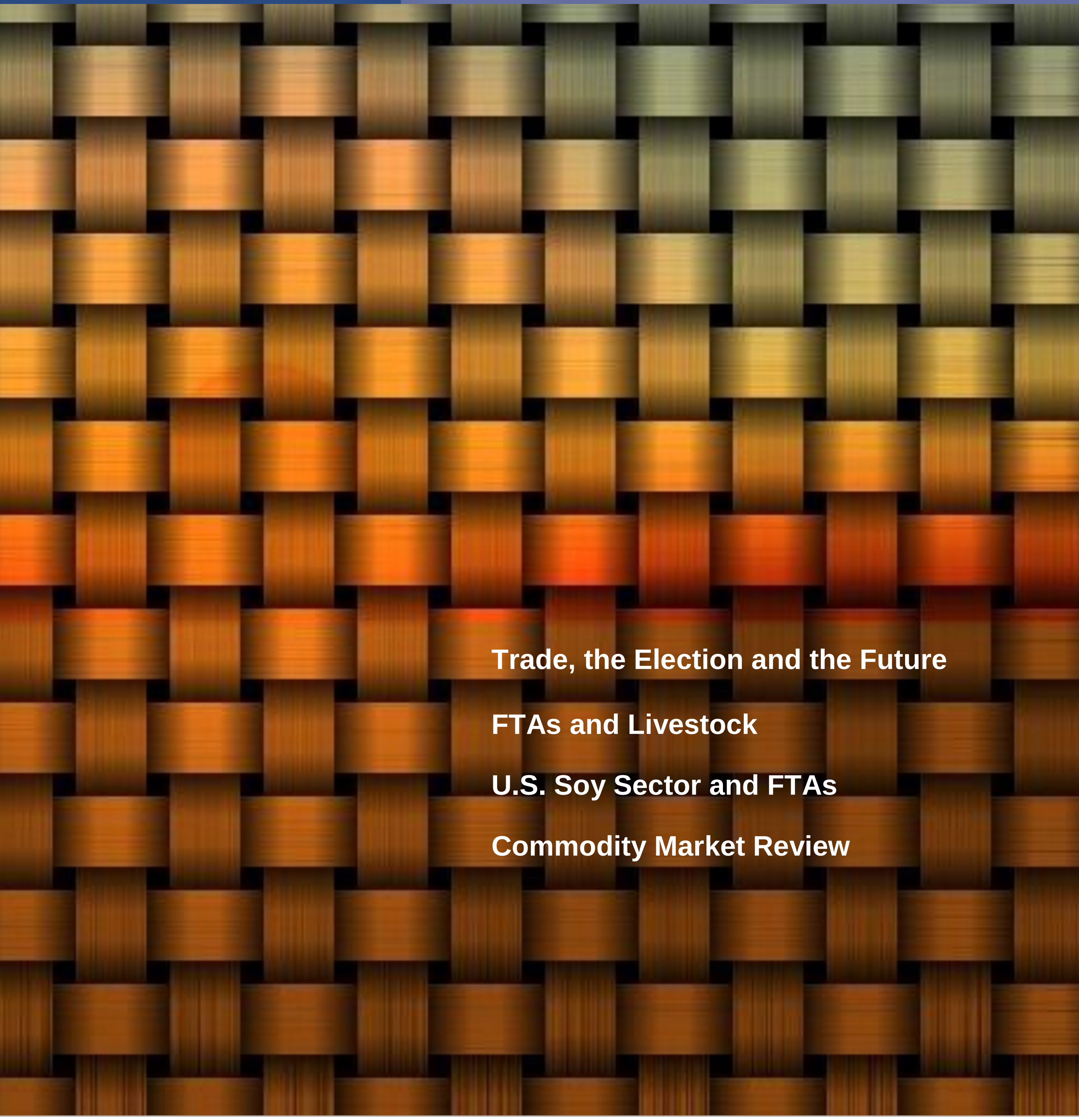
AgReview

July 2016 | Volume 28, No. 6 | World Perspectives, Inc.



