FARM BUREAU VIRGINIA

Commodity Comments

A Weekly Farm Publication by Jonah Bowles

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June 15, 2016

She was such a precious little girl, about five years old and wearing her Sunday best – her new pink dress with a crinkled pinafore; her hair neatly braided in a pair of pig tails; her pretty little smile accented by rosy, freckled cheeks.

It was during the latter part of the 11:00 church service when the congregation was expected to be in thoughtful and personal prayer. Most were silent in their prayers, but the sweet little girl, though barely audible, could be overheard saying, "Dear God, for the most part this has been a very good year for me. There is so much that I am thankful for – my family and friends. But, this has also been a difficult year for me because you have taken some of my favorite friends away from me. You took my favorite little Kitty-Kitty to be with you in Heaven; you took my favorite hamster, Goldie, to be with you in Heaven; you took my favorite parakeet, Tweetsie (I think Kitty-Kitty helped you with that). I was just wondering, have I told you that my favorite teacher is Mrs. McGillicuddy?"

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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 –Soybean Meal, Lean Hogs, Ethanol
Middle 3rd – Corn, Soybeans, Crude Oil, Gasoline, Heating Oil
Bottom 3rd – Wheat, Cotton, Feeder Cattle, Live Cattle, Class III Milk, Natural Gas

		Today	Week Ago		Life of Contract					To Change Thirds	
Commodity	Month	6/15/16	6/1/16	$ Chg	% Chg	High	Low	Top 1/3	Bottom 1/3	Top	Bottom
Corn	Jul-16	$4.37	$4.03	$0.34	8.4%	$5.15	$3.51	$4.60	$4.06	$0.23	($0.31)
	Dec-16	$4.46	$4.07	$0.39	9.6%	$4.89	$3.64	$4.47	$4.06	$0.01	($0.40)
	Dec-17	$4.16	$4.06	$0.10	2.5%	$4.74	$3.80	$4.43	$4.11	$0.27	($0.05)
Soybeans	Jul-16	$11.68	$10.72	$0.96	9.0%	$12.08	$8.59	$10.92	$9.75	($0.76)	($1.93)
	Nov-16	$11.48	$10.49	$0.99	9.4%	$11.86	$8.50	$10.74	$9.62	($0.74)	($1.86)
	Nov-17	$9.99	$9.66	$0.33	3.4%	$11.36	$8.57	$10.43	$9.50	$0.44	($0.49)
Soy Meal	Jul-16	$410.50	$393.60	$16.90	4.3%	$432.50	$261.70	$375.57	$318.63	($34.93)	($91.87)
	Dec-16	$404.40	$371.10	$33.30	9.0%	$418.70	$267.20	$368.20	$317.70	($36.20)	($86.70)
Wheat	Jul-16	$4.87	$4.66	$0.21	4.5%	$7.66	$4.42	$6.58	$5.50	$1.71	$0.63
	Dec-16	$5.21	$4.94	$0.27	5.5%	$6.52	$4.76	$5.93	$5.35	$0.72	$0.14
	Jul-17	$5.63	$5.27	$0.36	6.8%	$6.10	$5.04	$5.75	$5.39	$0.12	($0.24)
Cotton	Jul-16	$63.37	$63.34	$0.03	0.0%	$68.97	$54.33	$64.09	$59.21	$0.72	($4.16)
	Dec-16	$64.07	$62.83	$1.24	2.0%	$80.40	$54.19	$71.66	$62.93	$7.59	($1.14)
Feeders	Aug-16	$142.15	$147.10	($4.95)	-3.4%	$190.00	$138.10	$172.70	$155.40	$30.55	$13.25
	Oct-16	$139.45	$143.50	($4.05)	-2.8%	$180.10	$136.60	$165.60	$151.10	$26.15	$11.65
	Jan-17	$131.45	$134.95	($3.50)	-2.6%	$150.15	$129.05	$143.12	$136.08	$11.67	$4.63
Live Cattle	Aug-16	$115.00	$118.05	($3.05)	-2.6%	$145.75	$110.90	$134.13	$122.52	$19.13	$7.52
	Oct-16	$114.85	$117.30	($2.45)	-2.1%	$147.00	$110.90	$134.97	$122.93	$20.12	$8.08
	Aug-17	$106.40	$106.75	($0.35)	-0.3%	$113.00	$103.20	$109.73	$106.47	$3.33	$0.07
Lean Hogs	Aug-16	$89.30	$80.85	$8.45	10.5%	$90.05	$71.30	$83.80	$77.55	($5.50)	($11.75)
	Oct-16	$73.80	$68.25	$5.55	8.1%	$74.30	$62.10	$70.23	$66.17	($3.57)	($7.63)
	Jul-17	$78.90	$77.80	$1.10	1.4%	$80.60	$75.30	$78.83	$77.07	($0.07)	($1.83)
Class 3 Milk	Aug-16	$16.00	$13.75	$2.25	16.4%	$17.05	$13.43	$15.84	$14.64	($0.16)	($1.36)
	Dec-16	$15.80	$14.94	$0.86	5.8%	$16.84	$14.54	$16.07	$15.31	$0.27	($0.49)
Natural Gas	Aug-16	$2.66	$2.39	$0.27	11.3%	$4.06	$1.99	$3.37	$2.68	$0.71	$0.02
Crude Oil	Aug-16	$48.48	$48.89	($0.41)	-0.8%	$65.28	$32.22	$54.26	$43.24	$5.78	($5.24)
Gasoline	Aug-16	$1.50	$1.60	($0.10)	-6.3%	$1.98	$1.14	$1.70	$1.42	$0.20	($0.08)
Ethanol	Aug-16	$1.71	$1.61	$0.10	6.2%	$1.71	$1.37	$1.60	$1.48	($0.11)	($0.23)
Diesel	Aug-16	$1.49	$1.49	$0.00	0.0%	$2.12	$0.96	$1.73	$1.35	$0.24	($0.14)
		Top Third				New High	New Low				
		Middle Third									
		Bottom Third									

MARKET OBSERVATIONS

The price sheet on page #2 has always shown the current market prices in color; green representing those trading in the top third of their life-of-contract range; black showing those in the middle third of the range; and red reflecting those trading in the bottom third of their range. Because of the dramatic change in crop prices over the past two weeks (I was attending an agricultural conference last week), I have included the expanded spreadsheet that I maintain which shows how those colors are determined and how far a commodity price can move before changing colors.

