



Commodity Comments

A Weekly Farm Publication by Jonah Bowles

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The precious little 8 year old girl, dressed in a beautiful pink pinafore, skipped into the local grocery store asked the owner if he had any extra-strength Tide detergent. He was more than happy to show her where it was on the shelf, but couldn't help but ask her what she was going to do with it. "I'm going to clean my little kitty." Taken back a bit, he cautioned, "Be careful, this can be a little harsh on such a delicate little pet."

About a week later, the cute petit femme returned to purchase some Skittles, and the grocer asked how her kitty was after the bath. "Snuggles died," she offered. "Oh dear," the grocer said with appropriate heartfelt sympathy, "I was afraid the Tide was too strong for the darling creature." The little girl replied, "I don't believe it was the Tide - I think it was the spin cycle."

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PRICES AVAILABLE TODAY

The following prices are available on the various futures markets - the same markets that determine local prices for producers and consumers. This information is freely found on the internet.

Top 3rd - Soybeans, Soybean Meal, Lean Hogs, Class III Milk

Middle 3rd - Cotton, Natural Gas, Crude Oil, Gasoline, Heating Oil, Ethanol

Bottom 3rd - Corn, Wheat, Feeder Cattle, Live Cattle

Commodity	Month	Today	Week Ago	\$ Chg	% Chg	Life of Contract	
		6/22/16	6/15/16			High	Low
Corn	Jul-16	\$3.98	\$4.37	(\$0.39)	-8.9%	\$5.15	\$3.51
	Dec-16	\$4.10	\$4.46	(\$0.36)	-8.1%	\$4.89	\$3.64
	Dec-17	\$4.06	\$4.16	(\$0.10)	-2.4%	\$4.74	\$3.80
Soybeans	Jul-16	\$11.37	\$11.68	(\$0.31)	-2.7%	\$12.08	\$8.59
	Nov-16	\$11.14	\$11.48	(\$0.34)	-3.0%	\$11.86	\$8.50
	Nov-17	\$9.74	\$9.99	(\$0.25)	-2.5%	\$11.36	\$8.57
Soy Meal	Jul-16	\$392.30	\$410.50	(\$18.20)	-4.4%	\$432.50	\$261.70
	Dec-16	\$389.30	\$404.40	(\$15.10)	-3.7%	\$418.70	\$267.20
Wheat	Jul-16	\$4.63	\$4.87	(\$0.24)	-4.9%	\$7.66	\$4.42
	Dec-16	\$4.97	\$5.21	(\$0.24)	-4.6%	\$6.52	\$4.76
	Jul-17	\$5.35	\$5.63	(\$0.28)	-5.0%	\$6.10	\$5.04
Cotton	Jul-16	\$63.14	\$63.37	(\$0.23)	-0.4%	\$68.97	\$54.33
	Dec-16	\$64.58	\$64.07	\$0.51	0.8%	\$80.40	\$54.19
Feeders	Aug-16	\$139.25	\$142.15	(\$2.90)	-2.0%	\$190.00	\$134.25
	Oct-16	\$136.80	\$139.45	(\$2.65)	-1.9%	\$180.10	\$132.50
	Jan-17	\$129.00	\$131.45	(\$2.45)	-1.9%	\$150.15	\$125.00
Live Cattle	Aug-16	\$114.45	\$115.00	(\$0.55)	-0.5%	\$145.75	\$109.55
	Oct-16	\$111.55	\$114.85	(\$3.30)	-2.9%	\$147.00	\$109.85
	Aug-17	\$103.95	\$106.40	(\$2.45)	-2.3%	\$113.00	\$102.40
Lean Hogs	Aug-16	\$88.50	\$89.30	(\$0.80)	-0.9%	\$90.40	\$71.30
	Oct-16	\$74.45	\$73.80	\$0.65	0.9%	\$74.80	\$62.10
	Jul-17	\$78.40	\$78.90	(\$0.50)	-0.6%	\$80.60	\$75.30
Class 3 Milk	Aug-16	\$15.98	\$16.00	(\$0.02)	-0.1%	\$17.05	\$13.43
	Dec-16	\$15.92	\$15.80	\$0.12	0.8%	\$16.84	\$14.54
Natural Gas	Aug-16	\$2.76	\$2.66	\$0.10	3.8%	\$4.06	\$1.99
Crude Oil	Aug-16	\$50.29	\$48.48	\$1.81	3.7%	\$65.28	\$32.22
Gasoline	Aug-16	\$1.61	\$1.50	\$0.11	7.3%	\$1.98	\$1.14
Ethanol	Aug-16	\$1.56	\$1.71	(\$0.15)	-8.8%	\$1.71	\$1.37
Diesel	Aug-16	\$1.54	\$1.49	\$0.05	3.4%	\$2.12	\$0.96
		Top Third				New High	New Low
		Middle Third					
		Bottom Third					

MARKET OBSERVATIONS

It's difficult to trade 'summer markets' that play weather consequences back and forth as they are in a constant state of change. June and July are critical months and traders try to anticipate market direction with every blip in weather forecasts.

Some of my observations –

- ♣ Old crop corn has fallen into the bottom third of its lifetime range and new crop corn is only \$.04 away from turning red.
- ♣ New crop soybeans have given up \$.75 of the recent \$3.00 rise, but still remain in the top third. As long as South America has supply problems and China needs soybeans, US prices should be supported.
- ♣ World supplies of wheat are at record levels and US wheat prices are higher than those in competing countries. There is little reason, except for corn, for wheat prices to show any meaningful strength.
- ♣ Cattle continue to make new lifetime lows and hogs make new highs.

SUCCESS OR FAILURE?

