



Commodity Comments

A Weekly Farm Publication by Jonah Bowles

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George, the farmer, had so many children that he ran out of names so he started naming them after something on the farm.

On the first day of school, the teacher asked each child their name. When she got to one of farmer George's sons, the boy replied, 'Wagon Wheel.' The teacher said, 'I need your real name', to which the lad replied, 'It's Wagon Wheel, really.'

The teacher, rather annoyed responded, 'All right young man, take yourself right down to the Principal's office this minute.'

The youngster pushed himself out of his chair, turned to his little sister and said, 'C'mon, Chicken Feed, she ain't gonna believe you either.'

IN THIS ISSUE

Prices Available Today
Market Observations
Rodeo Markets
Consider This

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 3rd – Soybeans, Soybean Meal, Class III Milk, Ethanol

Middle 3rd – Cotton, Lean Hogs, Natural Gas, Crude Oil, Gasoline, Heating Oil

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

Commodity	Month	Today	Week Ago	\$ Chg	% Chg	Life of Contract	
		6/29/16	6/22/16			High	Low
Corn	Jul-16	\$3.83	\$3.98	(\$0.15)	-3.8%	\$5.15	\$3.51
	Dec-16	\$3.92	\$4.10	(\$0.18)	-4.4%	\$4.89	\$3.64
	Dec-17	\$3.92	\$4.06	(\$0.14)	-3.4%	\$4.74	\$3.80
Soybeans	Jul-16	\$11.47	\$11.37	\$0.10	0.9%	\$12.08	\$8.59
	Nov-16	\$11.15	\$11.14	\$0.01	0.1%	\$11.86	\$8.50
	Nov-17	\$9.81	\$9.74	\$0.07	0.7%	\$11.36	\$8.57
Soy Meal	Jul-16	\$392.50	\$392.30	\$0.20	0.1%	\$432.50	\$261.70
	Dec-16	\$386.80	\$389.30	(\$2.50)	-0.6%	\$418.70	\$267.20
Wheat	Jul-16	\$4.45	\$4.63	(\$0.18)	-3.9%	\$7.66	\$4.42
	Dec-16	\$4.78	\$4.97	(\$0.19)	-3.8%	\$6.52	\$4.73
	Jul-17	\$5.12	\$5.35	(\$0.23)	-4.3%	\$6.10	\$5.04
Cotton	Jul-16	\$64.66	\$63.14	\$1.52	2.4%	\$68.97	\$54.33
	Dec-16	\$66.12	\$64.58	\$1.54	2.4%	\$80.40	\$54.19
Feeders	Aug-16	\$140.65	\$139.25	\$1.40	1.0%	\$190.00	\$134.25
	Oct-16	\$138.25	\$136.80	\$1.45	1.1%	\$180.10	\$132.50
	Jan-17	\$131.55	\$129.00	\$2.55	2.0%	\$150.15	\$125.00
Live Cattle	Aug-16	\$112.75	\$114.45	(\$1.70)	-1.5%	\$145.75	\$109.55
	Oct-16	\$113.05	\$111.55	\$1.50	1.3%	\$147.00	\$109.85
	Aug-17	\$105.45	\$103.95	\$1.50	1.4%	\$113.00	\$102.40
Lean Hogs	Aug-16	\$83.95	\$88.50	(\$4.55)	-5.1%	\$90.40	\$71.30
	Oct-16	\$72.00	\$74.45	(\$2.45)	-3.3%	\$74.80	\$62.10
	Jul-17	\$78.55	\$78.40	\$0.15	0.2%	\$80.60	\$75.30
Class 3 Milk	Aug-16	\$16.40	\$15.98	\$0.42	2.6%	\$17.05	\$13.43
	Dec-16	\$16.15	\$15.92	\$0.23	1.4%	\$16.84	\$14.54
Natural Gas	Aug-16	\$2.91	\$2.76	\$0.15	5.4%	\$4.06	\$1.99
Crude Oil	Aug-16	\$48.30	\$50.29	(\$1.99)	-4.0%	\$65.28	\$32.22
Gasoline	Aug-16	\$1.53	\$1.61	(\$0.08)	-5.0%	\$1.98	\$1.14
Ethanol	Aug-16	\$1.60	\$1.56	\$0.04	2.6%	\$1.71	\$1.37
Diesel	Aug-16	\$1.50	\$1.54	(\$0.04)	-2.6%	\$2.12	\$0.96
		Top Third				New High	New Low
		Middle Third					
		Bottom Third					