Some of my observations –

- In explanation of the spreadsheet – July corn is currently trading at $4.37, a change of plus $.34/bushel from the June 1 price; the life-of-contract trading range has been as high as $5.15 and as low as $3.51; July corn will trade in the top third of that range when it exceeds $4.60 (a move of $.23 higher) and it will fall back into the bottom third if it trades below $4.06 (a move of $.31 lower). July wheat is in the bottom third of its range and will have to rise by $.63 per bushel in order to reach the middle third and will have to rise by $1.71 per bushel in order to reach the top third.
- The soybean/corn ratio has widened to 2.63X which favors soybean production, but since most crops have been planted (or planned) this will be of little consequence with this crop year.
- Soybean meal has been in the top third for several weeks, but this week soybeans join them.
- New crop corn has moved into the middle third of its range and needs only to rise in price by $.01 per bushel to achieve top third status.
- It was only one month ago that August Class III Milk made a new life-of-contract low and now it has reached top third status, but only by $.16/cwt.
- Feeder cattle and live cattle prices are firmly entrenched in the bottom third of their respective ranges and are very close to making new lifetime lows while the lean hog markets are in the top third of their ranges and are making new life-of-contract highs.

As though there is not enough risk to manage, discussions now include the benefits from risk management strategies being at risk. If no 2016 (or before) crops have been priced then this might be a good time to start. If some sales have already been made, this might be a good time to add to those sales.

<u>MINIMUM PRICE CONTRACTS</u>

It's only human nature – when nothing has been sold (or only a small percentage), growers are upset when prices fall. When a marketing plan has been in place and sales have been made at lower levels, growers are upset with themselves when prices move higher. Everyone would like to hit the tops in prices, but this is rarely (or never) possible. Hence the conundrum.

Minimum price contracts offer producers the best of both - removing downside risk while allowing upside improvement in prices. These strategies can be of particular interest to growers when uncertainty with world crops adds in the risk premiums that were absent until just two months ago. Another benefit with minimum price contracts is the prevention of damaging margin calls.

There are two forms of minimum price contracts, (1) guaranteed minimum price contracts and (2) estimated minimum price contracts. The difference between the two is that the guaranteed contract sets the local basis as part of the contract while the estimated contracts estimate what the local basis will be at delivery. Guaranteed minimum price contracts can only be created with a merchandiser (they are the only ones who can quote a firm basis). The ways these contracts are established are –

- Through a commodity broker, hedge using futures and purchase a call option.
- Through a commodity broker, purchase a put option.
- Through a merchandiser, forward price for delivery and purchase a call option.
- Through a merchandiser, forward price futures only and purchase a call option.
- Through a merchandiser, set a basis contract and purchase a put option.
- Through a merchandiser, purchase a put option.

Any and all of the contracts established with a merchandiser must be satisfied with delivery to that merchandiser, or arrangements made that comply with regulations regarding short crop situations.

Some (less scrupulous) commodity brokers might suggest that purchasing a put option to prevent downside price risk and purchasing a call option to allow for continued price control is a form of minimum price contracting. Technically it is, but the cost of purchasing both options can (more often than not) prove to be more costly than the original perceived risk.

CONSIDER THIS

New crop 2016 soybean prices have improved by $3.00 per bushel since the first of March; new crop 2016 corn is $.85 per bushel higher; and July 2016 wheat is $.50 per bushel higher. There is a combination of reasons for these moves and most have to do with crop problems in South America (bless their heart). But, not to be forgotten are additional crop years that are benefitting by these improvements –

- December 2017 corn is $4.16 – up $.55 per bushel during the period.
- November 2017 soybeans are $9.99 – up $1.40 for the time.
- July 2017 wheat is $5.63 (repeat, $5.63) – up $.60.

This is not to suggest that growers should be aggressively selling next year crops, but awareness of opportunities presented is very important and some merchandising may be warranted.

When this was written Monday, the following 2016 minimum price contracts were available using an average central Virginia local basis –

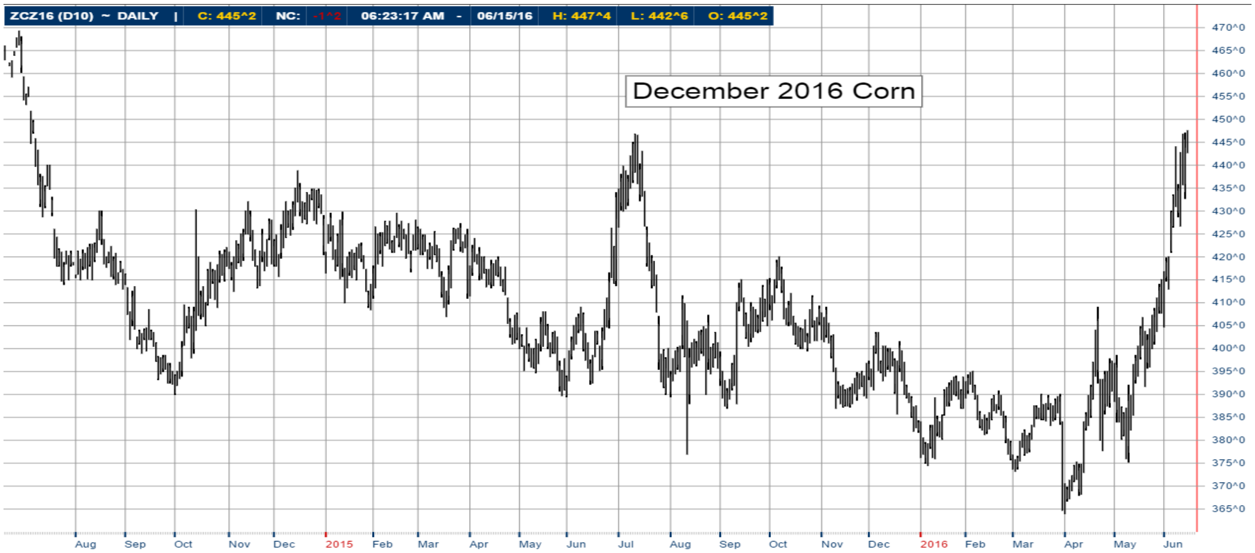
			Local		Option		Min Price
Commodity	Month	Futures	Basis	Cash Price	Strike	Premium	Contract
Soybeans	November	$11.70	$0.10	$11.80	$11.80	($0.73)	$11.07
Corn	December	$4.44	$0.55	$4.99	$4.40	($0.39)	$4.60
Wheat	September	$5.10	($0.45)	$4.65	$5.10	($0.25)	$4.40