There are three criteria that must first be met before a *hedger* decides to use the futures markets for marketing and/or risk management –

1. There must be a correlation between the futures contracts and the product to be marketed.
2. There must be a financial suitability to enter a highly leveraged futures contract.
3. There must be a psychological suitability to be able to handle the many surprises that can come with futures markets.

If all three of the above are not present then it will be difficult to find success when using futures. But, those criteria are not the only considerations when expecting a successful experience with the markets. Questions growers might ask themselves are –

- How much does the grower know about the workings of the futures markets?
- What is the purpose of using futures? Is it to protect profits; is it to prevent losses; is it to trade markets for profits; is it just to keep abreast of prices?
- What is the plan for entering the market and exiting the market? What is the plan for adding to positions if the market moves higher or if it moves lower?
- What happens when something unforeseeable occurs (it will)?
- How capable is the commodity broker to provide the information and services required and for a reasonable fee?

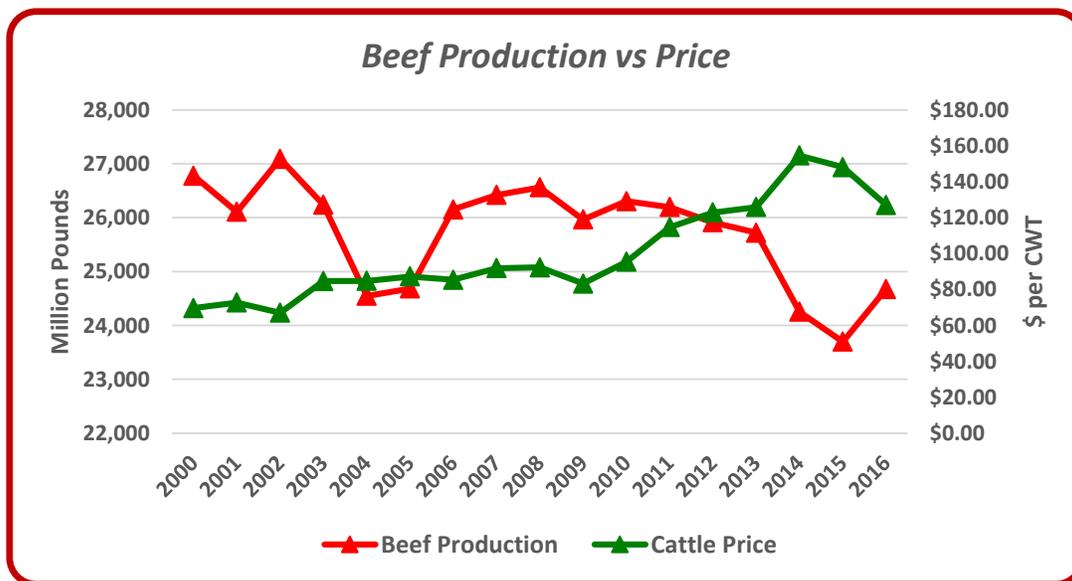
Being an optimist is a necessary part of being a farmer. Just believing that a crop can be grown, harvested and sold for an equitable price encourages the grower to plant the seeds in the first place. But, being the absolute optimist when it comes to marketing can be harmful. Too often, growers believe the trading trend they want to believe and that is usually the uptrend. Farmers have a tendency not to sell in downtrending markets because they think the trend is wrong and that values should be higher; farmers are inclined not to sell in uptrending markets because they believe the trend is valid and that prices will move even higher.

Producers who aren't sure of their ability to make unemotional marketing decisions may be wise to consider the use of a marketing advisory service. There are all types and with a multitude of approaches to pricing and with a wide range of fee schedules. The key is to find one that best meets the needs of a particular operation.

CONSIDER THIS

From a very basic supply/demand balance, when prices go up production will go up; when prices fall then production will fall. But, when production goes up prices will fall and when production falls then prices will go up. This seems like a conflict in economics, but it actually is not. It all depends on which of the factors occurs first.

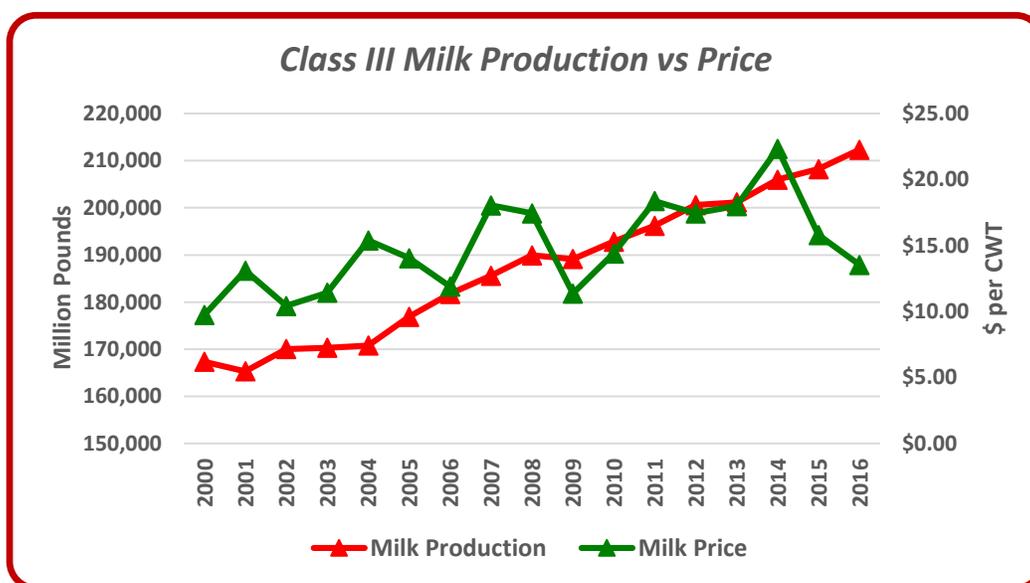
In the livestock sector most growers will express dispirited surprise that cattle prices are under such pressure. Yet, all producers know what happens when prices of any commodity reach heights that didn't seem to be supported.



