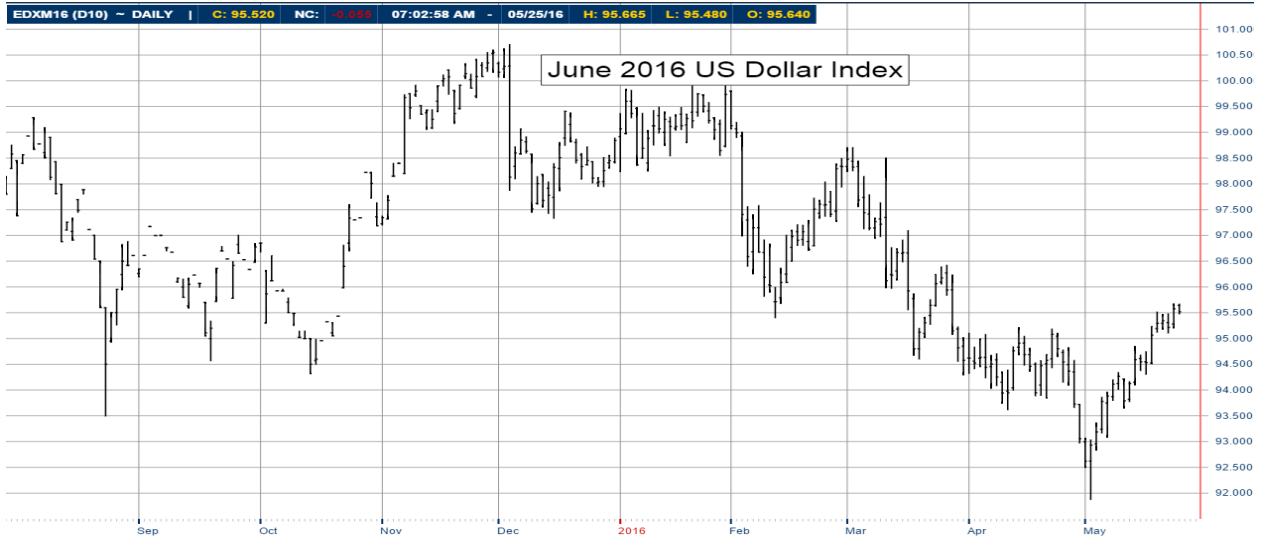
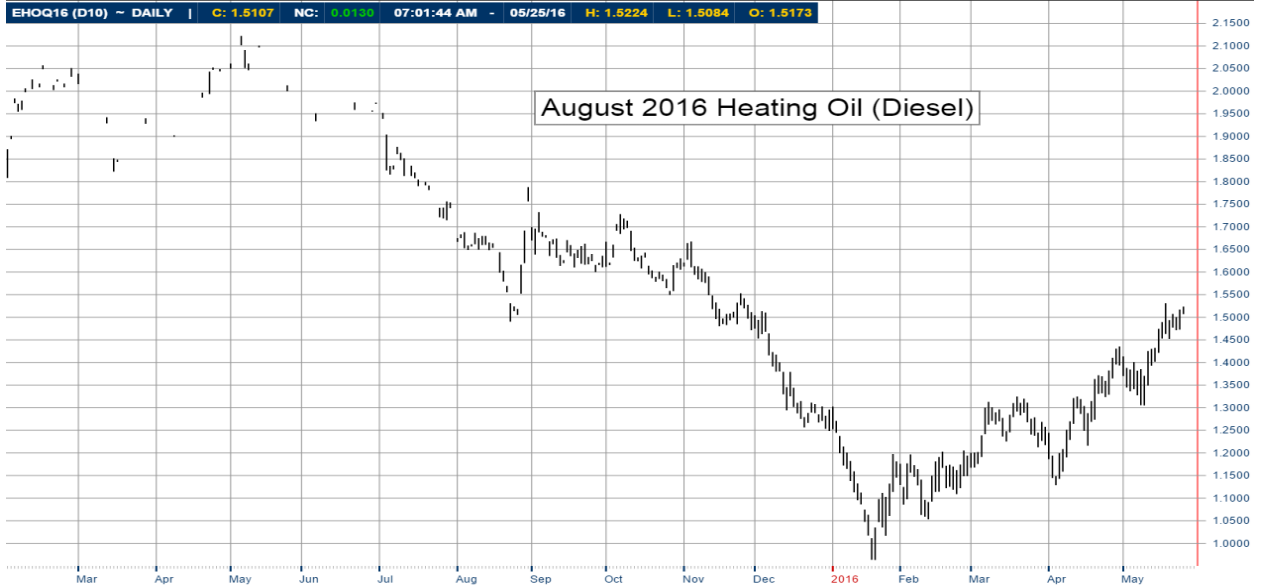
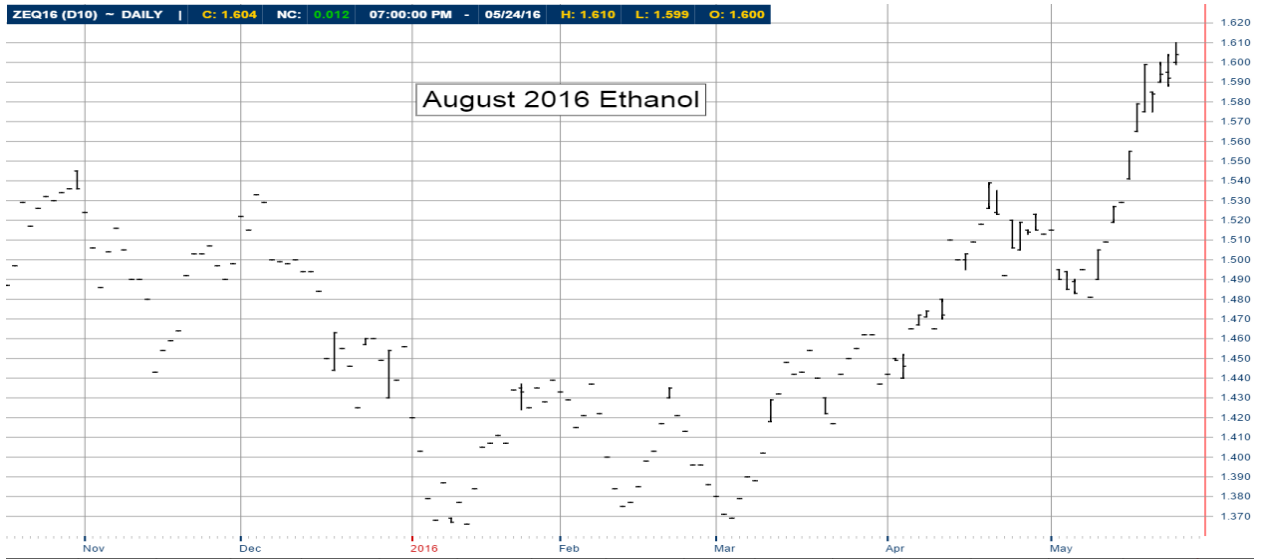