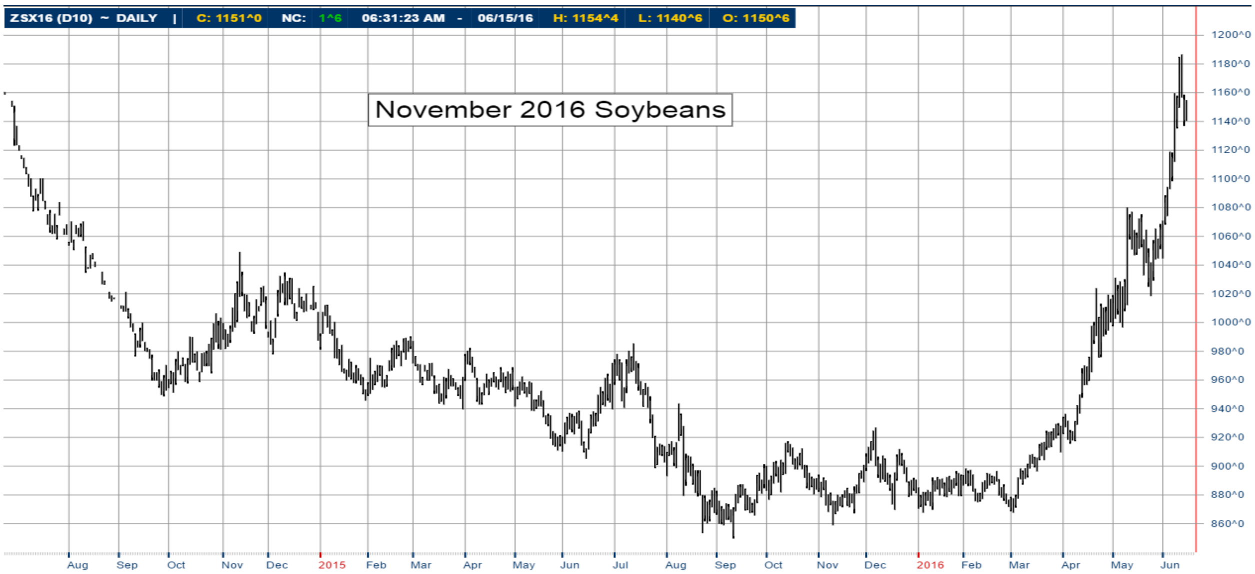
The option premium is the cost of the strategy and some might think that it is too costly a consideration. Others might think of it as a good investment to manage unknown price risks going forward, particularly in light of the recent market recoveries.

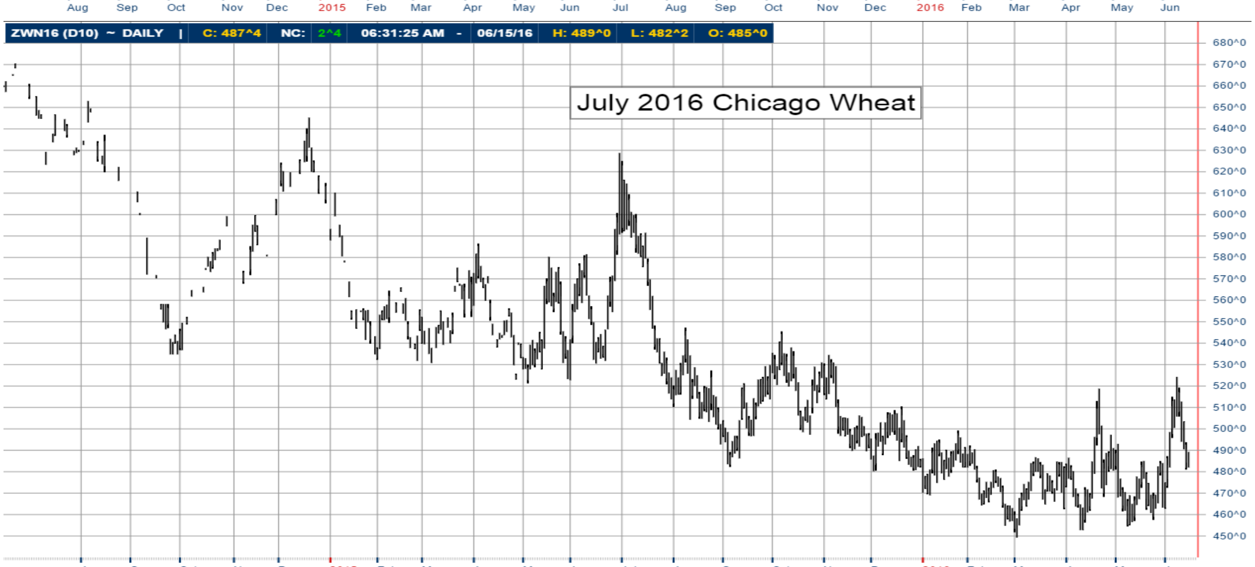
Aside from the fact that most commodity prices have recovered to profitable levels, there is another reason to consider becoming a bit more aggressive in pricing 2016 production – revenue crop insurance protection was calculated at stratums considerably lower than those seen in the current markets in all cases but wheat.

	Futures		Rev Ins	Market
Crop	Contract	Price	Calculated	Risk
Corn	December	$4.39	$3.86	$0.53
Soybeans	January	$11.49	$8.90	$2.59
Wheat	September	$5.02	$5.13	($0.11)
Cotton	December	$63.70	$60.00	$3.70

The market risk reflects how far those commodity prices can fall before revenue crop insurance becomes a factor from the price standpoint.