According to the chart, beef production has been in a decline since 2008 and prices experienced a rise for most of the period. Because of the lag in the beef production cycle, production could not immediately respond to prices but after two years production show signs of increasing – but beef prices continue to fall.

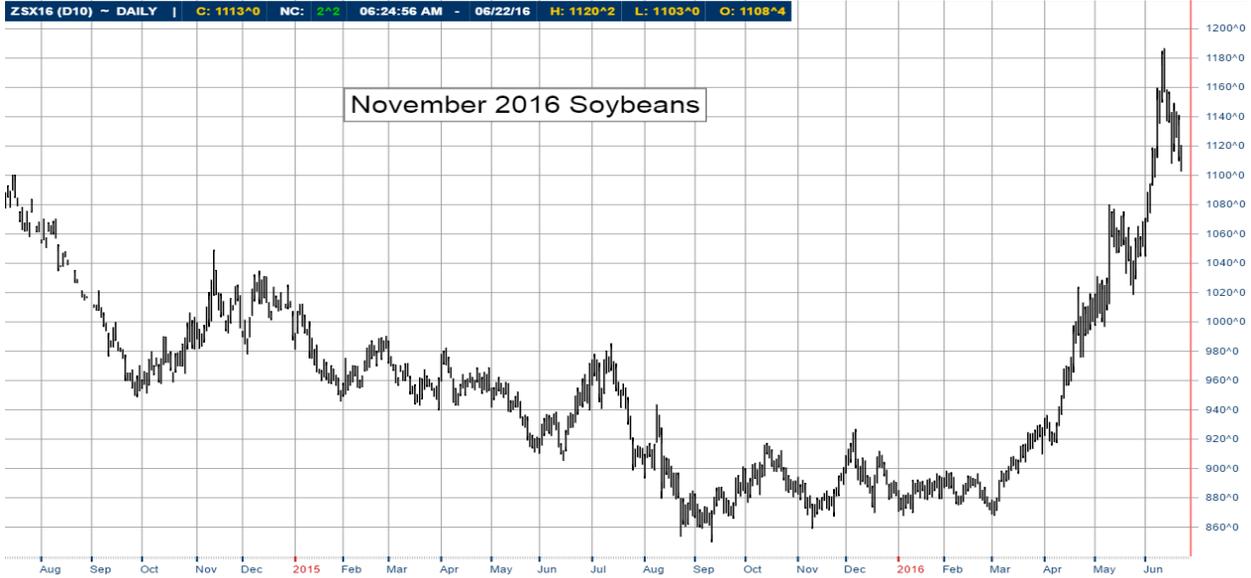
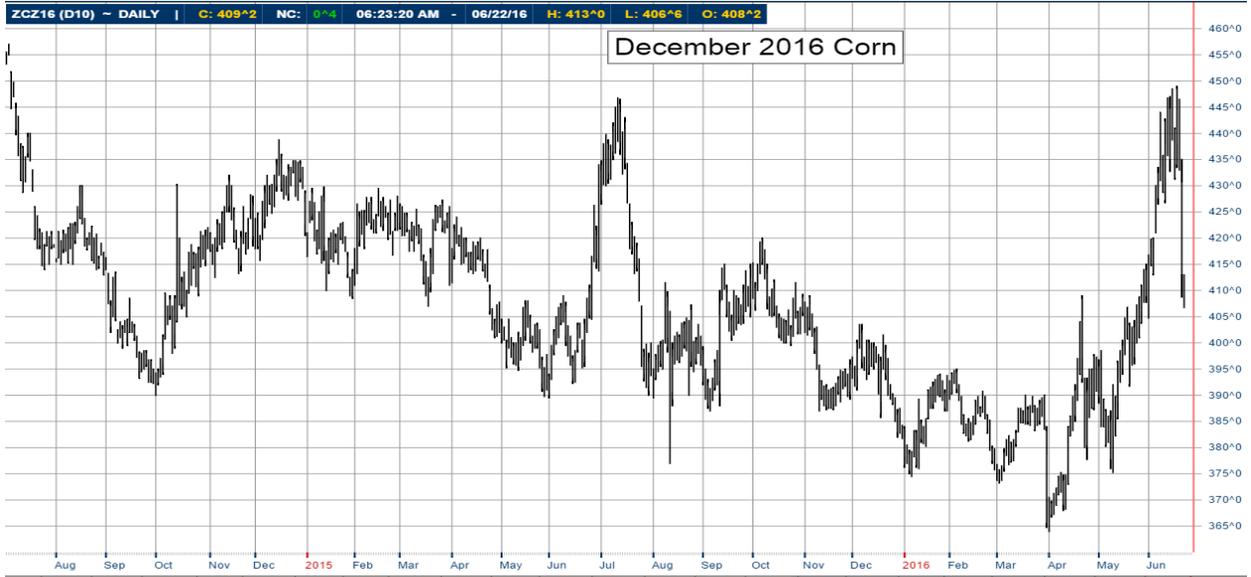
The chart only shows price and production and does not account for beef imports and exports which can change dramatically from year to year.

