



# Commodity Comments

A Weekly Farm Publication by Jonah Bowles

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**MAY 4, 2016**

1. The two presidential nominee front-runners in each party decided to be nice to each other and planned a trip together to Disneyland. They were driving on the Interstate when they saw a sign that said 'Disneyland Left'. They started crying and turned around and went home.
2. A police officer stops a Perdue University AgEcon professor for weaving across two lanes of traffic and almost causing a wreck. He walks up to the driver's window where he notes a strong essence of alcohol and asks, "You drinkin'?" The prof replied, "Well that depends – you buyin'?"

## **IN THIS ISSUE**

Prices Available Today

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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. This information is freely found on the internet.

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

***Middle 3<sup>rd</sup> – Soybeans, Gasoline, Ethanol***

***Bottom 3<sup>rd</sup> – 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	
		5/4/16	4/27/16			High	Low
Corn	Jul-16	\$3.76	\$3.85	(\$0.09)	-2.3%	\$5.15	\$3.51
	Dec-16	\$3.84	\$3.94	(\$0.10)	-2.5%	\$4.89	\$3.64
	Dec-17	\$4.02	\$4.10	(\$0.08)	-2.0%	\$4.74	\$3.80
Soybeans	Jul-16	\$10.24	\$10.28	(\$0.04)	-0.4%	\$12.16	\$8.59
	Nov-16	\$10.07	\$10.06	\$0.01	0.1%	\$11.65	\$8.50
	Nov-17	\$9.56	\$9.66	(\$0.10)	-1.0%	\$11.36	\$8.57
Soy Meal	Jul-16	\$336.40	\$328.30	\$8.10	2.5%	\$353.40	\$261.70
	Dec-16	\$331.60	\$324.30	\$7.30	2.3%	\$343.60	\$267.20
Wheat	Jul-16	\$4.69	\$4.78	(\$0.09)	-1.9%	\$7.66	\$4.42
	Dec-16	\$4.98	\$5.10	(\$0.12)	-2.4%	\$6.52	\$4.76
	Jul-17	\$5.29	\$5.40	(\$0.11)	-2.0%	\$6.10	\$5.04
Cotton	Jul-16	\$62.50	\$64.15	(\$1.65)	-2.6%	\$68.97	\$54.33
	Dec-16	\$61.85	\$62.65	(\$0.80)	-1.3%	\$80.40	\$54.19
Feeders	Aug-16	\$143.05	\$145.00	(\$1.95)	-1.3%	\$190.00	\$138.10
	Oct-16	\$141.60	\$143.75	(\$2.15)	-1.5%	\$180.10	\$137.50
	Jan-17	\$134.00	\$135.55	(\$1.55)	-1.1%	\$150.15	\$129.40
Live Cattle	Aug-16	\$114.35	\$115.25	(\$0.90)	-0.8%	\$145.75	\$110.90
	Oct-16	\$114.30	\$115.05	(\$0.75)	-0.7%	\$147.00	\$110.90
	Aug-17	\$105.35	\$106.25	(\$0.90)	-0.8%	\$113.00	\$103.25
Lean Hogs	Aug-16	\$81.90	\$78.65	\$3.25	4.1%	\$82.15	\$71.30
	Oct-16	\$70.45	\$68.30	\$2.15	3.1%	\$70.55	\$62.10
	Jul-17	\$77.45	\$76.50	\$0.95	1.2%	\$80.60	\$75.30
Class 3 Milk	Jun-16	\$12.91	\$13.24	(\$0.33)	-2.5%	\$16.90	\$12.91
	Dec-16	\$14.75	\$15.01	(\$0.26)	-1.7%	\$16.84	\$14.54
Natural Gas	Jun-16	\$2.07	\$2.15	(\$0.08)	-3.7%	\$4.25	\$1.84
Crude Oil	Jun-16	\$43.84	\$44.90	(\$1.06)	-2.4%	\$92.50	\$30.79
Gasoline	Jun-16	\$1.52	\$1.60	(\$0.08)	-5.0%	\$2.05	\$1.15
Ethanol	Jun-16	\$1.51	\$1.54	(\$0.03)	-1.9%	\$1.61	\$1.37
Diesel	Jun-16	\$1.34	\$1.37	(\$0.03)	-2.2%	\$2.71	\$0.92
		Top Third				New High	New Low
		Middle Third					
		Bottom Third					

## CHANCES ARE...?

Johnny Mathis, 1957. But, that's not what this is about. During the early stages of marketing a portion of a crop that is far from certain, producers wonder what the chances are for outcomes that can end up with very different results.

There are two parts of the price problem that are known, (1) where prices are today and (2) where prices have been. The third, and most important, is where they will be at a time of importance (contracting, delivery). While analyzing all that can happen, a common question is, "What are the chances...?" because the analyst who has figured out how to accurately and consistently forecast future prices has yet to surface.

The following table is an extension of the table on page two each week. It shows the calculations that create the colored prices representing green in the top third of the life-of-contract trading range; black representing the second third; and red indicating that the commodity is trading in the bottom third of the range. In the example it shows that December 2016 corn will have to rally \$.12 in order to leave the bottom third and trade in the middle third; it will have to increase \$.53 in order to be in the top third of the range. Obviously, the chances are much greater that corn will be able to trade in the middle third than for it to reach the top third.

