Diversified Crop Insurance Services

Revenue Management Update

Friday, June 9, 2017

Moving On

I was asked on the radio following the release of the June WASDE Report how long the trade would trade these numbers, and my response was, "They've already moved on." The June report is typically one of the least important of the year, since USDA does not adjust US acres until after the June 30 Planted Acres Report, it's too early to adjust yield for spring crops, and demand adjustments are usually minimal at this point in the year. Still, there were a few changes worth noting.

Corn – nothing to see here. USDA kept US ending stocks for both old & new crop unchanged, raised old crop world stocks minimally, and decreased new crops stocks minimally. The trade is already focused on a potential acreage cut next month and the immediate impact of hot & dry weather.

Soybeans – a little bearish. USDA surprised us by reducing old crop soybean exports 15 million bushels, thus increasing old crop & new crop carryouts a like amount. With new crop ending stocks approaching 500 million bushels, and the possibility of an acreage increase on June 30, it's hard to get excited.

Wheat – neutral to a little negative. USDA's winter wheat production estimates were:

Hard Red	738 mln, down 5 mln
Soft Red	297 mln, down 1 mln
White	212 mln, up 3 mln
Total Winter	1246 mln, down 4 mln

Most analysts expect the hard red yield to drop. South Dakota @ 50 bushels? Too high. That will likely happen in July. But USDA also increased World carryout for this year (1 mmt) and next year (3 mmt), which may take the bloom off the recent rally in winter wheat.

Cotton – a little bearish. The story here is in the world report, where USDA raised both Chinese (500 tb) & Pakistani (800 tb) production, and consequently dropped new crop US exports 500,000 bales. That breaks the momentum that cotton has had over the last 6 months or so.

Market Year Average (MYA) Prices – the chart at right shows USDA made a few changes to the 2016-17 prices, mostly cuts, and a few bumps to their 2017-18 estimates. 2016-17 MYA prices will be final as of August 31st.

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June 2017 WASDE Report

US 2016/17 Ending Stocks:		USDA June	Analysts' Average	Estimate Range	USDA May
Corn	↔	2,295	2,284	2,215-2,360	2,295
Soybeans	↑	450	432	400-461	435
Wheat	↔	1,161	1,158	1,140-1,177	1,159
Cotton	↔	3.20			3.20

World 2016/17 Ending Stocks:		USDA June	Analysts' Average	Estimate Range	USDA May
Corn	↑	224.6	224.0	221.5-226.8	223.9
Soybeans	↑	93.2	91.0	90.1-92.4	90.1
Wheat	↑	256.4	255.2	253.3-256.1	255.4
Cotton	↔	89.3			89.5

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June 2017 WASDE Report

US 2017/18 Ending Stocks:		USDA June	Analysts' Average	Estimate Range	USDA May
Corn	↔	2,110	2,073	1,840-2,139	2,110
Soybeans	↑	495	498	458-668	480
Wheat	↑	924	909	860-995	914
Cotton	↑	5.50			5.00

World 2017/18 Ending Stocks:		USDA June	Analysts' Average	Estimate Range	USDA May
Corn	↓	194.3	195.4		195.3
Soybeans	↑	92.2	89.5		88.8
Wheat	↑	261.2	257.7		258.3
Cotton	↑	87.7			87.1

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USDA Final & Projected MYA Farm Prices

($ per bushel, cents per pound, $ per cwt)

	PLC Ref Price	Final 2014-15	Final 2015-16	2016-17		2017-18	
Corn	$3.70	$3.70	$3.61	$3.35	down 5 cents	$3.40	unch
Soybeans	$8.40	$10.10	$8.95	$9.55	unch	$9.30	unch
Wheat	$5.50	$5.99	$4.89	$3.90	up 5 cents	$4.30	up 5 cents
Cotton	N/A	60.5	58.0	68.5	down 0.5 cent	64.0	unch
Sorghum	$3.95	$4.03	$3.31	$2.65	down 5 cents	$3.00	unch
Barley	$4.95	$5.50	$5.52	$4.95	unch	$5.15	up 30 cents
LG Rice	$14.00	$11.90	$11.10	$9.60	down 0.1 cent	$11.00	up 0.30 cents
Peanuts	$0.2675	$0.2200	$0.1930	$0.1950	unch	$0.2150	unch

