The Commstock Report

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#There are reportedly 98 pending requests for Small Refinery Exemptions (SRE) from complying with the RFS at the EPA. That number includes 67 of what they call gap-year requests which are requests for exemptions retroactively going back years to 2011. The petroleum industry is trying to get as many of these requests in front of the EPA as possible given the favorable treatment they had gotten. I have no idea what the loss to the 15-billion-gallon mandate would be if all were approved but the last round cost us over 1.5 bln bushels of corn demand. The EPA has said that this was 'complicated' (by the politics) and that it would not make a decision until after the election. They approved the previous round so we do not know what would be different now. If nothing is done before the election, I think the EPA will approve the SREs, win or lose in November. If they lose, they are still in power until January and will make it as hard as possible for the new incoming administration to reverse. The polls may have an impact ahead of the election. If it looks like it is close in Iowa, then Trump could make a big deal of rejecting the SREs.

On The Hogs:

Packers killed 482k head. It was a tough week under extreme heat to move hogs. Hog barn performance should have been the poorest of the year. It was nice to see the cash hog market actually respond normally to such fundamentals. The National cash average hog price added another 1.38 quoted 43.66. Cold fronts coming down from the north are expected to cool temps next week bringing hogs some relief. They are killing the number of hogs that they can and not bury the pork product market. Exports are good, pork in cold storage was drawn down but demand is still not running normally. There was no pre-Labor Day surge in pork prices as occurred in the beef market or was there? They can push the pork market higher for a few days and then it caves under pressure with extreme volatility from primal to primal. The pork cutout tanked Thursday losing 2.91 quoted 71.90. Loins lost $7 and ribs $13 so maybe that was the Labor-Day pork rally ending. Trade volume was back to so-so at 358 loads. Hog prices up/ pork values down pretty much offset each other for integrated packers that own hogs. Integrated packers are covering kill costs so they are basically producing pork for consumers for free. It was the standard packer that lost margin by having to pay more to get hogs, now just $30 head better than the integrated packer margin. Consumers are getting an amazing deal for pork.

Hog prices are still below break-evens and feed costs are going to go up. The NPPC forecasts that hog producers will lose $37 head on every hog that they produce in 2020 which they say adds up to $5 billion and are asking Washington for more aid…faster. I doubt that the next round of Covid-19 aid will happen until post-election. If DJT would happen to lose he would be so ticked off he might veto that. The division between parties on what would be in the next aid bill is a chasm. The GOP had nothing in it for states and the Dems know if they concede to that there will not be federal aid for states. This bill was supposed to have something in it to compensate for euthanizing hogs. How many hogs were euthanized and other details about the state of hog numbers in this industry are frankly unknown at this time.

On The Cattle:
Packers killed 118k cattle. They decided to pay feedlots less for cash cattle this week and feedlots were struggling with accepting that. Feedlots saw the beef market soar for Labor Day demand and thought that packers should share that gain. That is not how it works in the industry. Packer still have the leverage. What cash traded ranged from $103-106. Packer put yet another 1.77 on the choice cutout, quoted 231.45. The Labor-Day beef market surge will end here soon and when it comes down to it, it may fall faster than it went up. Packers are prepping the cash cattle market for that. It was good to be able to see the beef market respond to holiday demand.

Feeder cattle lead and I pointed out the divergence between feeders and fats a couple weeks ago saying that feeder cattle were topping. October feeders tried to fill their open chart gap and failed. I think that more losses will follow. Feedlots have to be disappointed with their market and will take some of that out on feeder cattle bids. Most of what is wrong with feeder cattle is drought related. Feed costs will increase. But most of the problem is the severe deterioration in pasture/grazing conditions forcing ranchers to move feeder cattle early. Hay prices are shooting higher and they need to get wheels under them. Someone mused that if you thought placements were high, up 11%, in the last cattle-on-feed report, wait until you see the placements in the next one.

They created a hole in marketings last spring with sharply lower placements that they were going to push the backed up front end supply into in September/October. This unexpected drought related surge of placements will start filling that hole from the other side so that it may not feel like much.