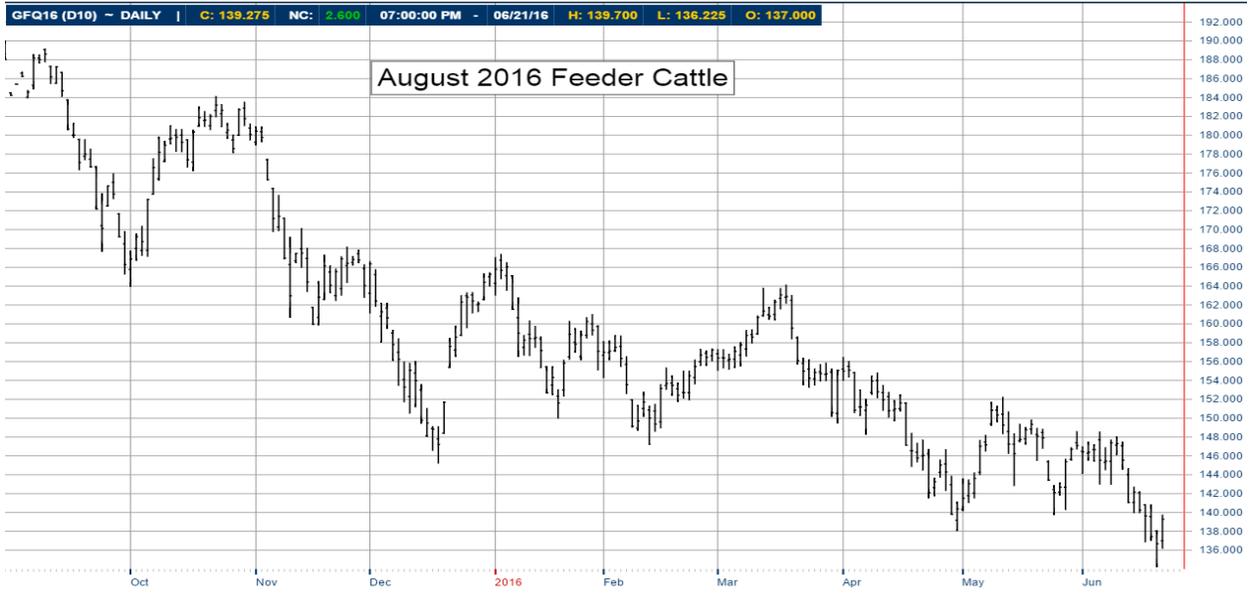
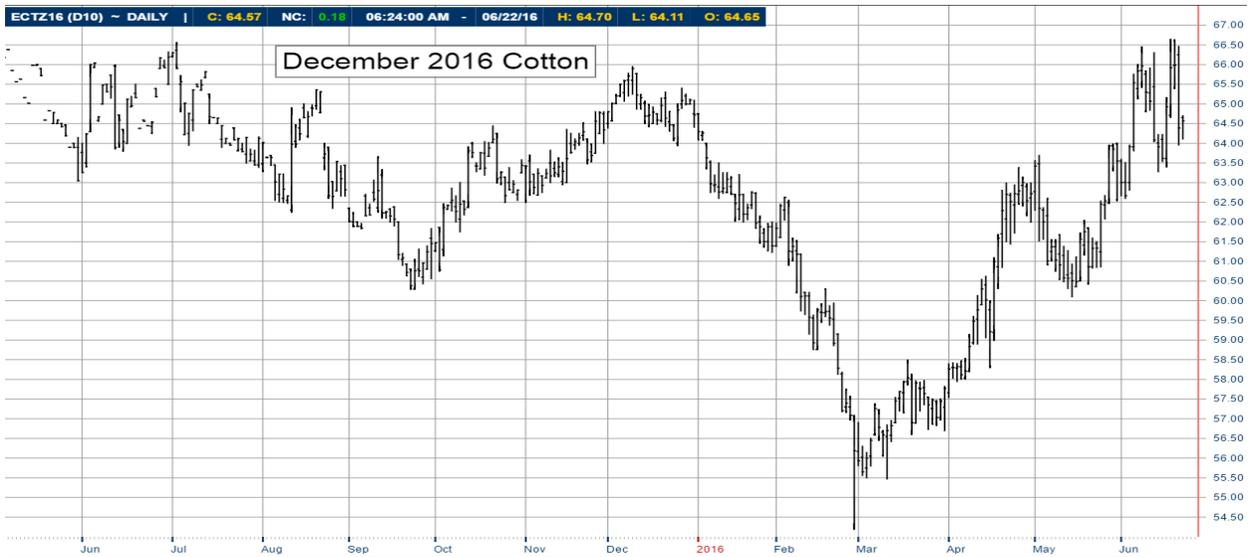
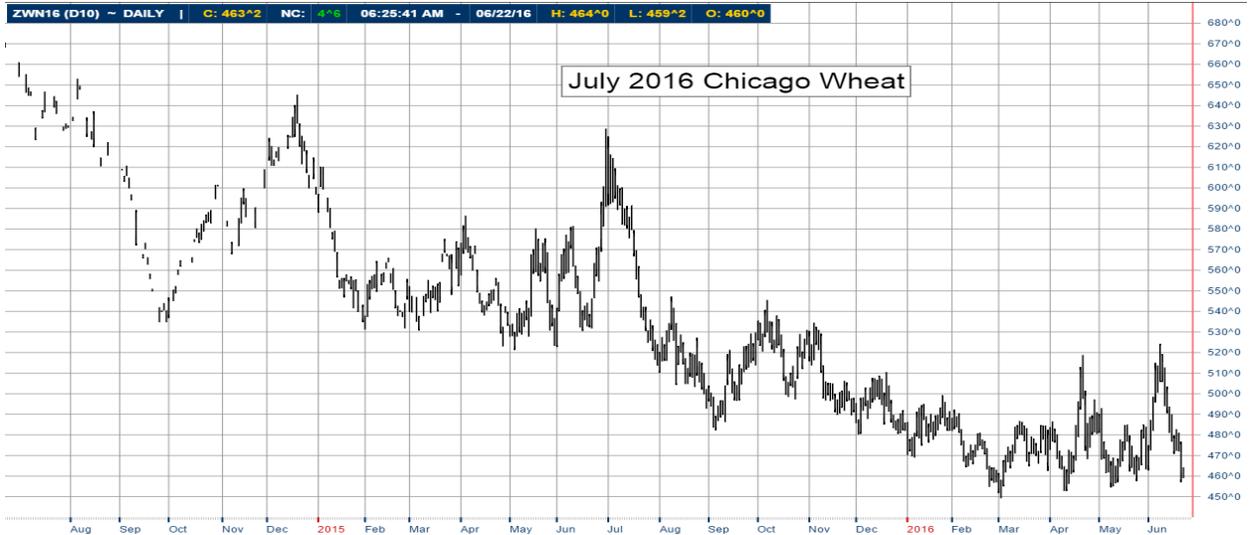
The next chart shows a similar relationship between Class III milk production and prices.