Commodity	Month	Today	Week Ago	\$ Chg	% Chg	Life of Contract				To Change Thirds	
		4/27/16	4/20/16			High	Low	Top 1/3	Bottom 1/3	Top	Bottom
Corn	May-16	\$3.82	\$3.86	(\$0.04)	-1.0%	\$5.14	\$3.47	\$4.58	\$4.03	\$0.76	\$0.21
	Dec-16	\$3.94	\$3.97	(\$0.03)	-0.8%	\$4.89	\$3.64	\$4.47	\$4.06	\$0.53	\$0.12
Soybeans	May-16	\$10.15	\$9.82	\$0.33	3.4%	\$11.32	\$8.53	\$10.39	\$9.46	\$0.24	(\$0.69)
	Nov-16	\$10.06	\$9.92	\$0.14	1.4%	\$11.65	\$8.50	\$10.60	\$9.55	\$0.54	(\$0.51)
Wheat	May-16	\$4.78	\$4.89	(\$0.11)	-2.2%	\$7.66	\$4.42	\$6.58	\$5.50	\$1.80	\$0.72
	Jul-16	\$4.85	\$4.97	(\$0.12)	-2.4%	\$7.32	\$4.49	\$6.38	\$5.43	\$1.53	\$0.58
Cotton	May-16	\$63.79	\$62.15	\$1.64	2.6%	\$68.39	\$54.53	\$63.77	\$59.15	(\$0.02)	(\$4.64)
	Dec-16	\$62.65	\$61.11	\$1.54	2.5%	\$80.40	\$54.19	\$71.66	\$62.93	\$9.01	\$0.28
Feeders	Aug-16	\$145.00	\$146.50	(\$1.50)	-1.0%	\$190.00	\$141.55	\$173.85	\$157.70	\$28.85	\$12.70
Live Cattle	Aug-16	\$115.25	\$115.15	\$0.10	0.1%	\$145.75	\$110.90	\$134.13	\$122.52	\$18.88	\$7.27
Class 3 Milk	Jun-16	\$13.24	\$14.01	(\$0.77)	-5.5%	\$16.90	\$13.24	\$15.68	\$14.46	\$2.44	\$1.22
	Dec-16	\$15.01	\$15.37	(\$0.36)	-2.3%	\$16.84	\$14.54	\$16.07	\$15.31	\$1.06	\$0.30

November 2016 soybeans are black – they are trading in the middle third of the range. If they improve \$.54 they will trade in the top third and if they fall \$.51 they will fall back into the bottom third of the range. May 2016 cotton is green, but a very small drop in price, \$.02/cwt, will put it back down in the middle third of the range; a decline of \$4.64/cwt will put it down into the bottom third of the range.

When deciding what to do, growers will want to evaluate the chances of one or the other (or another) outcomes during some period of time in the future.

## CONSIDER THIS

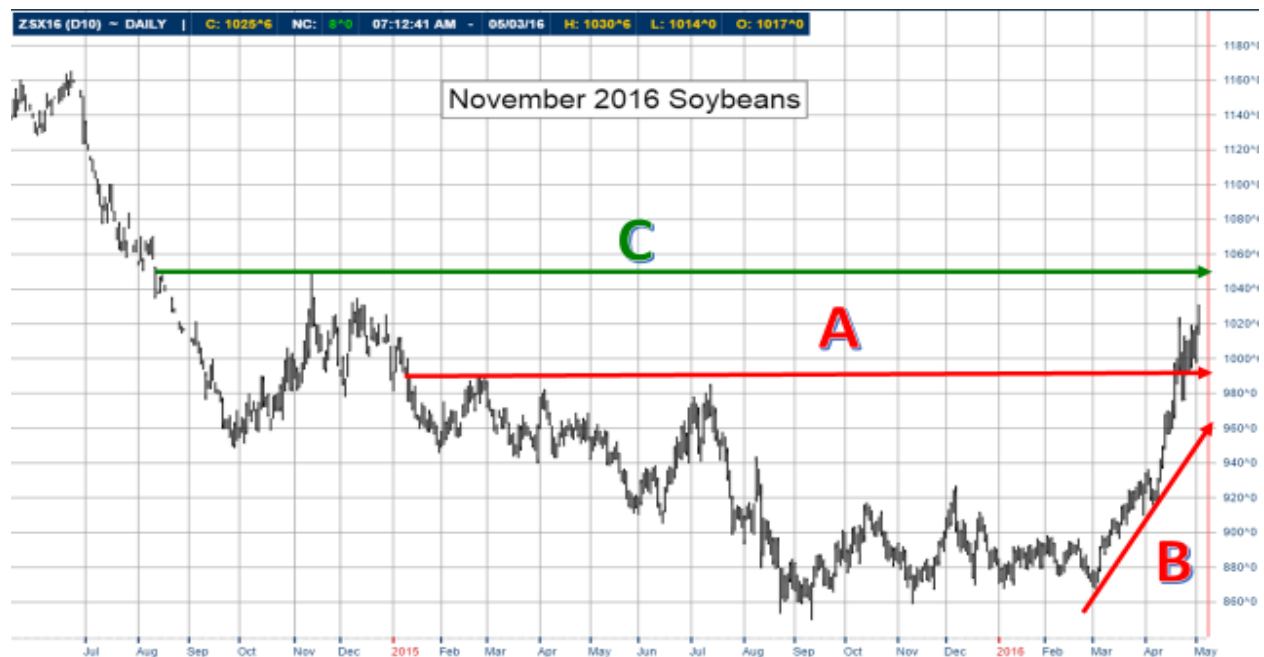
Corn, wheat, and soybeans have been in a downtrend since the middle of 2014, with only an occasional attempt at recovery. Decisions in a declining market can be very difficult, particularly at the beginning of the downtrend when recognition of the change is not yet feasible.