Trade, the Election and the Future

FTAs and Livestock

U.S. Soy Sector and FTAs

Commodity Market Review

WORLD PERSPECTIVES: AG REVIEW

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Editor: Coleen Blumenthal
Cover Design: Renee Boudreau, Studio Del Ray
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"However difficult life may seem, there is always something you can do and succeed at."
— *Stephen Hawking*

Harvested Data	
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Fine Dining	When asked what cookout cuisine they usually bring to the table, 28.57 percent of respondents said pasta salad. 21.43 percent indicated cheeseburgers while another 21.43 percent opted for "other." These items were followed by hot dogs, pork spare ribs, baked beans, and homemade potato salad, all tied at 7.14 percent each. Zimm Poll
How to Wash It Down	A recent survey found that participants' preferred alcoholic beverage at a picnic/cookout was beer (52 percent). Meanwhile, non-craft domestic brews were preferred at home (21 percent), closely followed by craft beer (20 percent) and imports (20 percent). Harris Poll
Summer on the Farm	
Working Hard	40 percent of respondents in a recent poll indicated that they had a summer job either hauling hay or working in row crops. Another 17 percent spent those months feeding cattle, and 15 percent were busy building fences. Zimm Poll
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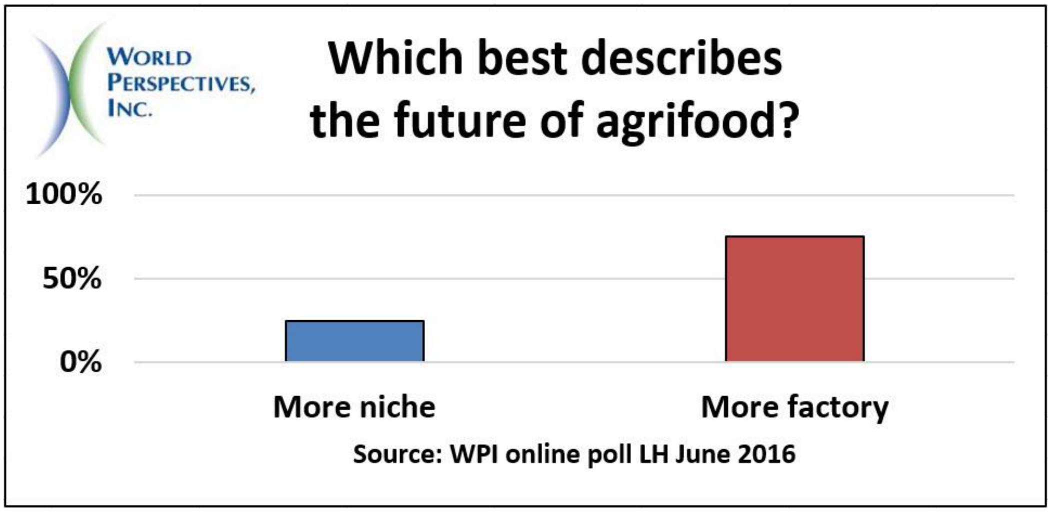
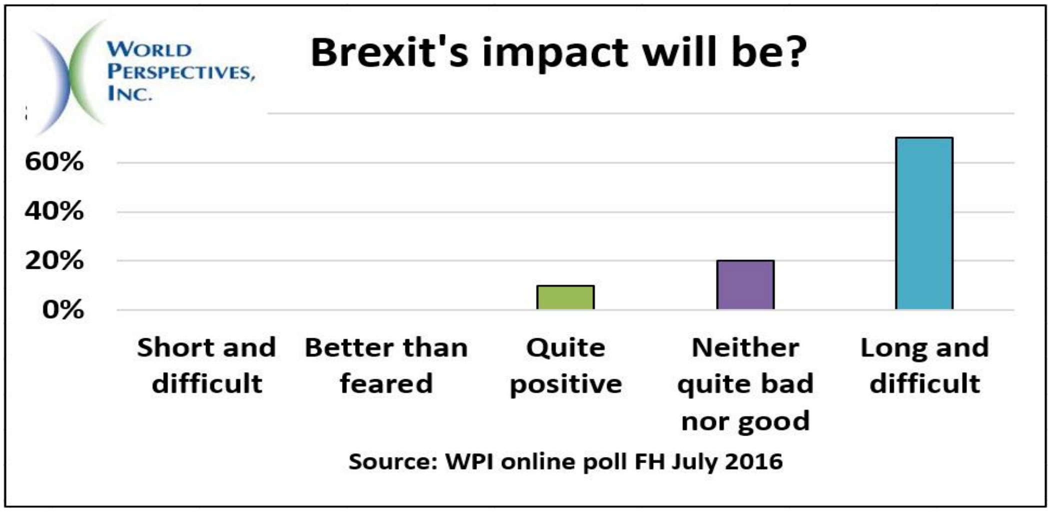
WPI POLLING

Below are the results of two recent WPI polls. Visit www.worldperspectives.com to cast your vote in our current survey.