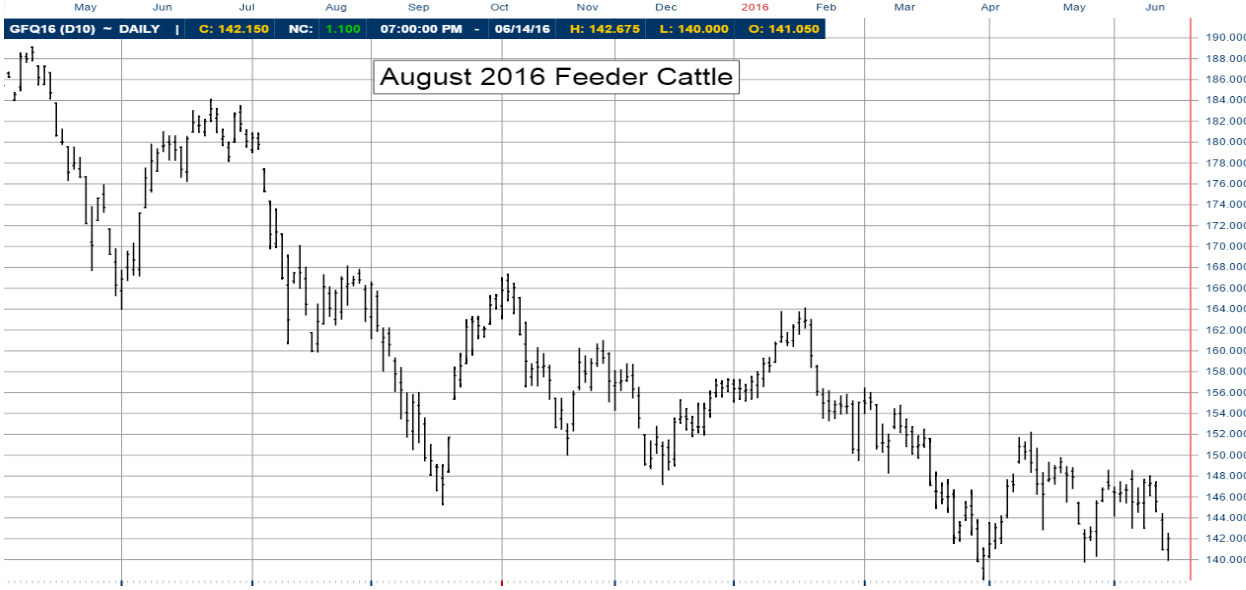

ZCZ16 (D10) ~ DAILY | C: 445^2 NC: 06:23:17 AM - 06/15/16 H: 447^4 L: 442^6 O: 445^2
December 2016 Corn
470^0 465^0 460^0 455^0 450^0 445^0 440^0 435^0 430^0 425^0 420^0 415^0 410^0 405^0 400^0 395^0 390^0 385^0 380^0 375^0 370^0 365^0
Aug Sep Oct Nov Dec 2015 Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec 2016 Feb Mar Apr May Jun

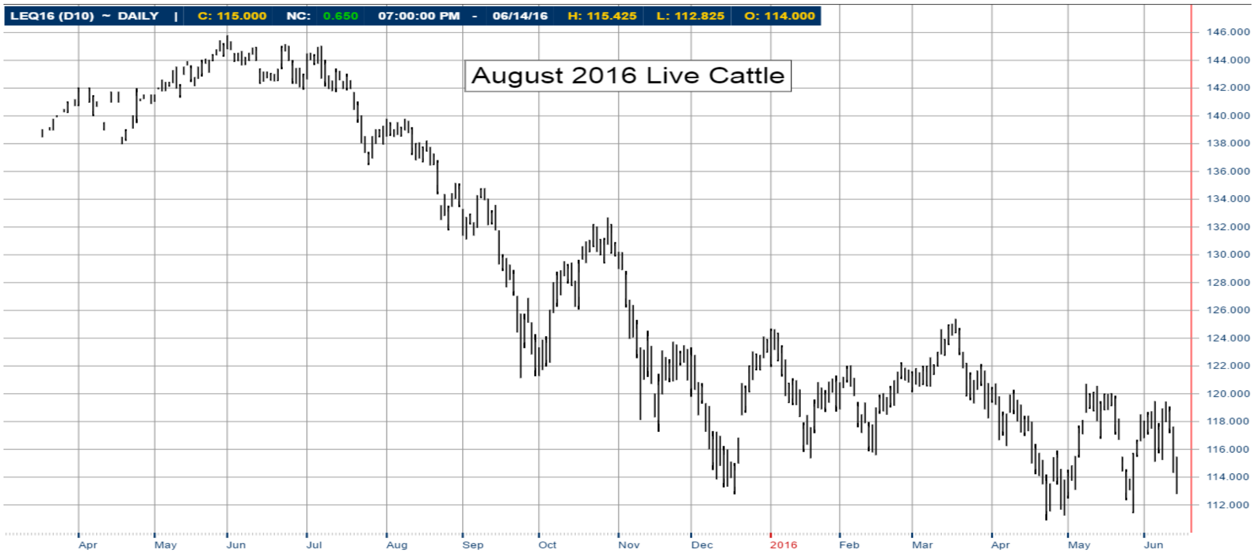

ZSX16 (D10) ~ DAILY | C: 1151^0 NC: 1^6 06:31:23 AM - 06/15/16 H: 1154^4 L: 1140^6 O: 1150^6
November 2016 Soybeans
1200^0 1180^0 1160^0 1140^0 1120^0 1100^0 1080^0 1060^0 1040^0 1020^0 1000^0 980^0 960^0 940^0 920^0 900^0 880^0 860^0
Aug Sep Oct Nov Dec 2015 Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec 2016 Feb Mar Apr May Jun