After almost two years to the day of falling prices, soybeans appear to have changed trends to the upside. Corn and wheat reversals are not as definite, but they are still trading at levels that are higher than in the recent past.

There are (at least) four reasons why producers will price their production –

1. The grower decided on his/her own that it was a prudent decision,
2. The grower's advisor made the decision,
3. Harvest, cash flow requirements, etc. made the decision,
4. The market made the decision.

Another term for the market making the decision is 'technical analysis'. All of the emotion is removed from the process and the grower merely responds to indicators created by daily/weekly/monthly trading patterns. Sometimes the best way to enter a market is by following a technical indicator, but one that only signals a position that is appropriate – sell signals for sell hedges and buy signals for purchase hedges.



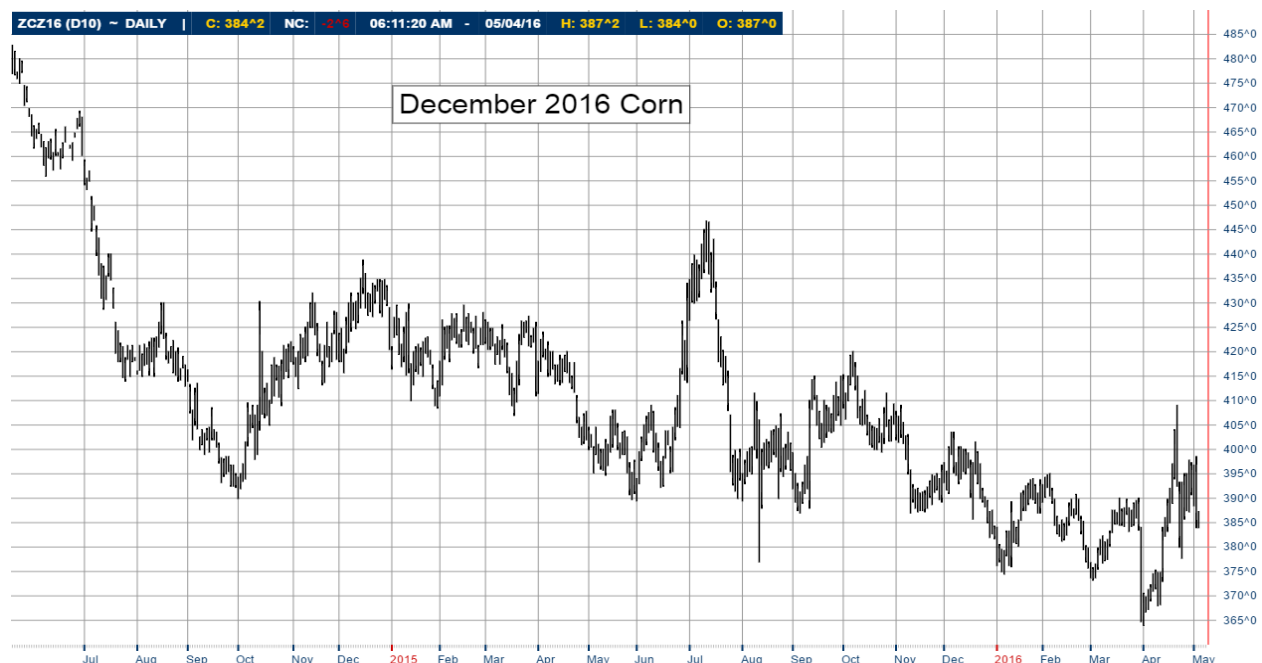
Using the soybean chart above as an example, there are two risk levels that can be identified using trend analysis –