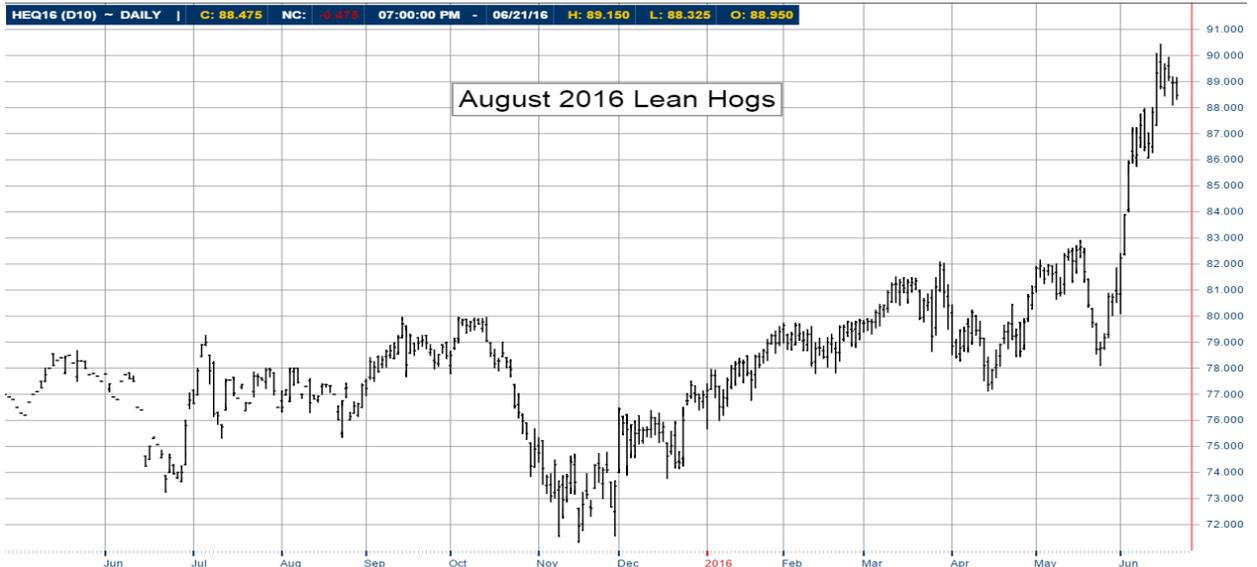
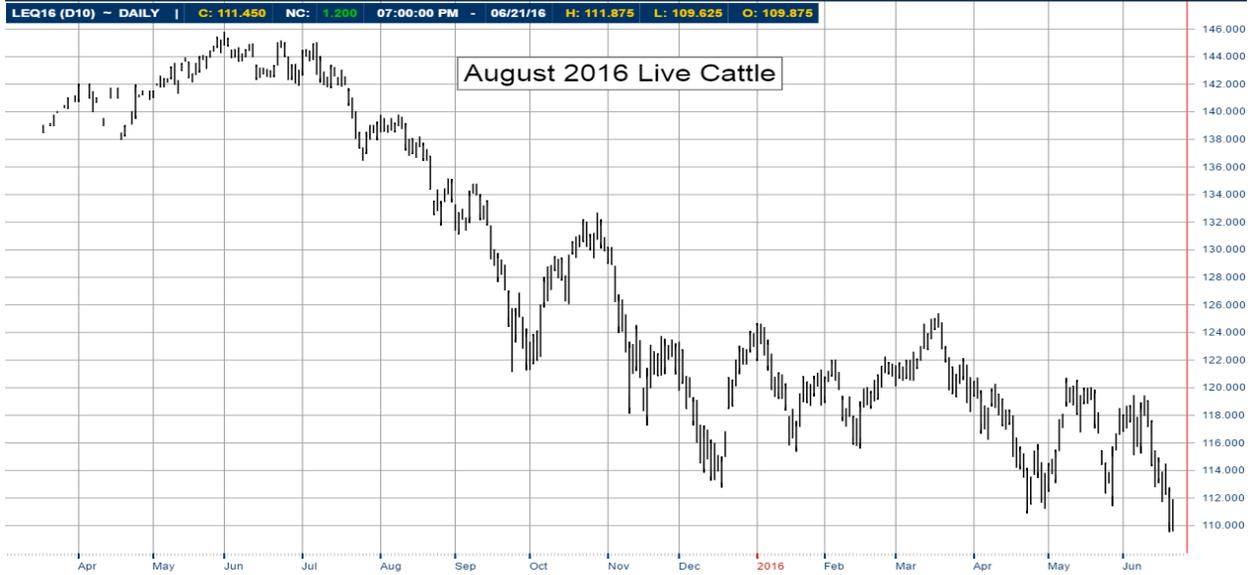