TRADE, THE ELECTION AND THE FUTURE

By Gary Blumenthal

It should first be established that free trade agreements have greatly helped most citizens but have been detrimental to the employment of some workers. The latest study attesting to free trade's benefits comes from the U.S. International Trade Commission, a bipartisan, independent government research institution. The agency found that since 1984, free trade agreements with other countries have had a net positive effect on the U.S. trade balance, by $87.5 billion in 2015 alone. This is because the agreements worked to lower the tariffs of trading partners more than those imposed by the U.S., which have already been lower in the post-WWII era.

In 2012 alone, the collective effects of these trade agreements boosted U.S. employment by 159,300 jobs, increased real wages by 0.3 percent and enabled a slight increase in economic output of less than 1 percent. However, they also caused some automotive manufacturing and parts jobs to shift to Mexico along with other displacements.

Presidential Campaign Calculations

Neither Hillary Clinton nor Donald Trump are likely philosophical opponents of free trade. After all, Secretary Clinton largely supported them in the past, and Mr. Trump experienced their practical benefits via his own international trading. But those displaced by trade in rust belt states like Pennsylvania, Ohio, Michigan and Illinois are ripe political pickings. Despite research by Harvard's Craig VanGrasstek showing that there aren't that many voters left in swing states who are at risk of displacement by foreign trade, those already harmed as well as those believing they will be are highly motivated and thus most likely to show up on election day.

Additional voting blocs up for grabs are the lower- educated and older whites. These cohorts have traditionally supported the Democratic Party, either due to their tendency towards union membership via the trades or because of the promise of improved social welfare benefits. However, they are also anti-trade and skeptical of immigration. This is due to the fear of competing labor and the exodus of their lower-skilled manufacturing jobs. President Obama has both pursued trade agreements and been permissive on immigration. Donald Trump is making a play for these voters, and Hillary Clinton does not want to lose them. Thus, both candidates announced their opposition to the Trans-Pacific Partnership (TPP).

Trump's Strategy

"One of the first things I'll do as President will be to call the Prime Minister of Canada and the President of Mexico and work with them to fix NAFTA. And I will add enforceable measures to NAFTA, the World Trade Organization (WTO), CAFTA [Central America Free Trade Agreement] and other Free Trade Agreements (FTA's) currently in effect…[I] never supported NAFTA…."

The words of Donald Trump? Perhaps, but these are direct quotes from presidential candidate Barack Obama in 2008. After he was elected, one news article stated that, "Obama also appears to be backing off somewhat from his heated rhetoric from the primary campaign."

He and his fellow Democrats blocked pending free trade agreements (Panama, Colombia and South Korea) with the contention that they needed vast improvements. President Obama signed the measures in 2011 after these trading partners conceded to relatively minor tweaks. It could be interpreted that Donald Trump is flattering the current president by mimicking a previously successful strategy. Meanwhile, it should be noted that the Democratic Party's platform headed for adoption later this month calls for reviewing prior agreements with a view toward renegotiation. There is also a huge intra-party fight over whether the document should take a harsher line toward the TPP despite the president's leadership on that agreement. Donald Trump may be outrageous, but there is some rationale to his contention.