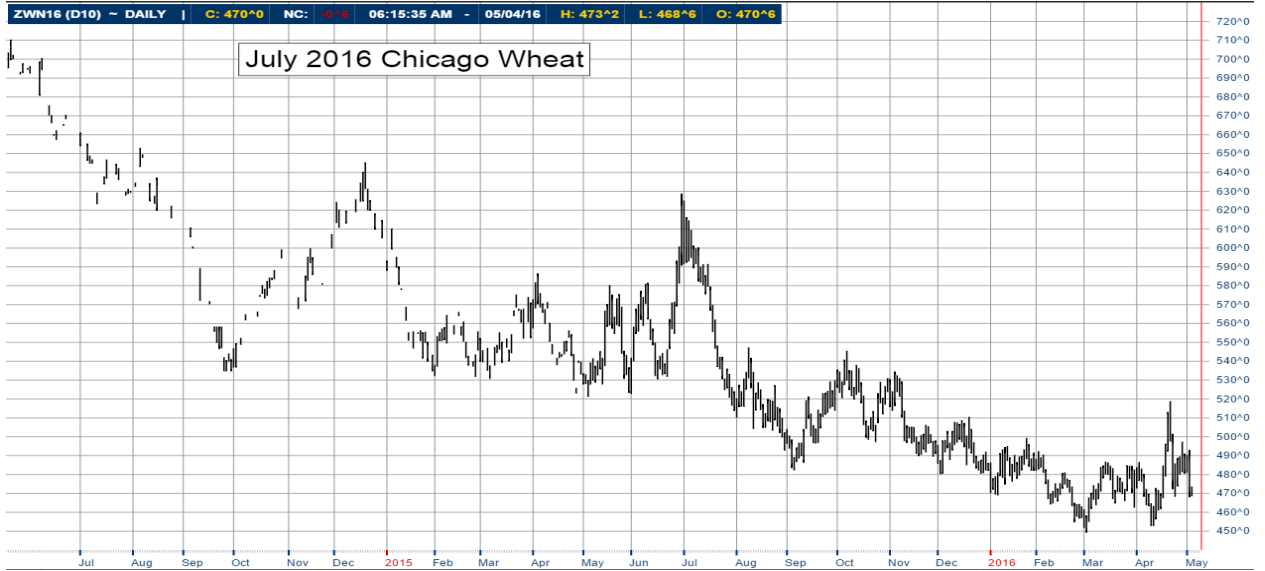
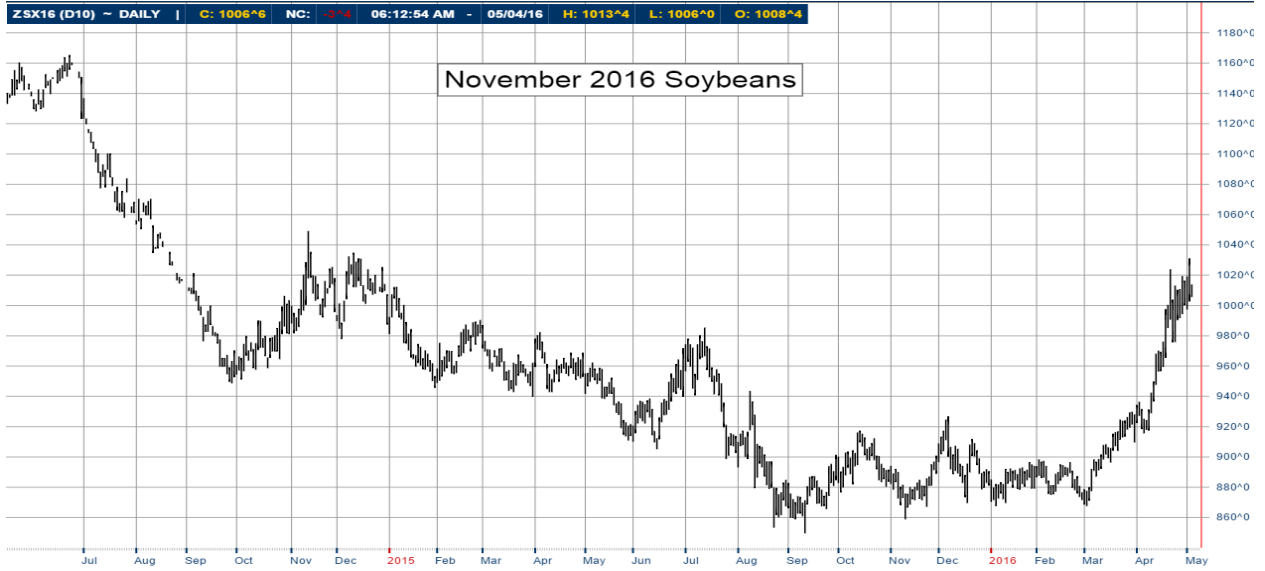
A – Going back to the first of this year, line A might identify resistance. Now that November soybeans have penetrated that line, it could now be considered to be support which is around \$9.95. If this support is broken, then a technical analyst might suggest that the market could move even lower. A ‘stop loss’ order could be placed to sell November soybeans at \$9.35 stop, risking about \$.30 based on current prices (Tuesday).

