October 6, 2016

Agriculture Market Highlights:

Soybean and corn futures traded in a back-and-forth choppy fashion last month. Fundamental data, however, was very clearly one sided. Cash markets, both corn and soybeans, leaked steadily lower throughout the month as harvest continues to expand around the US. We have now clearly bridged the gap between old and new crop supplies, and cash markets for now are signaling the all-clear on supplies. Additionally, as harvest expands we continue to hear reports of very solid yields. While regrettably for most of the summer I remained doubtful of soybean yield potential, the harvest results to this point are a clear indicator I have been overly pessimistic throughout the summer. My weather/condition models for yields just simply couldn't account for the exceptional weather this year's soybean crop received. Since the beginning of September, the market has now added roughly 250-300 mil bu to its ideas on soybean production. Meanwhile, demand prospects appear to be fading somewhat. Argentina continues to undercut US exporters in meal sales and Sept shipments were not as strong as initially projected. September's news flow all adds up fairly negatively...yet the market could not break.

I feel it is only a matter of time before the bearish weight of the above inputs pushes soybean prices back towards the $9 level. Perhaps the market is waiting for USDA to publish such a strong yield estimate. Perhaps end-user pricing is supporting the market on breaks for now. Perhaps it is a combination of these factors supporting the market right now. The bottom line is that if the USDA confirms market belief that the national average yield is *at least* 51 bu/acre, soybean futures should be set for a year-end sell-off.

Of course we'll need to keep close tabs on South American production estimates. US demand projections are already fairly optimistic, so the only thing that can tighten the US situation dramatically from here would be a South American production shortfall. The rainy season in Brazil is getting started in a timely fashion, and conditions for now (albeit very early) appear favorable.

I am maintaining my very small friendly bias to live cattle futures for the moment. It seems the selling pressure in futures has been largely due to feeder "panic-selling" as prices declined and they found themselves under-hedged. Export demand is very solid while US imports are in decline. US carcass weights are running well under year ago levels and cattle numbers going forward should be down YOY. It makes the case that we could see a somewhat sizeable year end bounce in what has otherwise been a very forgettable year for cattle futures.

Respectfully,

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