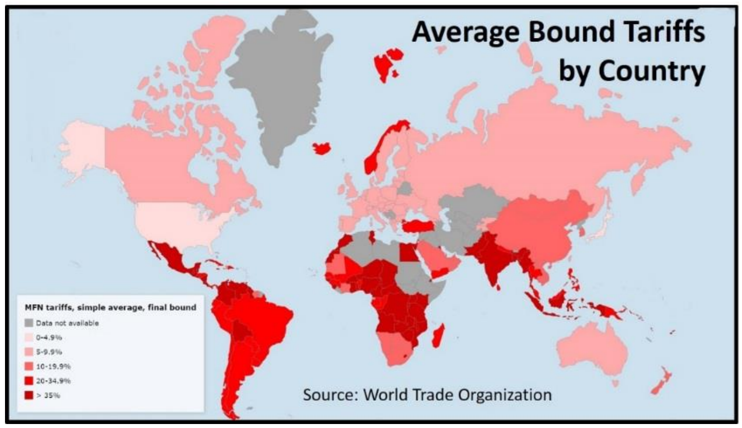
Impact of Trade Agreements

The number of regional trade agreements (RTAs) has exploded and the World Trade Organization at its Nairobi Ministerial in 2014 called for an assessment of their implications for the world trading system as well as the possible transformation of the Transparency Mechanism in which countries are expected to reveal their RTA obligations.

Trump and the Ultimatum Game

In economics, the Ultimatum Game involves two players with one holding a known amount of money. If that player offers a share of the money to the other player and it is accepted, both get to keep it. However, if the second player rejects the amount offered, then both lose the money. Why would the second player reject even a small proportion of the money pool since something is better than nothing? Because human beings apply a principle known as fairness. With the U.S. persistently running trade deficits for four decades and having lost at least some share of manufacturing jobs due to trade agreements, many Americans perceive that there is a structural inequity.

The inequity is not because previous negotiators were stupid, as contended by Donald Trump, but because collectively, Americans fare better by growing the global economic pie. Emerging from WWII as the world's single economic giant, Washington conceded disproportionately lower tariffs to trading partners in an effort to help them emerge from the war's devastation. The U.S. continues to offer lower tariffs than any other country (see map below) as well as nonreciprocal trade concessions (i.e., zero tariffs) to other nations through programs such as the Generalized System of Preferences, the African Growth and Opportunity Act and the Caribbean Basin Initiative.



These concessions by Washington were noble, but as trade is additive and not a zero sum game, it has also been a policy driven by self-interest. The problem, as once noted by New Zealand trade official Tim Groser, is that too many countries now do not want to give up the advantage they have had under the historic formula.

Pundits have sought to dissect and understand Donald Trump via the many books he has written. One of the principles he outlines in the book "The Art of the Deal" is to use your leverage. As the largest economic market in the world with the lowest tariffs, the U.S. has a great deal of leverage in trade negotiations. Washington has in fact used this leverage in past trade deals, but the facts (see above) suggest that it has not been to the maximum extent. Hillary Clinton has insinuated her intent to similarly use American leverage to renegotiate the TPP.

Free Trade Burdening

As support for free trade dwindled under the perception of economic losses, negotiators sought to broaden its appeal by adding on rules applying to externalities such as environmental protection, labor rights, capital flows, national security, etc. However, this has come at the cost of additional negotiating burdens and the perception that citizens are being subjected to rules created by foreign governments and organizations. While addressing these other issues may have merits, they have had limited success in broadening support for free trade.

A Formula for the Future

Ultimately, policymakers need to do two things to ensure a continued movement toward freer trade:

1. Improve the public's understanding of the benefits of trade agreements
2. Better enhance the outcome for citizens adversely impacted by trade

The U.S. has at least 15 public policies intended to improve social welfare. It operates dozens of programs to assist workers, including a Trade Adjustment Assistance program specifically focused on those displaced by trade. The European social model is thought to be even more generous to the displaced or the downtrodden, and yet there is an equal amount of skepticism on the Continent about the benefits of free trade agreements outside of the EU-28. There are benefits from free trade agreements and individual benefits from adjustment/mitigation programs, but the public does not appreciate either.

Public support for free trade will not improve until and unless policymakers are able to improve both the perception of trade and the relative protection offered to the citizenry.