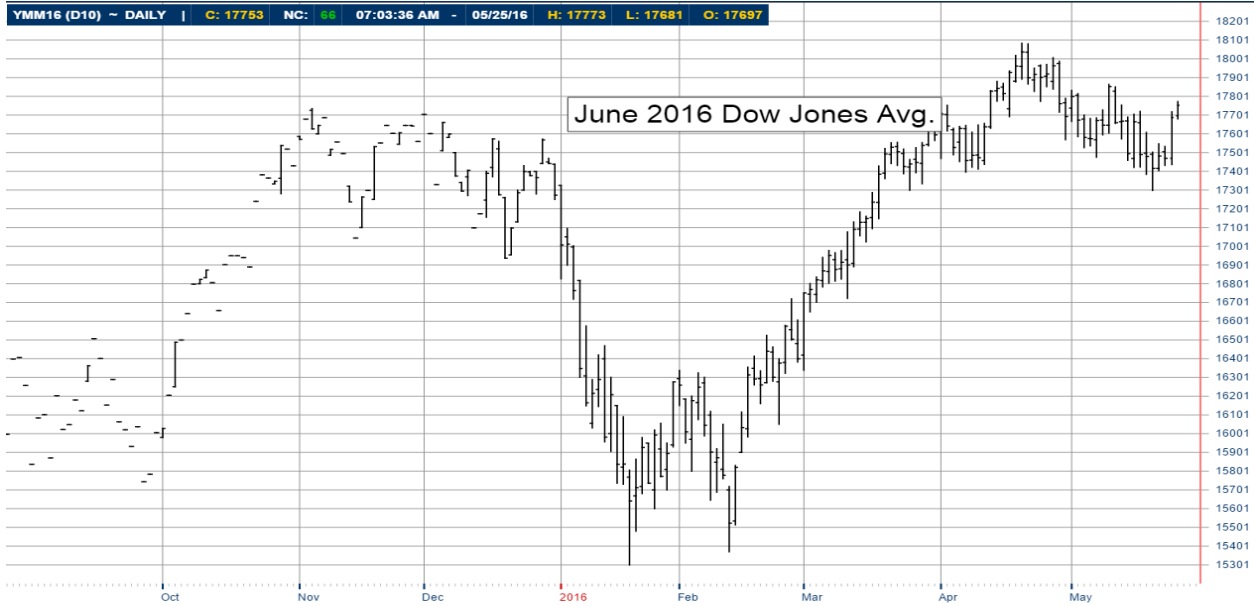












**“Are you coming hunting, or are you gonna sit around here all day inventing?”**