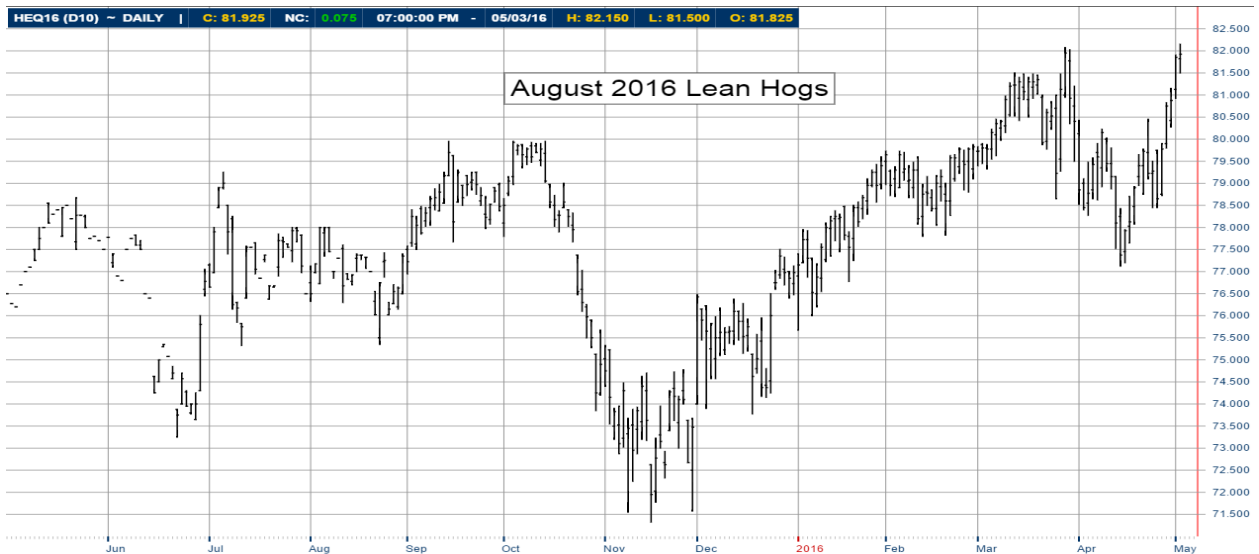
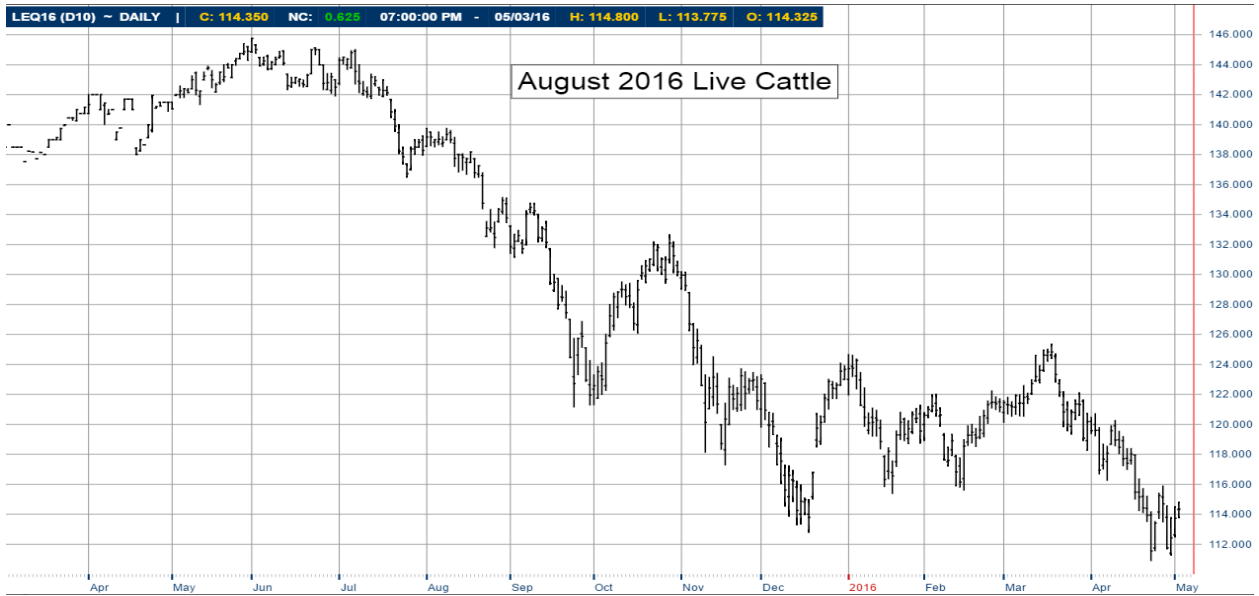
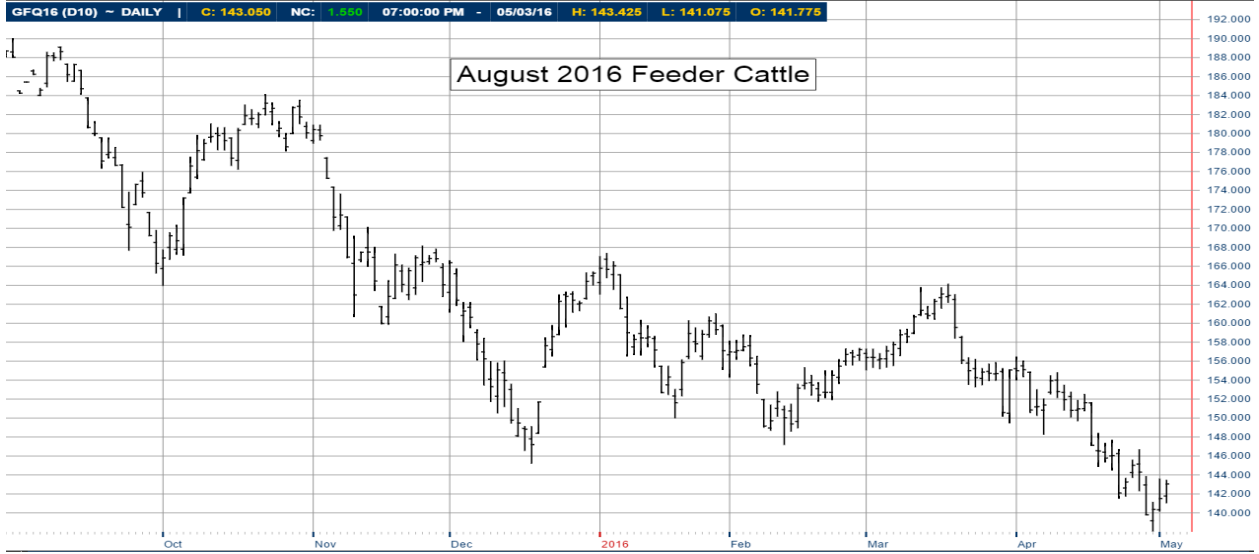
B – A more recent interpretation could use just the market performance since the apparent change in trend that occurred the first of March. Line B connects bottoms that, if violated, might suggest a reversal of this short term trend leading to lower prices. The risk is greater, \$.65, but it allows for a more confirmed change in trend. The sell could be entered as \$9.60 stop.