THE IMPORTANCE OF FREE TRADE AGREEMENTS TO LIVESTOCK

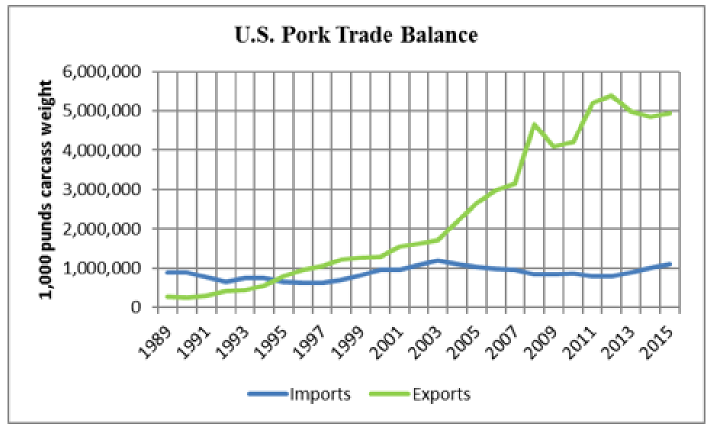
By Dave Juday

More than most other commodities, red meat is subject to trade restrictions based on cultural, religious and economic factors around the world. Because of those strictures, its global trade is often subject to political and regulatory barriers that limit market access available to other commodities. Free trade agreements (FTAs) have circumvented or eliminated many of these and benefitted many new consumers while also having a profound economic impact on exporting nations. Indeed, the House Ways and Means Committee's subcommittee on Trade recently held a hearing on the importance of trade for agriculture. At that hearing, the National Pork Producers Council (NPPC) pointed out in testimony:

The economic well-being of American agriculture depends on maintaining strong export markets and creating new market access opportunities. Export markets are in large part the result of trade agreements negotiated over the past two decades. Since 1989, when the United States began using bilateral and regional trade agreements to open foreign markets, U.S. agricultural exports have nearly quadrupled in value and are now at $133 billion.

Growth in Pork Exports

Despite the many religious restrictions on pork, it remains the most consumed meat in the world. The U.S. is the second-largest producer and largest exporter in the world, primarily because of FTAs. Prior to the U.S.-Canada FTA that was implemented in 1988, the United States was a net importer of pork. Since then, it has enacted FTAs with 20 countries and benefitted from the WTO accession of China, helping U.S. pork exports to that country see growth of 1,742 percent.



Source: USDA, WPI

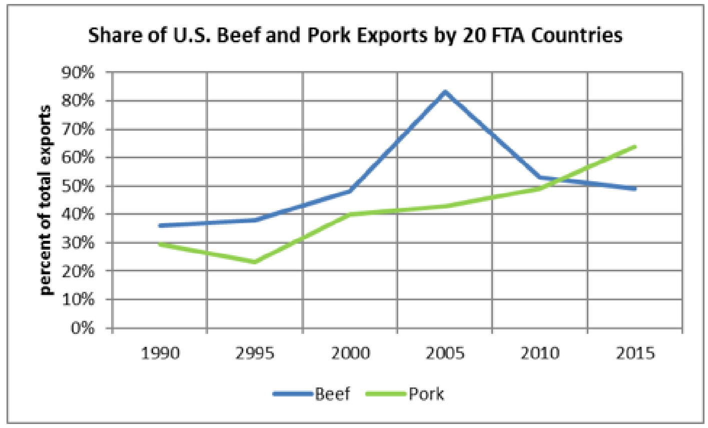
Among the key agreements entered into by the U.S. have been the Dominican Republic-Central America FTA, Korea FTA and Australia FTA as well the North American Free Trade Agreement (NAFTA), which evolved from the FTA with Canada when Mexico was added in 1994. Mexico was already the second-largest market for U.S. pork prior to NAFTA and remains so today despite those exports having increased 869 percent under that agreement. It is surpassed only by Japan, a country that could see its purchases of U.S. pork expand if the Trans-Pacific Partnership (TPP) is adopted. According to the U.S. International Trade Commission (ITC), approximately 96 percent of the growth in U.S. pork exports under the TPP would be absorbed by Japan.

U.S. FTA Partners
Australia
Bahrain
Canada
Chile
Columbia
Costa Rica
Dominican Republic
El Salvador
Guatemala
Honduras
Israel
Jordan
Korea
Mexico
Morocco
Nicaragua
Oman
Panama
Peru
Singapore

Nearly 64 percent of all pork exported from the U.S. goes to the 20 countries that are FTA partners, including a limited volume to those with religious or cultural restrictions on its consumption such as Oman, Morocco, Jordan, Bahrain and Israel. In 1989, prior to the agreements, these same countries purchased about 30 percent of the U.S. export supply. Since that year, they have increased their pork imports from 71.8 million pounds to 4.9 billion pounds. Today's export volume represents 56 percent of the growth in U.S. pork production that has occurred over the past 27 years.