So Far in 2016

Commodity	Month	Today	Begin	\$ Chg	% Chg	Life of Contract	
		6/29/16	12/31/15			High	Low
Corn	Jul-16	\$3.83	\$3.70	\$0.13	3.5%	\$5.15	\$3.51
	Dec-16	\$3.92	\$3.83	\$0.09	2.3%	\$4.89	\$3.64
	Dec-17	\$3.92	\$3.99	(\$0.07)	-1.8%	\$4.74	\$3.80
Soybeans	Jul-16	\$11.47	\$9.77	\$1.70	17.4%	\$12.08	\$8.59
	Nov-16	\$11.15	\$8.83	\$2.32	26.3%	\$11.86	\$8.50
	Nov-17	\$9.81	\$8.92	\$0.89	10.0%	\$11.36	\$8.57
Soy Meal	Jul-16	\$392.50	\$272.50	\$120.00	44.0%	\$432.50	\$261.70
	Dec-16	\$386.80	\$278.00	\$108.80	39.1%	\$418.70	\$267.20
Wheat	Jul-16	\$4.45	\$4.83	(\$0.38)	-7.9%	\$7.66	\$4.42
	Dec-16	\$4.78	\$5.07	(\$0.29)	-5.7%	\$6.52	\$4.73
	Jul-17	\$5.12	\$5.17	(\$0.05)	-1.0%	\$6.10	\$5.04
Cotton	Jul-16	\$64.66	\$64.79	(\$0.13)	-0.2%	\$68.97	\$54.33
	Dec-16	\$66.12	\$64.72	\$1.40	2.2%	\$80.40	\$54.19
Feeders	Aug-16	\$140.65	\$165.25	(\$24.60)	-14.9%	\$190.00	\$134.25
	Oct-16	\$138.25	\$160.20	(\$21.95)	-13.7%	\$180.10	\$132.50
	Jan-17	\$131.55	\$147.40	(\$15.85)	-10.8%	\$150.15	\$125.00
Live Cattle	Aug-16	\$112.75	\$123.65	(\$10.90)	-8.8%	\$145.75	\$109.55
	Oct-16	\$113.05	\$124.80	(\$11.75)	-9.4%	\$147.00	\$109.85
	Aug-17	\$105.45	\$112.00	(\$6.55)	-5.8%	\$113.00	\$102.40
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MARKET OBSERVATIONS

Since the beginning of the year markets have displayed definite patterns of trading – some are continuations from last year and some are remarkable changes in direction –

- Corn is higher; soybeans are markedly higher, but wheat has not been able to recover. Disposal of very large wheat stocks is still a burden on that market.
- Feeder weights lead the cattle markets on the downside while lean hogs have been able to show gains in 2016. Exports continue to support hogs.
- Energy markets made new contract lows early in the year, but have made substantial gains since.

RODEO MARKETS

When they open the gate (trading begins) the cowboy (trader) has little idea as to the intentions of the bull (the market) on that particular day. If he's lucky, he can stay on for the duration of the ride (the life of the hedge).

Agricultural commodity markets are just as unpredictable in 2016 as the rankest bull in a rodeo. Explanations as to why this happened or that happened are put forth by analysts and sound plausible, but none of the pundits knew beforehand how they would ultimately describe that day's events.

When markets experience high degrees of volatility it creates two problems (at least) for hedgers, or anyone else who anticipates using the markets –

1. Decisions to enter and/or exit markets become challenging.
2. Staying with positions may be difficult, or not possible.

There are several ways to access the futures markets without being exposed to the consequences of associated volatility. Each has advantages and disadvantages.

- Book with a cash merchandiser.
 - The merchandiser takes on the responsibility of margin calls (plus).
 - There is no flexibility with the position. Once it is created it must remain in place until delivery is made (negative).
- Use an option strategy instead of the futures.
 - No margin calls once the option premium is paid (plus).
 - Allows for participation in higher markets (plus).
 - Price of the option premium (negative).

The June 30th stocks and acre report is one of the more important releases during the season and can create extreme volatility, which warrants management.

CONSIDER THIS

All futures markets follow a similar structure – prices trade for nearby and distant periods of time. Some contracts trade for much longer time periods (gold is trading 2022 prices) while some contracts are limited in time (feeder cattle trade only one year in the future). The progression of prices going forward for each commodity has to be interpreted differently for each group of commodities –

- **Precious metals** – Gold, silver, platinum and palladium prices have more to do with cost of money (interest rates) than anything seasonal. Generally, prices will tend to increase with time – faster with high interest rates and more slowly with lower interest rates. A change in the normal spreads will indicate the anticipation of a change in interest rates, not so much a change in supply/demand fundamentals.
- **Livestock** – Cattle and hog prices are influenced by seasonal supplies and demand. Summer months usually see increased vacation travel and outdoor cooking, both of which are increases in demand for meats. It should be pointed out that (1) the increased demand is never a surprise and has been anticipated by the trade and (2) some demand is satisfied months ahead of time (Christmas hams are processed in June). Perhaps of more importance when analyzing livestock prices is the relationship with substitute commodities which can indicate relative strength and weakness within the sector.
- **Grains & Oilseeds** – Grains and oilseeds (1) trade multiple years into the future, (2) are seasonable in supply and demand and (3) are storable. All of these factors can influence prices and price relationships. More so than with other agriculture sectors, price relationships can suggest trends and pending changes in trends. When nearby soybean prices trade higher than the following months it is an indication of strong demand. Distant wheat prices are higher than those nearby which suggests that the market does not want wheat today and will pay a premium for a later delivery – not an indication of strong demand.

Agricultural commodity markets are anticipatory in nature – traders attempt to ‘front-run’ fundamentals (trade them before they actually occur). Before a hedger, or any other trader, relies too much on this anticipation, it must first be vetted with regards to credibility and likely duration of the expected event.

Today, the soybean market is expecting that the tightness in soybean supplies will transfer from South America to the US as China continues to be a buyer of oilseed products. If this does not occur, the soybean market will unwind quickly.