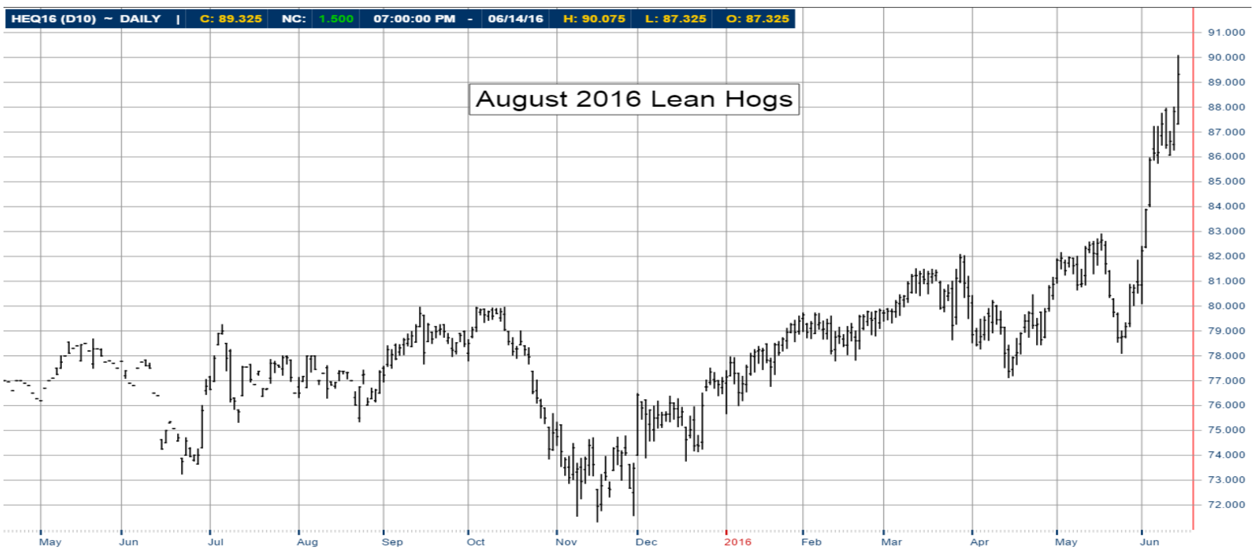

ZWN16 (D10) ~ DAILY | C: 487^4 NC: 2^4 06:31:25 AM - 06/15/16 H: 489^0 L: 482^2 O: 485^0
July 2016 Chicago Wheat
680^0 670^0 660^0 650^0 640^0 630^0 620^0 610^0 600^0 590^0 580^0 570^0 560^0 550^0 540^0 530^0 520^0 510^0 500^0 490^0 480^0 470^0 460^0 450^0
Aug Sep Oct Nov Dec 2015 Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec 2016 Feb Mar Apr May Jun

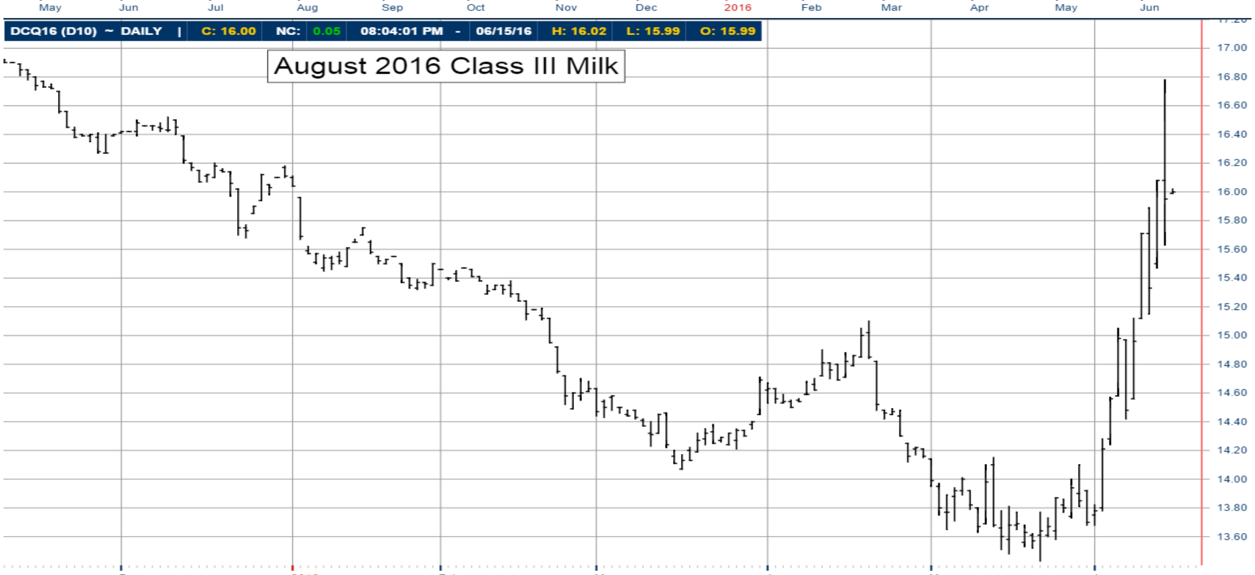

ZMZ16 (D10) ~ DAILY | C: 405.10 NC: 2.60 06:34:36 AM - 06/15/16 H: 406.40 L: 401.10 O: 402.90
December 2016 Soybean Meal