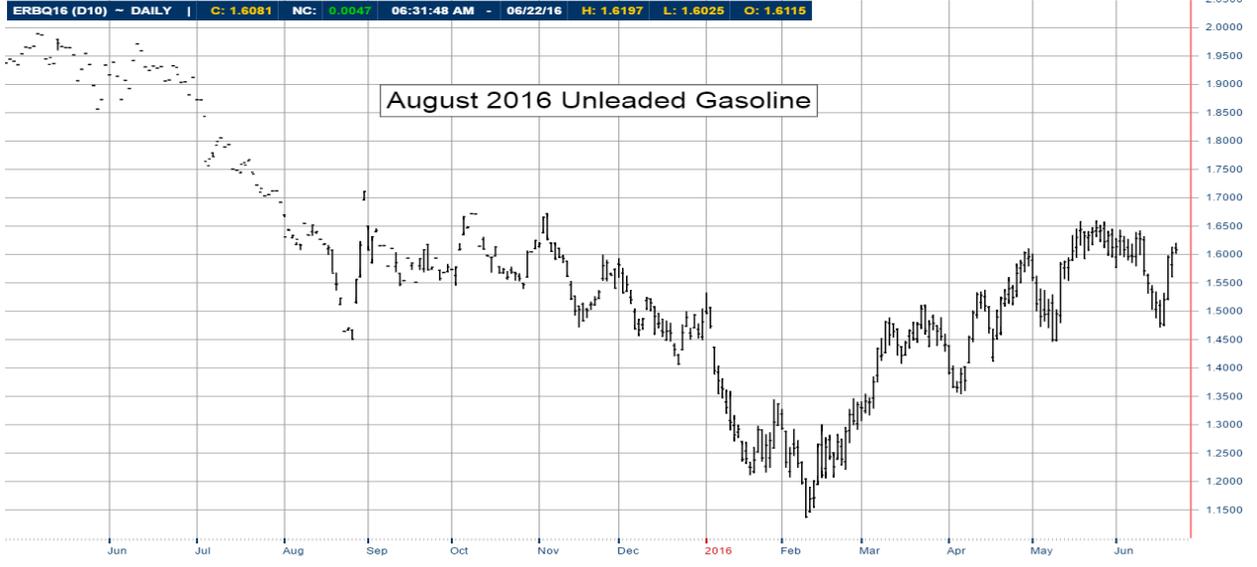
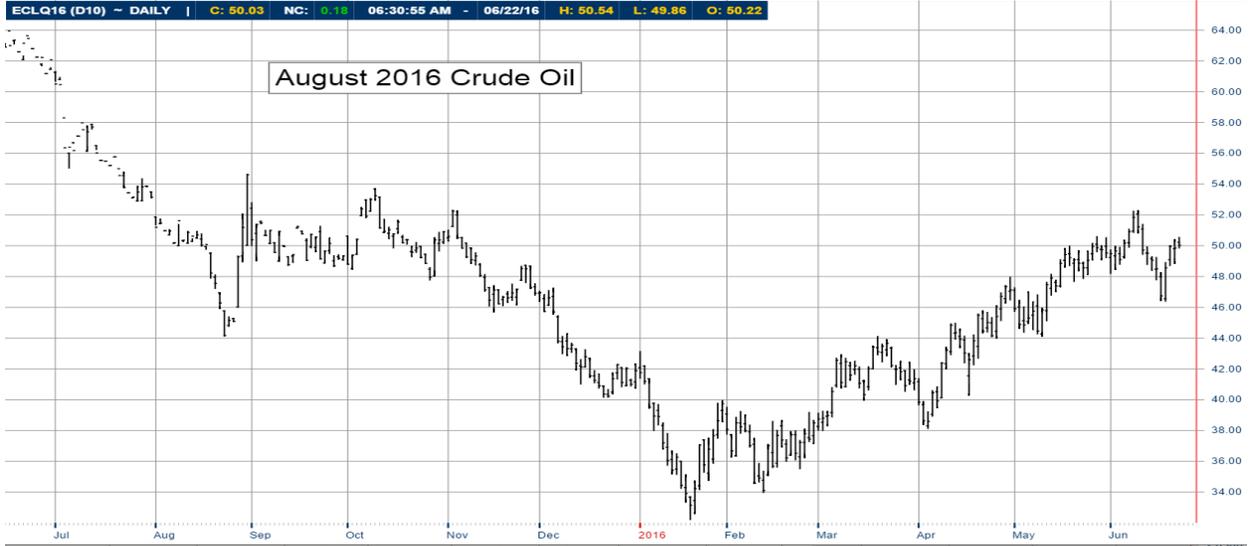
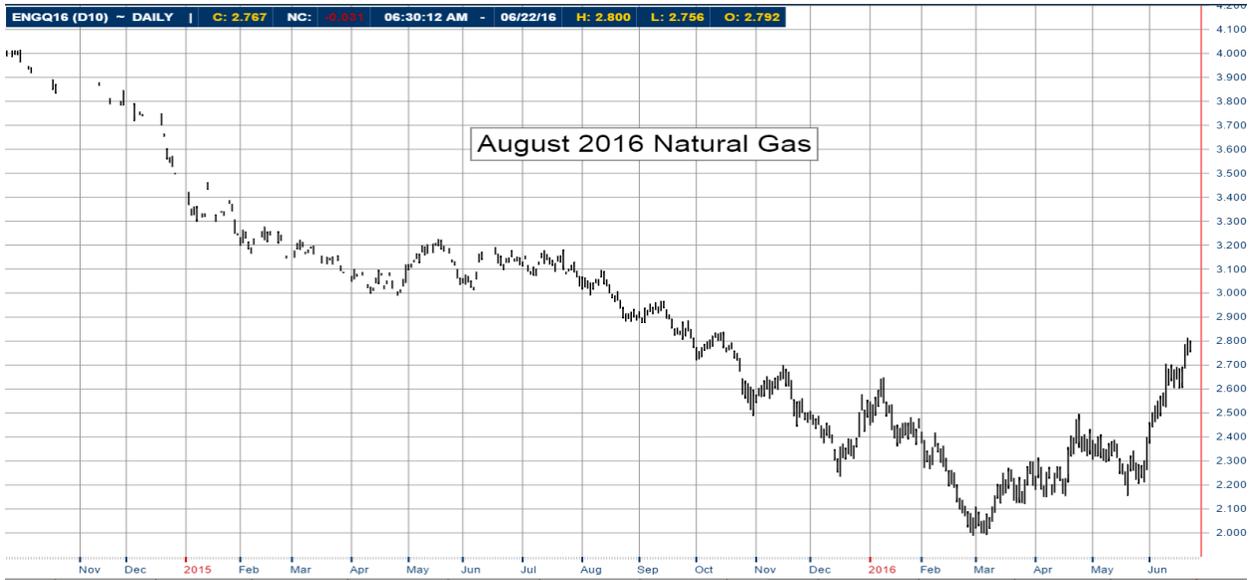
Milk prices have been volatile compared to the production of milk, which has been steadily increasing. If not for the consumption of cheese, which has been going up, Class III prices would probably show even more volatility and at lower price levels.

