The Commstock Report

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On The Hogs:

Packers killed 480k head of hogs, same as last week. It is hot to move hogs this week here so they bid up 1.18 to keep them moving, quoted 41.38. The CME LH cash index added 55 cents, quoted 56.06. The pork cutout added 1.06, quoted 74.57 from gains in ribs, hams and bellies. Only 255 loads were reported traded. There is more pork trading somewhere than that. Integrated packers should about cover their kill costs. Non-integrated packers are making 36.22 more than integrated ones so that is about how much that hog producers are still losing. Feed costs are going up.

The CME is reportedly considering adding a cutout settled contract. What producers need is something to hedge hogs with and that currently doesn't exist. The LH index doesn't reflect what many get for cash hogs. The basis spread between the index and cash hog price has become unmanageable for index futures to be a reliable hedge because the two diverge so much and by so far. Some producers who had the illusion that they were hedged this year found out that the index recovered them very little of the loss in hog price. Hedging using the LH index contract did not work. How is a cutout contract going to help them unless their cash contact is also based on the cutout? Packers only give those contacts to their extreme favorites. The hog market, if you call it that, it has become a system by which packers game hog producers. Some large hog producers avoided the situation by becoming integrated packers. Hog producers have become a golden goose to standard packers and they are at risk of killing it.

On The Cattle:

Packers killed 117k head of cattle Monday. Nobody was in a hurry to trade cash cattle. Packers have the cash to pay up from fat margins given the choice cutout added 1.53 quoted 227.47. Holiday beef demand buying should be on fumes now, ready to finish, although Labor Day does come late. The beef market will come down fast when demand is satisfied but packers have plenty of room in their margins to absorb it.

The drought is going to hurt the feeder cattle market by forcing early movement. The entire western half of the US is on fire reaching over into the heartland. The haze visible here in Iowa, it is the smoke from over 1.4 million acres that has burnt in California. USDA says that range pasture conditions deteriorated again significantly last week. Poor/very poor conditions increased from 35% to 42% of the country. That is why feeder cattle have led in topping and rolled over. Heavy placements on-feed will continue. More feeders will be forced on feed by the intensifying drought.

On The Grains:

December corn was up 6 cents, November soybeans up 8 3/4 cents and December KC wheat was up 3 3/4 cents near 5 a.m. December corn gapped higher, a gap that could turn out to be a breakaway gap of a larger rally. Funds have a lot of potential short-covering in corn to do if fundamentals as I believe them to be have turned around. It will take a while for USDA to confirm what is happening out here. It will be a hot stressful week and crop condition will deteriorate again into next Monday's condition report. Corn is literally dying and soybeans are trying to hang on. Soybeans are still short of new recent highs. On the other hand, they did not close the previous gap as corn did. Soaking rain is now needed to first stabilize the deterioration rather than add to previously forecasted yields.

The way I described the ProFarmer crop tour yield estimate last week was an attempt to catch a falling knife. As I noted I have not seen crop condition deteriorate this fast since 1976. When you see it, it is something that you remember. I told you that the trade was underestimating the yield deterioration happening. I also said that it was time to change horses. We turned bullish. I explained how corn crops were not mature at dent as many seem to think and that there was plenty of yield loss potential. Given 90° temps brown, corn doesn't turn green again. Those cutting silage are worried about the fast dry down.

USDA says that G/E corn condition ratings fell 5%, twice as much as what the trade was looking for, to 64% from 69% last week and 57% last year. They are very likely to drop again next Monday after a hot/dry week even if rain materializes late week. All rain would do now is stabilize or slow deterioration. This corn crop will be nowhere near as big as we thought just a few weeks ago. There are too many stress degree days that ran subsoil out of gas. The derecho took a chunk of it but the drought will take another chunk twice as big. When China comes in and buys at least 10 mmts of corn, the projected carryover drops below 2 bln. This crop should harvest as dry corn and store easy. Basis levels should improve significantly. You are going to want to store this crop. I had covered all hedges and bought back the corn cut for silage this week.

IA G/E crop condition ratings lost another 9% and will lose some more next Monday P.M. Only 50% of IA corn was rated G/E versus 65% last year. 49% of IA corn is dented. Remember that if corn dies at dent 40% of the yield can be lost. The previous week there were some states where condition improved to offset losses in others. This week only ND and KY held steady ratings and all the rest posted some degree of loss. There is only 5% of corn that is mature in the entire country. The good news should be that no dryer gas should be needed and it will not be a wet fall. The first 10 inches of rain should soak in.

US soybean G/E conditions ratings fell 3% to 69% compared to 55% last year.
Soybeans are running out of gas too and will be damaged by this week's heat. With nothing left to fill pods they will be flat or get sloughed. We will have small beans. My soybeans planted May 1rst are not going to wait in this heat into September for rain. IA soybean condition ratings fell 6% to 56% compared to 62% last year. That was not as bad as SD where G/E ratings fell 10%. KY, NC and ND saw alight condition ratings improvement. Only 4% of soybeans are dropping leaves so they are the only ones safe from the drought. Nothing was safe in IA. One thing not to worry about…the frost date this fall. Corn and soybean crops will be killed by heat not the cold. Temps are forecast to cool next week but only soaking rain can stabilize condition deterioration.

Here is what else is turning bullish…South American weather. The sooner the rainy season starts in Brazil the sooner they can plant soybeans and the sooner they can harvest the better to double crop corn. They can often times get started planting soybeans in the Moto Grosso in September. Our climatologist is forecasting a dry September in Brazil and a late start to planting that is La Nina related. What that means is that Chinese access to Brazilian new crop could get pushed back a month meaning they buy another 2 mmts or more here. With a shortened US soybean crop and more Chinese demand, we have a shot at much better soybean prices. My beans are going in the bin too. I think that they will be worth a lot more in February.

Both the WSJ and South China Morning Post have pretty much the same story that lead trade negotiators had a phone call that included Phase-one trade deal progress and that it went well. Last week DJT threatened that he might de-couple trade with China and now wants to create the opposite impression that everything is going well. That way he makes the trade hawks happy while keeping the trade proponents calm. Despite the rancor, China has been trying to keep him calm by stepping up Ag purchases. They have a lot to buy yet if they are going to abide by their Phase-one commitment. I think that they will follow through regardless who wins in November.