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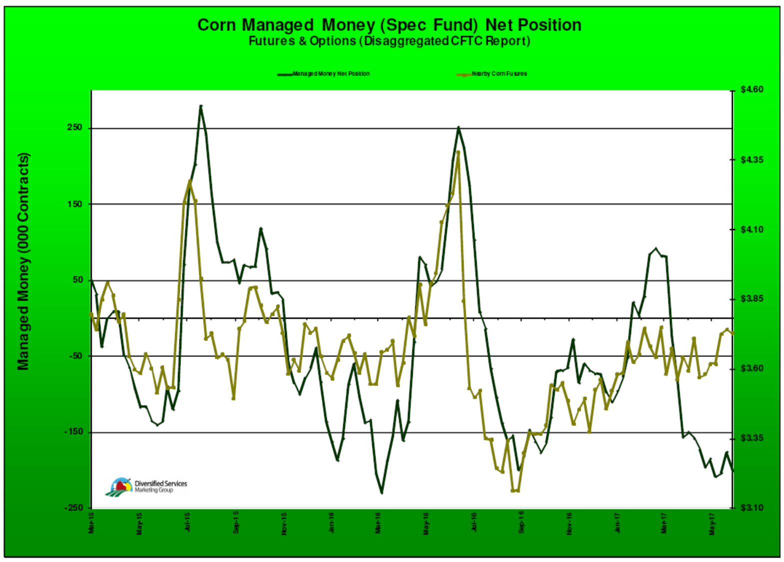
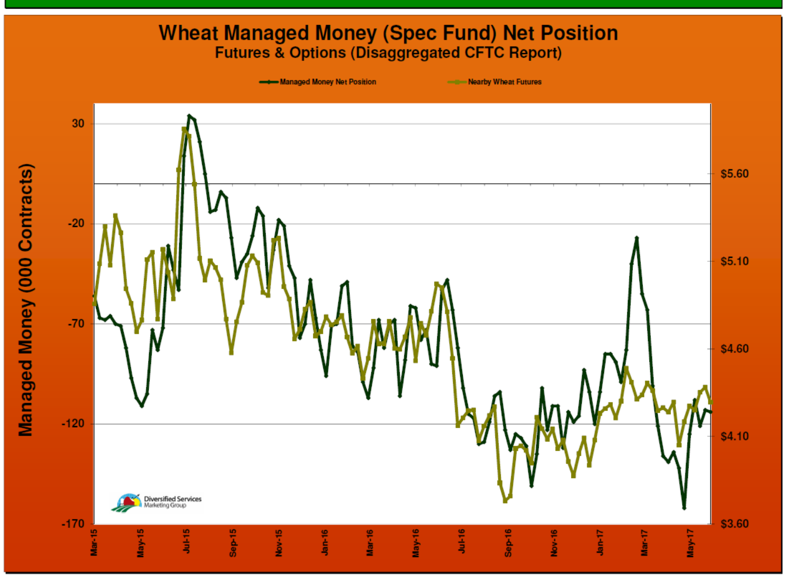
Revenue Management Update





When everyone is on one side of the boat…

To sustain a rally in commodities, you have to have a trigger, & then you have to have follow through buying. Here in June we finally got a trigger for a rally in the corn & wheat markets – weather. But it's difficult to sustain a weather rally in early June without help, and that's where the **managed funds**, **or "spec funds"**, that I talk about a lot came into play.

As of the Friday, June 2nd Commitment of Traders Report, these spec funds were short 201,000 contracts of corn (over 1 billion bushels!), which is more than half of next year's projected carryout. And these funds were short 114,000 contracts of wheat, also more than half of next year's projected carryout. Spec funds were also short 89,000 contracts of soybeans, which is about the entire carryout estimate next year. It's easy to justify these large short positions; huge US & world stocks of all 3 crops, large 2017 South American production, no world weather issues, & big US soybean plantings. But having all of these folks on the same side of the boat also makes these markets ripe to sustain a rally if & when one is triggered.

As risk managers, we try to weigh the potential for markets to move higher vs the risk to our revenue if the markets trade lower. Knowing as many factors as possible that can impact our markets is important to determine how we want to manage risk. Fundamentals, like beginning stocks, planted acres, crop conditions, & weather forecasts, are a great starting point. Technicals, like where recent highs & lows are, moving averages, & retracements, are also important starting & stopping points that many traders follow. But knowing where managed funds positions are, and what their potential buying or selling interest could be, is also a key piece of information to help producers decide what the potential is for a sustained market move.