

The Commstock Report

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On The Hogs:

Packers killed 480k head of hogs. They should put together enough kill this week to compensate for the Monday holiday. They continue to bid up to get hogs, adding 1.22 to the cash average quoted 44.25. Packers have been successful in recovering the kill and finding hogs to supply it. What is still unstable is demand. They add something to products and they take it away again. Loins lost \$10 smothering gains in other primals, so the cutout lost 1.03 and reported trade volume was light. Almost everyday I find myself wishing that they would report what trade volume really was.

Pork packers have gotten a larger than healthy share of the distribution of the value of pork due to industry structure. This is likely unsustainable as hog producers cannot continue to see equity drained. They can only produce hogs at a loss for so long. This is somewhat different from the beef industry however as there are plenty of dollars from beef for all of the industry to share. The gross value of pork however is not as high as for beef. Pork prices have struggled because of over-supply. The industry expanded in order to capture a larger share of the export market. US pork is the cheapest in the world and US exports have never been stronger yet the industry is not getting paid enough so hog producers are not profiting. So far, enlarged pork exports has not brought profitability to hog producers.

On The Cattle:

The cattle complex has rolled over in pretty classic form led by feeder cattle. Feedlots all wanted to hedge when February chart gaps were filled but Unfortunately no one wanted to buy into those charts gaps to allow them to sell. As long as the recent chart gap in October feeder cattle stays open the bear is on again. Support appears to be at June lows of 96.55 in October LC and near 131 in October feeders. The beef holidays are finished after this weekend until x-mas. Given heavy carcass weights there is still a large front-end supply of long days on feed cattle being pushed into some kind of void in the market created by sharply lower placements last spring. What is now being feared is that a surge of drought related placements is going to create another wall of fed cattle for the current one to run into. Feedlots will get one backlog of fed cattle marketed and then have to start on another.

Ranchers had begun to cull their herds in 2019 as the beef cow herds declined by 370,000 head. They are expected to cull the herd further again this year meaning the beef herd is contracting. The severe drought in the western half of the country reaching into the plain's states will give this liquidation a boost. Calf prices are not profitable so it is a good time to

retain heifers and sell cows that are more valuable as hamburger. There have been ample dollars from beef for all segments of this industry to thrive, but they have been unevenly shared with an unreasonable portion of the revenue captured by the packer/processing segment by structural market leverage while everyone else has been starved. This is not a healthy industry.

On The Grains:

Brazil update from Matthew Kruse: Brazil has run out of soybeans. This is causing prices in surrounding countries to increase as well. Brazil is bidding up the market to fill their processing gaps. They are looking to Paraguay as a possible source of oilseed. Paraguay, while much smaller than Brazil, has experienced steady growth in oilseed production similar to Brazil. Prices are still holding steady at 139 real at the port (\$11.82/bushel). Brazil expects to surpass 80 MMT of soybean exports by the end of August.

My father-in-law just sold some corn from his bin at 55 reais per sack cash (\$4.35/bushel). I think he still has some more yet. \$4.35 cash sounds amazing but it sounds out of this world in local currency. That is almost twice what I sold it for back in the day.

There are reports that the corn planters are starting to roll for their summer crop in the southern most states of Rio Grande do Sul and Santa Catarina. Planting in Brazil depends more about when the rains begin than the temperature. The temperature is more or less always warm. But they can't begin until they get enough moisture, or at least they are confident the moisture is on its way. I once planted 1000 acres "in the dust" as they say in Brazil...however, there was solid rainfall forecast. It turned out to be some of our best corn that year. The state of Parana, a major corn producing state has yet to begin as it is still too dry. They are waiting for further confirmation. They have plenty of time yet. ####

Weekly ethanol production slipped by 3 mln gallons and stocks rose by 20 mln gallons. That again suggests peak summer fuel demand is in the rear-view mirror. The ethanol industry thinks that the recovery in production has gotten back to where it will stall. While it most likely do to the Cat 4 hurricane slamming into Louisiana, crude oil, gasoline and distillates stocks all declined. Gasoline demand declined. Gasoline demand has likely gotten most of the recovery that it is going to for a while yet too. While stocks of distillates were lower, it was not by much and they remained pegged at very high levels. The planes are still not flying.

December corn was off a fraction, November soybeans were up 4 cents and December KC wheat was up 1 1/2 cents near 5 a.m. I was taking my aunt to the eye doctor Wednesday, which was the first time that she was out of the retirement home in a while, and we were driving by some very brown corn and she commented that "it looked like October at harvest." Yes, it does. If an 85-year-old woman can see that corn suffered a pre-mature death, one would think that the CBOT and USDA might notice. Soybeans are dying now like the corn before it, with rain coming next week it's too little too late to save much. Highs are forecast in the 90+^ range again this weekend and will end yield potential for soybeans. I am thinking the US corn crop will end nearer 170 bpa than 180 and that the soybean yield could be sub-50 bpa. It will take the combines rather than USDA to reveal how bad it is. Corn fill has ended and we are now in dry-down. Nothing more is going into the ears. Soybeans will not have enough life yet to

fill pods with beans bigger than BBs. Dry conditions in the Mato Grosso may delay planting there which sets things on their back foot from the start. And then there is demand. Large weekly export sales are expected from USDA today. I think that China is just getting warmed up and is ready to buy the US corn/soybean carryover down to pipeline supply again. We are going to be their grain and soybean bin for several months. I think that they are getting a steal at current US prices. All my crops are going in the bin. They will unfortunately fit better than I had hoped. The trade is getting worked up over the September crop report. I do not think that it will matter as I have little confidence that it will reflect what the combines find. There is no frost in the forecast but that is irrelevant here where the growing season was already ended by the drought.

The Iowa Renewable Fuels Association is not very happy with the current situation that the ethanol industry finds itself in.

"JOHNSTON, IA – While no official announcement from Brazil has been made, the deadline for Brazil to extend the small, tariff-free quota for U.S. ethanol has passed, and Brazil has also not readopted its former position that ethanol trade between the two countries should be totally tariff-free. Instead of restoring free trade, Brazil is reverting to a 20 percent tariff on ethanol from the United States. Brazil has been the largest export market for U.S. ethanol.

In response, Iowa Renewable Fuels Association Executive Director Monte Shaw made the following statement:

"The news from Brazil is the worst possible outcome for U.S. ethanol producers and comes at the worst possible time. The hypocrisy of Brazil to preach about free trade for ethanol and to enjoy that right when they send product to the United States, while simultaneously putting a 20 percent barrier on our product is indefensible.

"While the Trump administration cannot control the decisions of the Brazilian government, they can control the decisions of the EPA. With our largest export market now in jeopardy, there is no time to delay in restoring sanity to domestic biofuels markets. President Trump should immediately order the EPA to deny all pending RFS refinery exemption requests for being both unjustifiable and illegal. Farmers and biofuels producers need this action now, not uncertainty until after the election." If DJT wins both MN and IA in November without first having rejected RFS SREs, all future leverage of the ethanol industry in Washington will be gone.

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