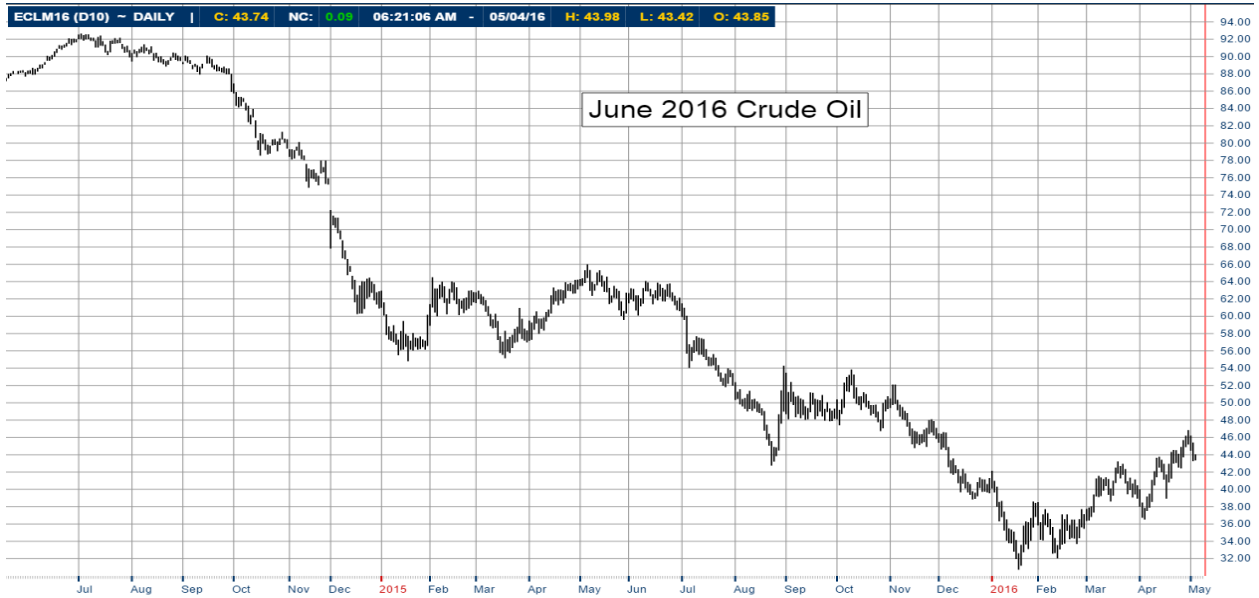
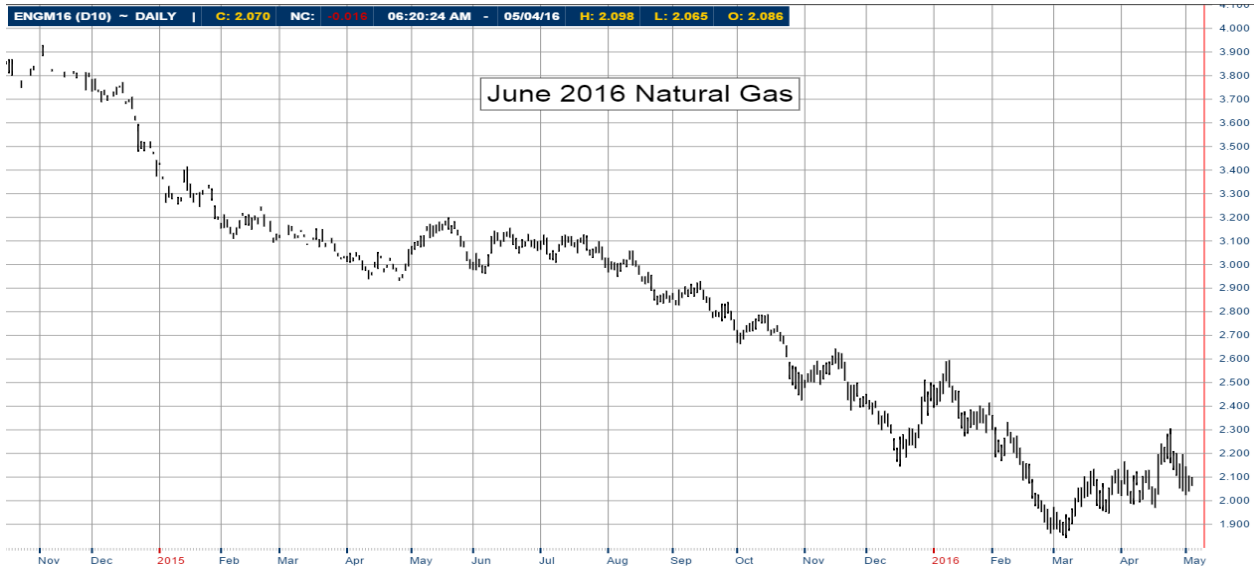
C – Line C is not a risk level, but an opportunity level using the same technical analysis as points A and B. It identifies an upside objective, which should also be a part of a marketing plan. In this example, a sale of November soybeans would be indicated at \$10.50, regardless of fundamental influences.