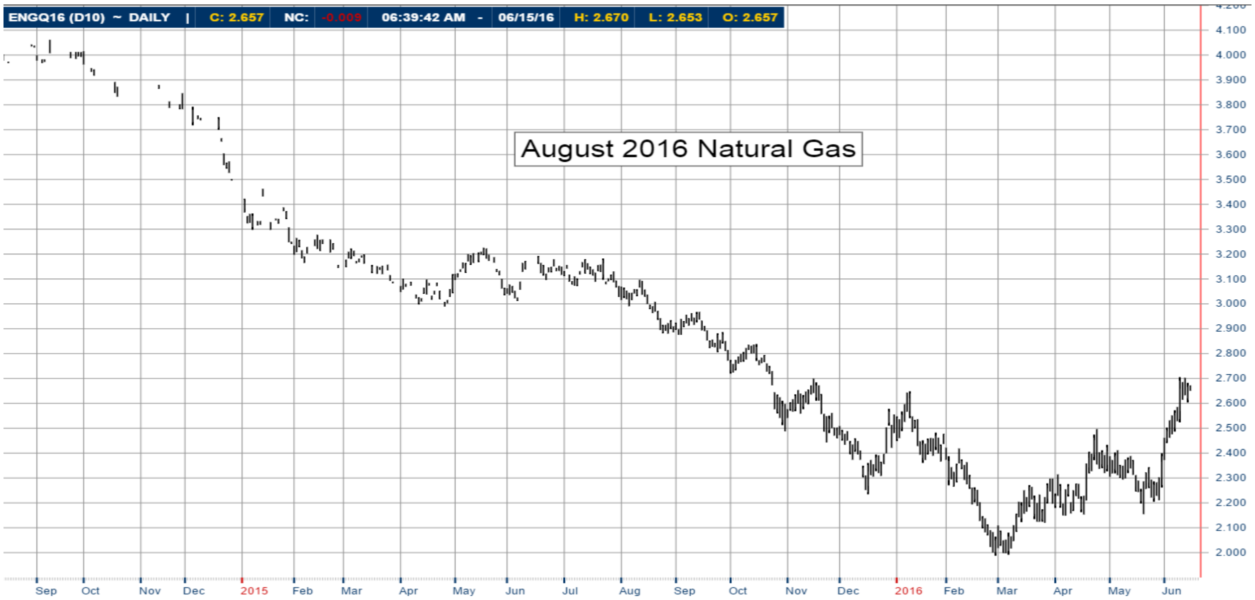

ECTZ16 (D10) ~ DAILY | C: 64.08 NC: 0.17 06:36:14 AM - 06/15/16 H: 64.22 L: 63.90 O: 64.10
December 2016 Cotton

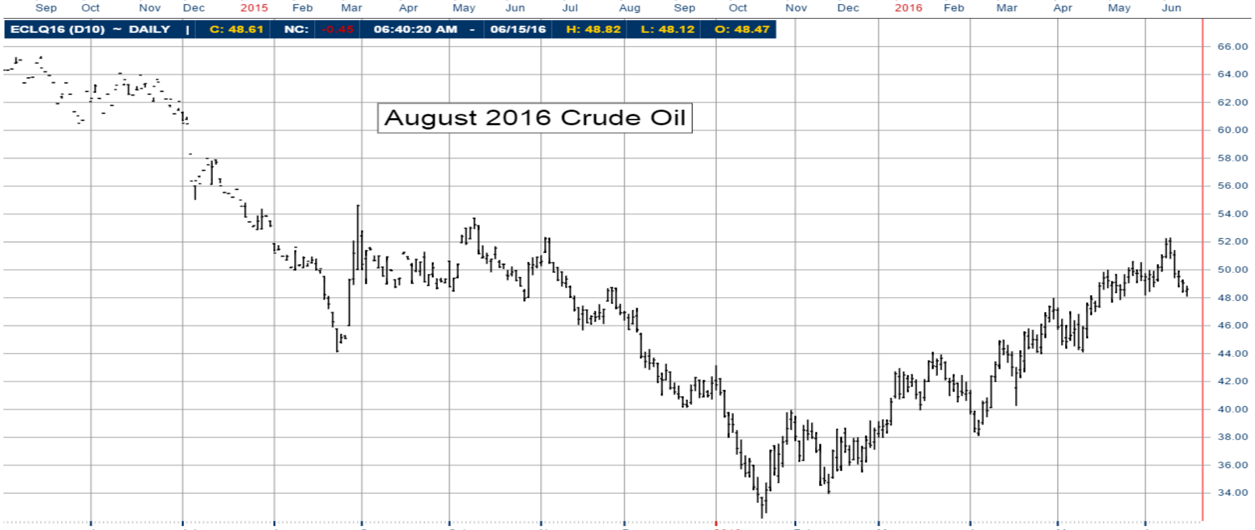

GFQ16 (D10) ~ DAILY | C: 142.150 NC: 1.100 07:00:00 PM - 06/14/16 H: 142.675 L: 140.000 O: 141.050
August 2016 Feeder Cattle

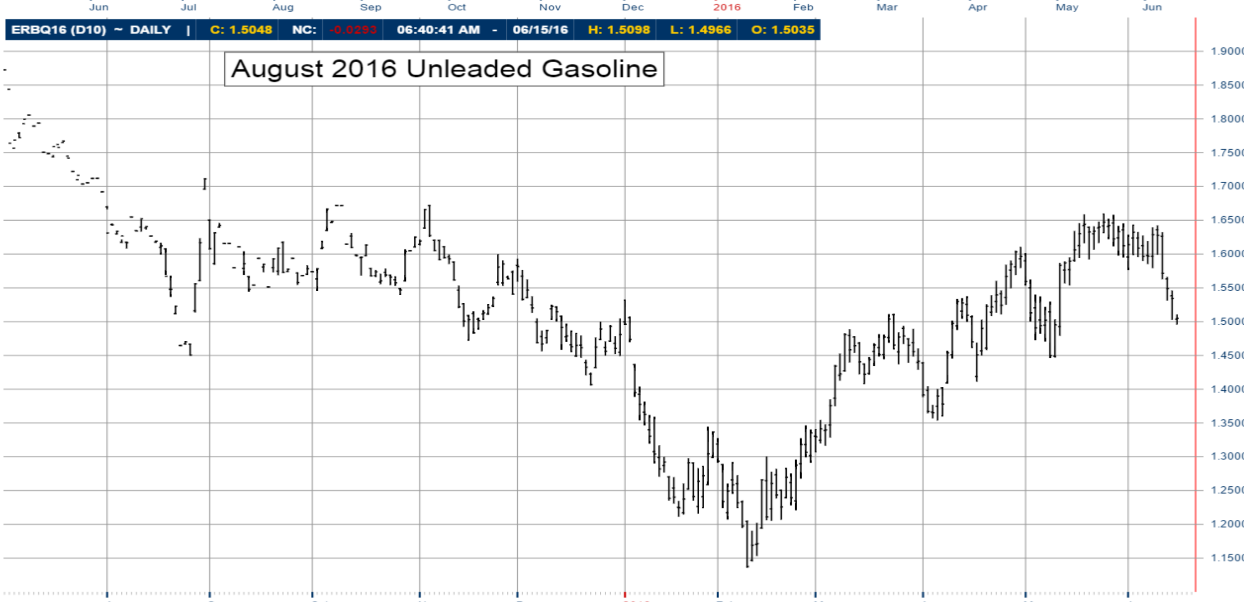

LEQ16 (D10) ~ DAILY | C: 115.000 NC: 0.650 07:00:00 PM - 06/14/16 H: 115.425 L: 112.825 O: 114.000
August 2016 Live Cattle