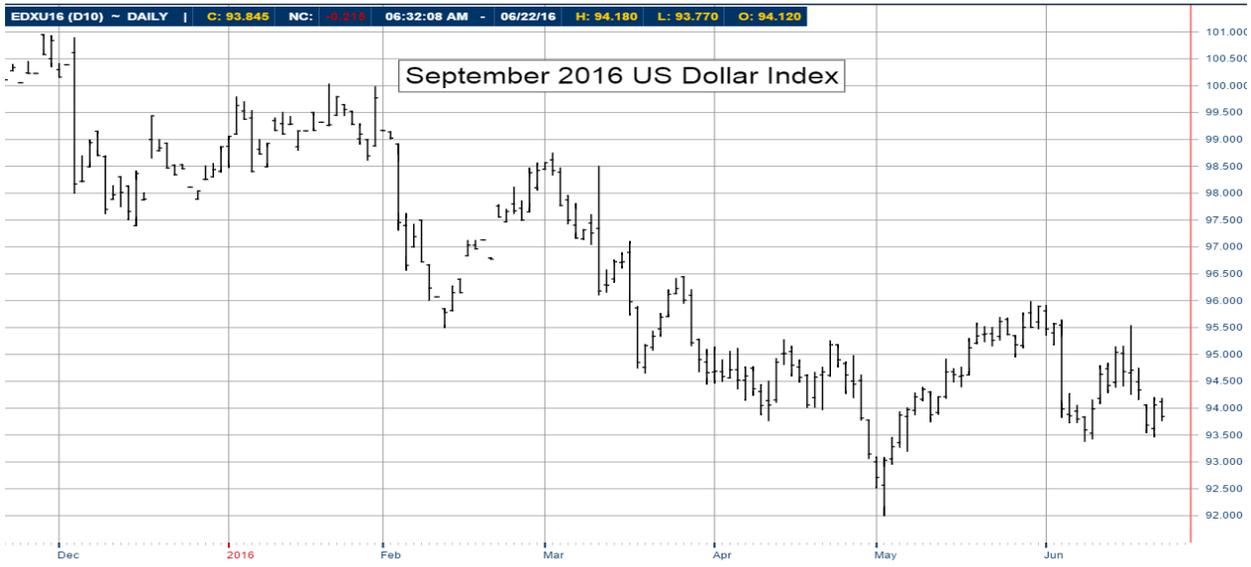
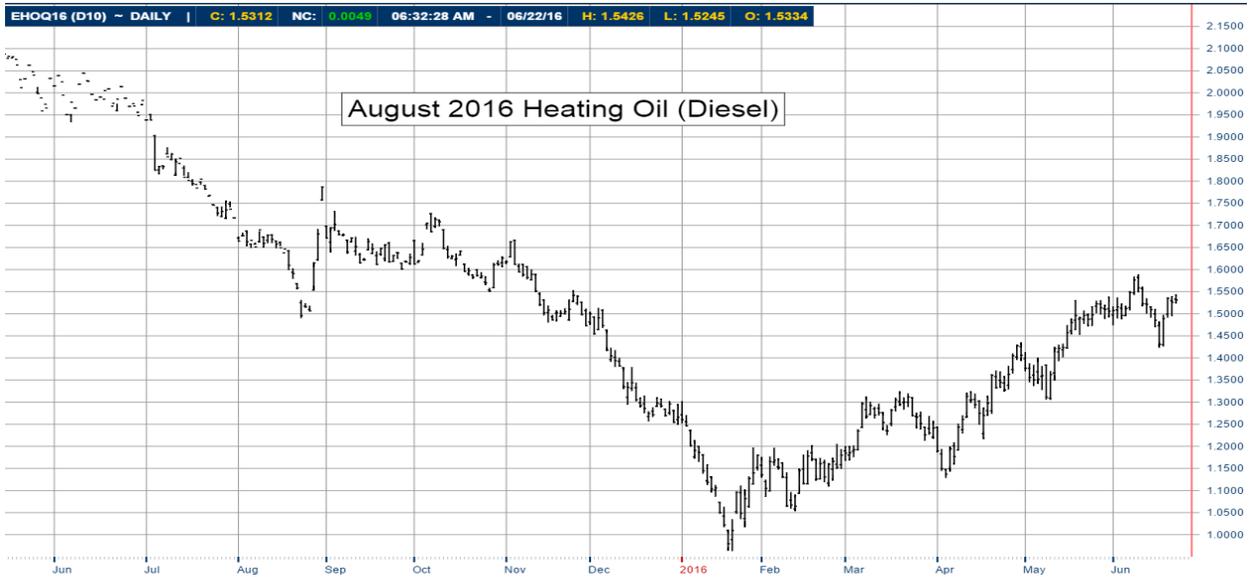
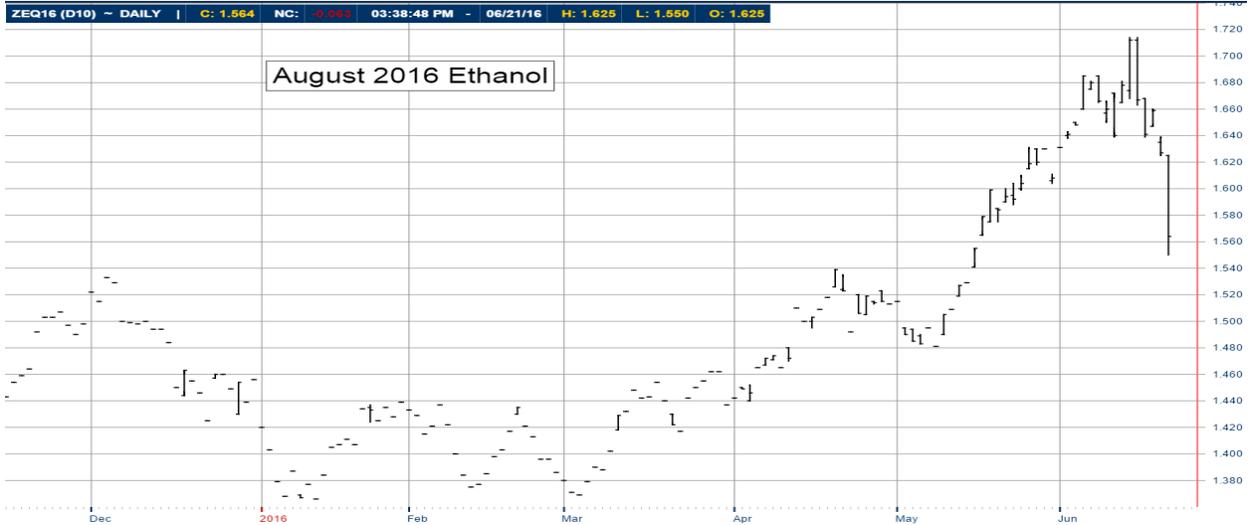
Producers of any agricultural commodity can withstand a year of bad prices and maybe even two. But, the third down year will stress even the strongest balance sheet. Such is the case with Class III prices – after peaking and then plummeting in 2014 this is the third year of declining prices and a number of dairies have not been able to survive. If there is any good news for dairies, prices have recovered \$2.50 - \$3.00/cwt just in the past three weeks.