There is no perfect technical system for entering or exiting a market. If there was, every trader would follow it and there would be no offset trading so the system would destroy itself. But, some practices work better for some than others. The important thing is to have a reason for marketing and risk management decisions.

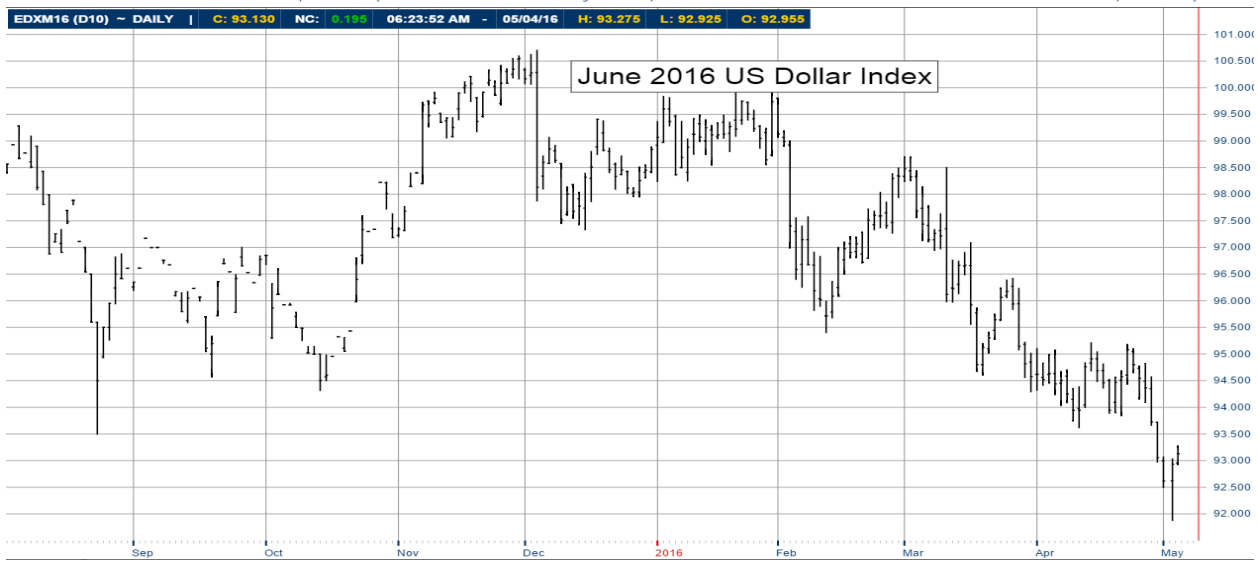
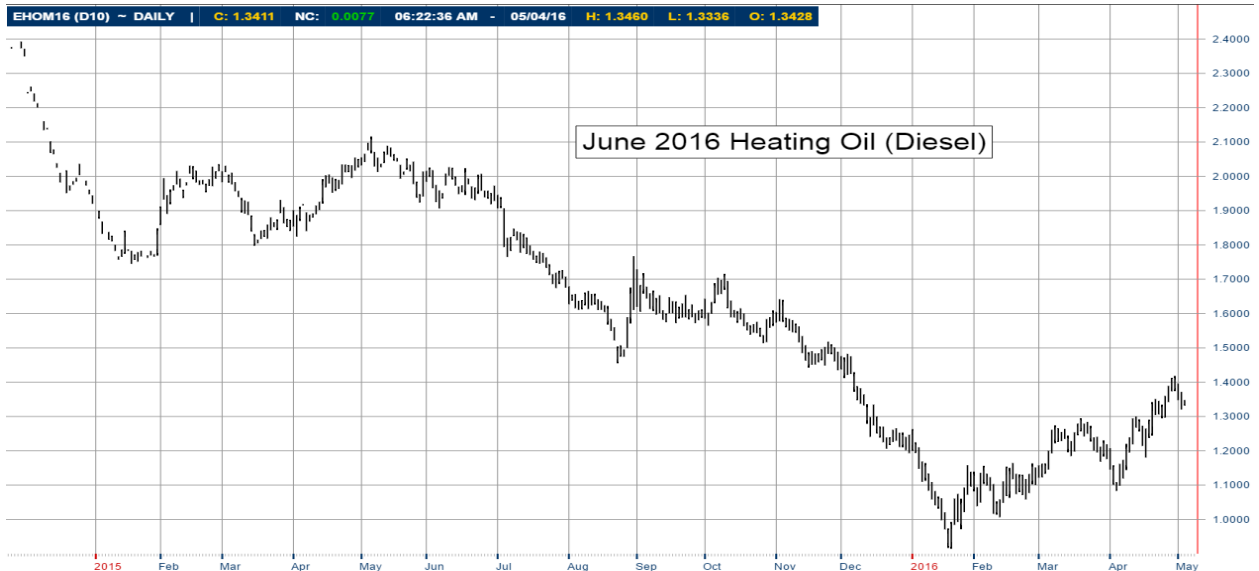
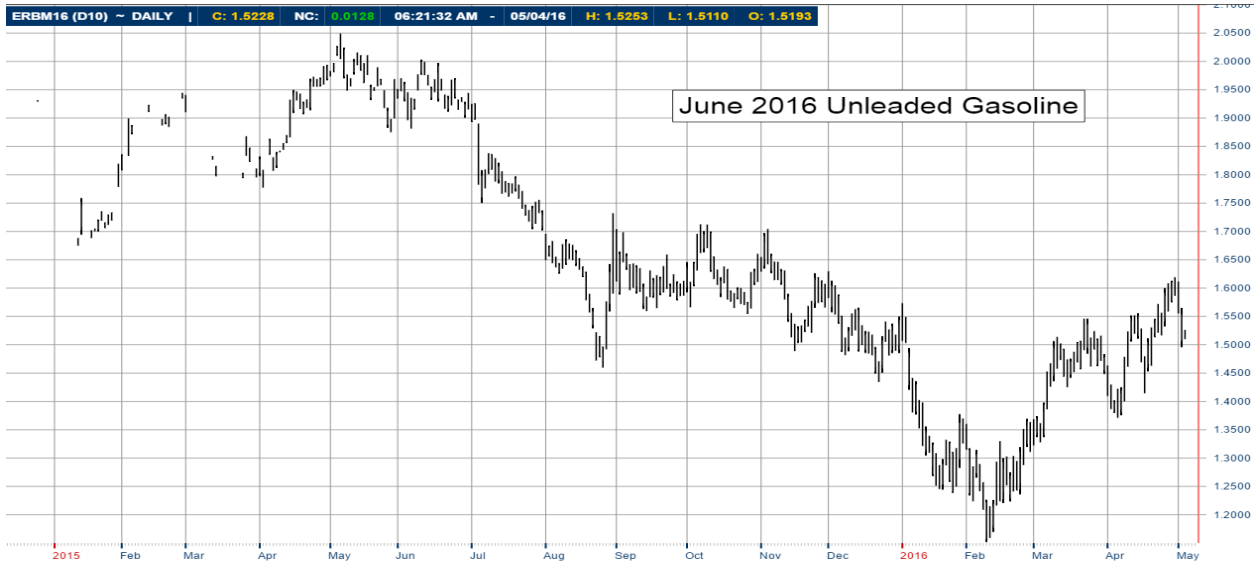