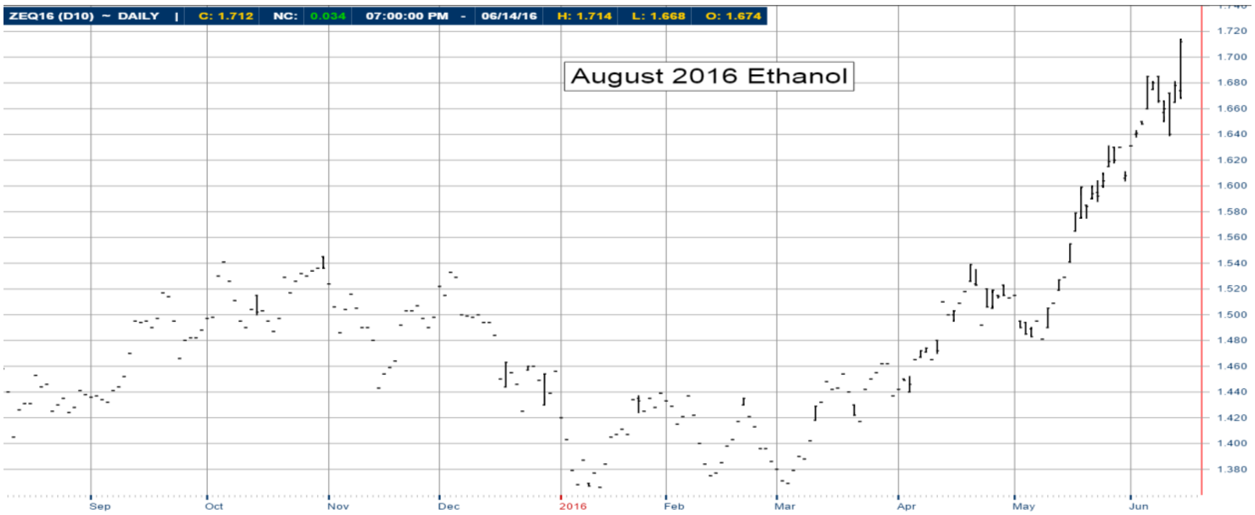

HEQ16 (D10) ~ DAILY | C: 89.325 NC: 1.500 07:00:00 PM - 06/14/16 H: 90.075 L: 87.325 O: 87.325
August 2016 Lean Hogs


DCQ16 (D10) ~ DAILY | C: 16.00 NC: 0.05 08:04:01 PM - 06/15/16 H: 16.02 L: 15.99 O: 15.99
August 2016 Class III Milk


ENGQ16 (D10) ~ DAILY | C: 2.657 NC: -0.009 06:39:42 AM - 06/15/16 H: 2.670 L: 2.653 O: 2.657
August 2016 Natural Gas
Sep Oct Nov Dec 2015 Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec 2016 Feb Mar Apr May Jun


ECLQ16 (D10) ~ DAILY | C: 48.61 NC: -0.45 06:40:20 AM - 06/15/16 H: 48.82 L: 48.12 O: 48.47
August 2016 Crude Oil
Jun Jul Aug Sep Oct Nov Dec 2016 Feb Mar Apr May Jun


ERBQ16 (D10) ~ DAILY | C: 1.5048 NC: -0.0293 06:40:41 AM - 06/15/16 H: 1.5098 L: 1.4966 O: 1.5035
August 2016 Unleaded Gasoline
Aug Sep Oct Nov Dec 2016 Feb Mar Apr May Jun