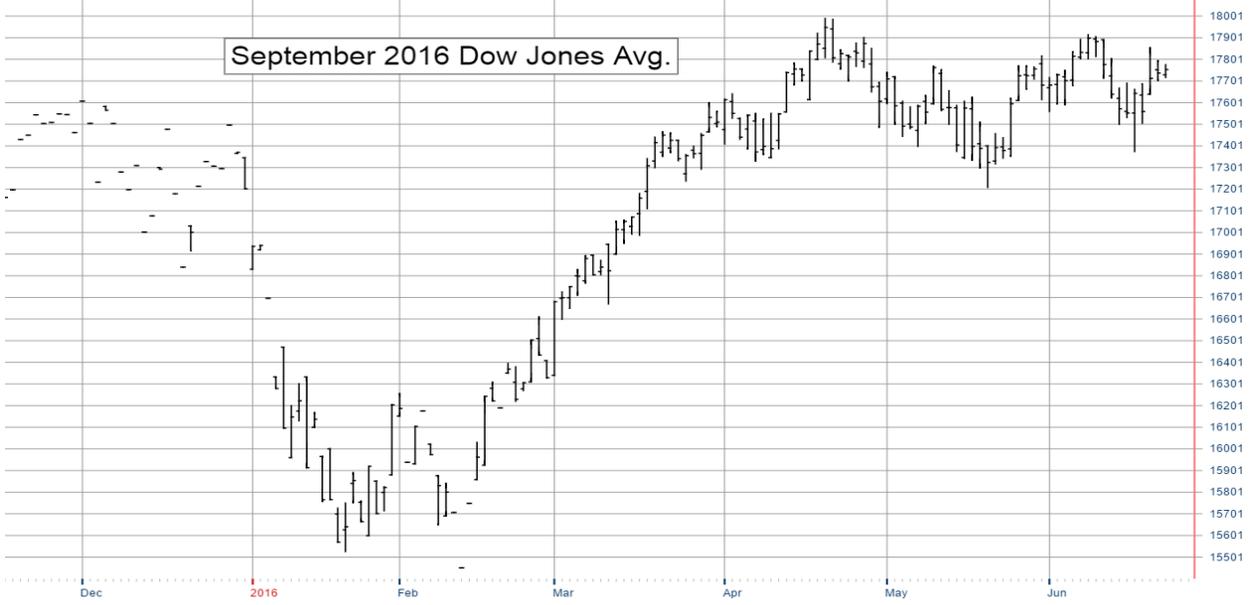












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