On The Grains:
Brazil Update from Matthew Kruse: The Chinese literally bought up all the soybeans in Brazil. So much so that Brazil has flip flopped and is now importing soybeans to cover their commercial processing needs. It is relatively small amounts to just get them by until the next harvest. They will import over 2 million bushels in August and have imported nearly 14 million bushels so far this year. Prices at the port seems over heated paying 137 reais/sack ($11.22 per bushel). The Chinese are buying more grain in the US not because they want to fulfill their Phase I trade agreement, but because they have to. There has been zero correlation between China's purchases and their Phase I commitments. As soon as Brazil can resupply them, they will immediately redirect their purchases away from the US, regardless of commitments. The second half of 2020 is our time to shine for exports. Brazil's next crop will start to harvest by January if planted on time.

60 MMT of Brazilian soybeans are already committed for next season. If Brazil produces 130

MMT that is roughly 46% of their crop.

The Brazilian corn market seems to be following in step with their soybean market. They have exported 7 MMT for August and roughly 12.3 MMT for the year so far. Most of the crop has been sold or committed to, they just haven't exported it yet. They have imported 8 million bushels so far this year though. This is the second year in a row they seem to over export to the point they have to turn around and start importing to keep the processors going. Prices at the port have reached 60 reais per sack ($4.60 per bushel).

December corn was trading up 2 1/2 cents, November soybeans up 4 3/4 cents and December KC wheat was up 2 3/4 cents near 5 a.m. It made it. Laura became a category 4 hurricane. That is a powerful one. Not powerful enough to push moisture up into the dry portion of the corn-belt though. It pushes inland and then angles off to the east, south of the primary corn-belt giving TN and KY a drink. Looking at the drought monitor, it doesn't appear that the hurricane will impact the drought in this country as a whole at all. Those areas getting wet were not the dry ones. The next update of the drought map will be more intense. There are a couple waves of cooler air that should come down from the north late this week and next week and we will see what moisture they can trigger. We have gone through the entire process here where we lived off of subsoil moisture for a while and then cooler temps but this week's extreme hot/dry was the coup-de-grace for corn and soybeans here. I have been farming since 1973 and this was the worst drought collapse, I have ever experienced. I would have said that starting the growing season with a full profile of subsoil moisture that this could not happen.

The market is not going to believe this. Maybe the condition ratings decline that they get Monday will help them. As I wrote, I have farmed since 1973 and I have never seen anything like the collapse in crop condition that is occurring. I had heard about something like this once occurring back in the 1930s where the crops literally died in a few day-period under extreme heat with moisture having been exhausted. We have a couple more days of this before temps cool and rain chances start to improve again. The rain will be too late for the corn. Corn is more than fired, it is literally a premature death. There will be no fill for a lot of our crops. Brown plants cannot utilize moisture. Soybeans took it hard this week too. Some soybeans are being pushed into premature maturity, yellowing and dropping leaves. Others are pale green. Some look white. 30-inch rows were shrinking back, opening again. I would think that the pods that fill would have BBs. I would expect that rain could have some positive effect for some soybeans. It would at least slow the collapse. 50% of IA corn and 56% of IA soybeans were rated Good/excellent last Monday. I do not know that we have any corn and soybeans left where I live in Clay and Dickinson county that I would rate good/excellent today. Silage yield appraisals are coming in 30-40 bpa below last year and they are not fully reflective of what the grain yields will be with an aborted fill. We were D2 drought in the monitor last week. It will be interesting to see if we make D3 or D4 in the next update. I think that corn/soybean prices are going higher for a number of reasons and that crops should be put in the bin. I am not sure that I would believe what is happening to crops if I were not seeing it myself so it will certainly take USDA and the trade time to adjust or accept it. The bottom line is that corn/soybean prices are too cheap and while it may take a while, they should come up out of the hole that they are in. This crop doesn't justify such low prices.

Crude oil and gasoline stocks and demand are now declining seasonally. The peak of the summer driving season is done with family's home again (if they ever left), attempting to find a way to return to schooling. Distillate stocks are still pegged near highs, being stubborn about coming down. If busses are not running, as so many schools are starting remote, they are not using much diesel. It is hard to social distance on any kind of bus. Ethanol production rose just 1 mln gallons while stocks rose by 6 mln gallons. That means that ethanol demand has stalled. Higher corn prices will tighten ethanol plant margins again. This industry is not getting the help that it needs from Washington either. I do not believe that USDA has trimmed the ethanol crush as much as it needs to go. Some ask where Sonny Perdue has been promoting ethanol policy within the administration.