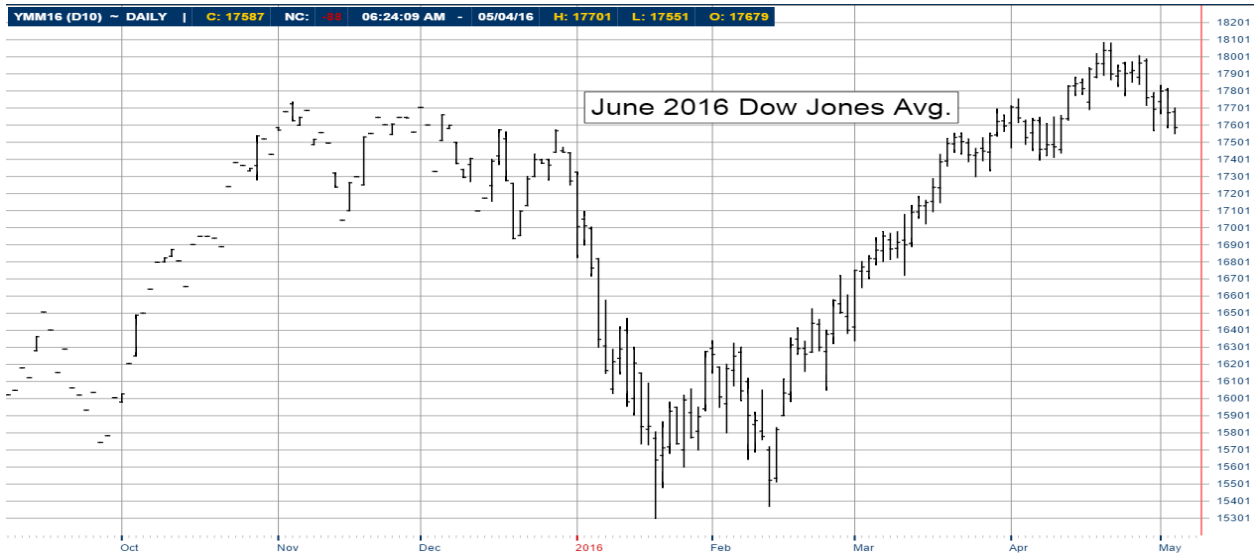












**“Look, as soon as a private room  
becomes available, you’ll  
get one.”**