ZEQ16 (D10) ~ DAILY | C: 1.712 NC: 0.034 07:00:00 PM - 06/14/16 H: 1.714 L: 1.668 O: 1.674
August 2016 Ethanol
1.720
1.700
1.680
1.660
1.640
1.620
1.600
1.580
1.560
1.540
1.520
1.500
1.480
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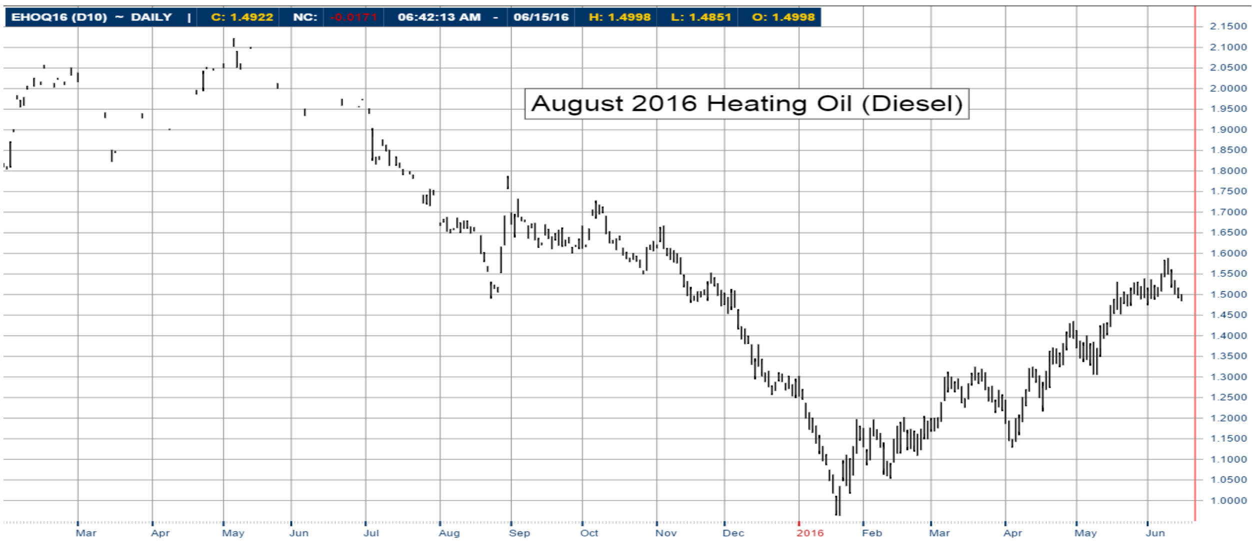
EHOQ16 (D10) ~ DAILY | C: 1.4922 NC: -0.0171 06:42:13 AM - 06/15/16 H: 1.4998 L: 1.4851 O: 1.4998
August 2016 Heating Oil (Diesel)
2.1500
2.1000
2.0500
2.0000
1.9500
1.9000
1.8500
1.8000
1.7500
1.7000
1.6500
1.6000
1.5500
1.5000
1.4500
1.4000
1.3500
1.3000
1.2500
1.2000
1.1500
1.1000
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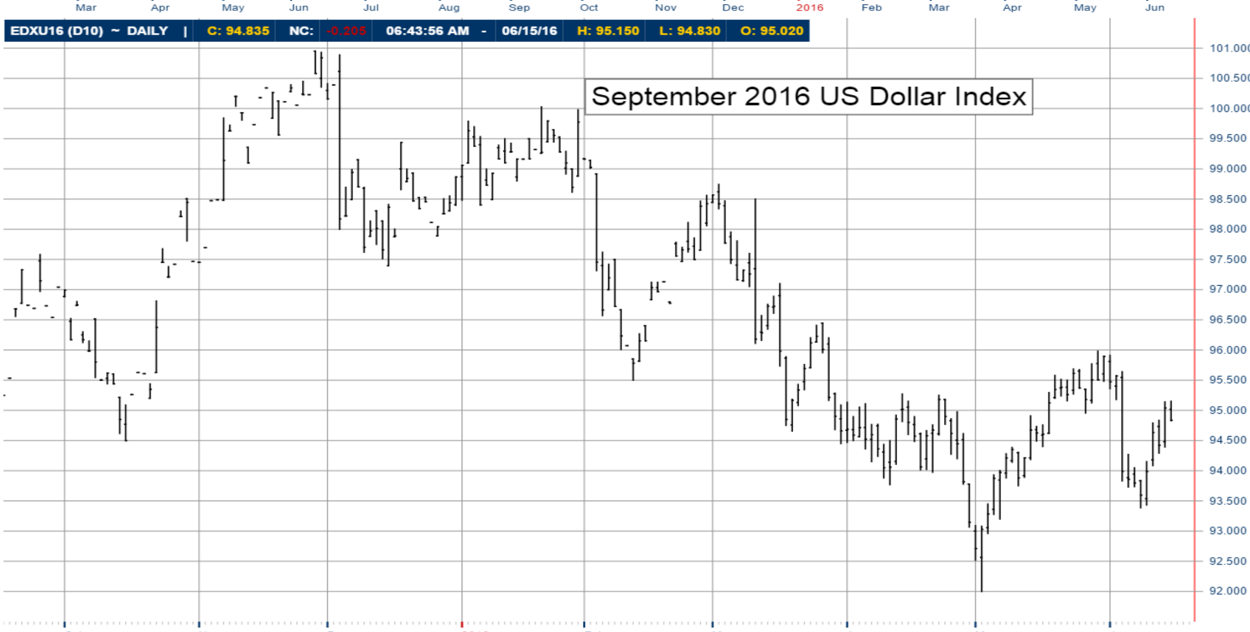
EDXU16 (D10) ~ DAILY | C: 94.835 NC: -0.205 06:43:56 AM - 06/15/16 H: 95.150 L: 94.830 O: 95.020
September 2016 US Dollar Index
101.000
100.500
100.000
99.500
99.000
98.500
98.000
97.500
97.000
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96.000
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95.000
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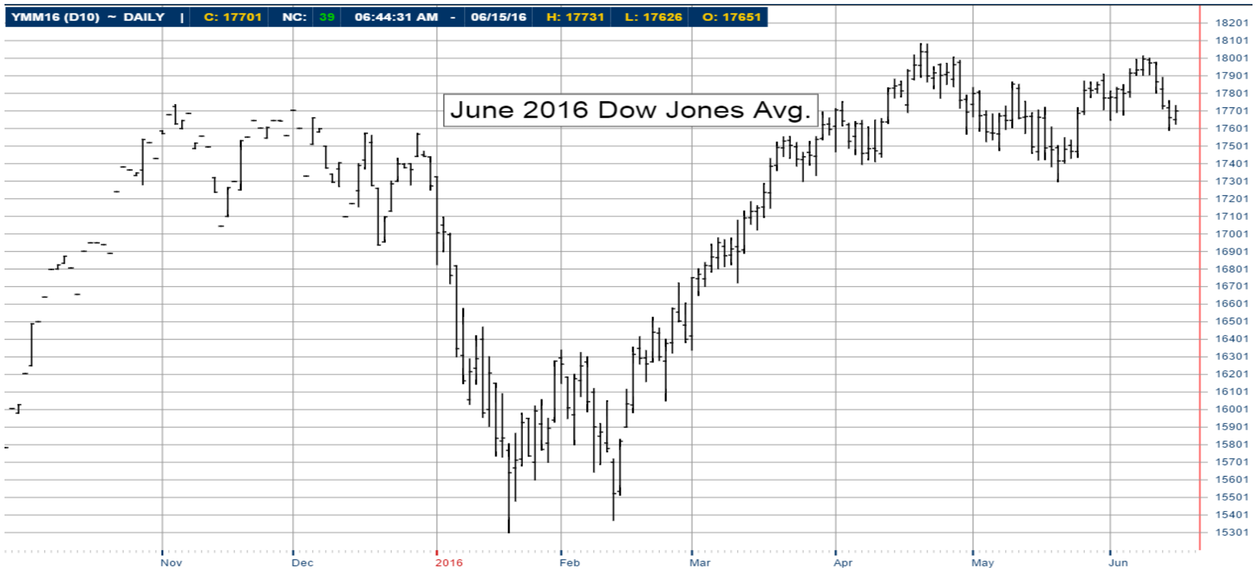

"You sure that's beef?"