Growth in Beef Exports

U.S. beef exports have also grown significantly under FTAs with partner countries now accounting for 49 percent of the total volume.



Source: USDA, WPI

More notable is what occurred after the discovery of bovine spongiform encephalopathy (BSE) in the U.S. on 23 December 2003. Many of the FTA countries represented some of the only markets remaining open to U.S. beef and accounted for 83 percent of total exports. While there was a 72 percent drop in all beef exports from 2003 to 2005 as virtually all markets were restricted or closed, Japan, traditionally the top destination for these exports, was down 98 percent during that same period. By comparison, the NAFTA markets of Canada and Mexico had declined only 30 percent in 2005 from the 2003 volumes.

FTAs have also helped bring higher values to U.S. beef exports as the second-, third- and fourth-largest markets (Mexico, Korea and Canada) all have such agreements with the United States. Over the past five years, the average export price to those countries has been $2.15/pound. Meanwhile, Japan, which is not party to an FTA, has maintained its position as the top market in volume. However, the average export price to that nation has been only $2.04/pound.

Domestic Economic Impact

Exports impact domestic livestock production in two ways. The first is volume, and increased export demand obviously allows the domestic livestock industry to expand. Approximately 22 percent of all pork production and 10 percent of total beef production are exported. The second is value as certain markets pay a premium for different cuts, including offals, over the domestic market price. That brings higher value to the carcass.

According to the June USDA WASDE report, the price of a fed steer in 2015 was $148.12/ cwt and that of barrows/gilts was $50.32/cwt. An export

value can be imputed into those prices by taking the total value of beef and pork exports and assigning a per head value from the export revenue.

Value of Exports to Livestock in 2015			
	Unit	**Beef**	**Pork**
2015 Export Value	$ billion	$6.302	$5.575
Commercial Slaughter	1,000 head	22,682	115,425
Export Value	per head	$277.84	$48.30
Export Value	per cwt	$19.98	$17.07

Source: USMEF, USDA, WPI

Based on the above data, exports accounted for 34 percent of the price of market hogs and 13.5 percent of the price of fed cattle in 2015. Future FTAs will only serve to boost the imputed value of exports to U.S. livestock prices and are critical to any significant expansion to the U.S. livestock industry.

U.S. SOY SECTOR AND FREE TRADE AGREEMENTS

By John Baize

The U.S. soy industry is extremely dependent on exports to the rest of the world. Exports of soybeans, soymeal and soyoil equaled more than 61 percent of U.S. soybean production in MY 2014/15 and are forecast to do likewise in MY 2016/17. Just as important, export demand has been growing much more rapidly than domestic demand in the last decade, especially China's.

Unlike some other commodities such as rice, wheat and meat, the U.S. has been subject to relatively few onerous foreign trade barriers regarding soybean and soymeal exports. These have had duty-free access to the large EU market since the 1960s as well as to the Japanese market (U.S. soyoil exports are the exception). The reason is that few countries grow a sufficient volume of soybeans to meet their domestic requirements and must import supplies for their livestock and poultry sectors. The few trade barriers that exist also have been reduced over time by the eight rounds of global trade negotiations under the General Agreement on Tariffs and Trade (GATT) and WTO. Nevertheless, the soybean industry has benefitted from the free trade agreements (FTAs) that the U.S. has entered into since the first one with Israel in 1985. The most important agreement was the U.S-Canada FTA, which was later broadened to include Mexico in the North American Free Trade Agreement (NAFTA). These two countries procured 6.745 MMT of U.S. soy exports in 2014/15. Mexico is now the second-largest market for U.S. soy after China, and all of its purchases enter the country free of duties and quotas.

In total, the 20 countries that now have an FTA with the U.S. accounted for 11.88 MMT (18.9 percent) of its soy exports in 2014/15. While that specifically represents only 11.2 percent of U.S. soybean exports, it was 46.6 percent and 85.2 percent of U.S. soymeal and soyoil exports, respectively. The higher shares of soymeal and soyoil are quite understandable considering that countries generally apply greater restrictions on processed products than on raw commodities like soybeans. The best example of this is China.

Not all FTAs have been that positive for the U.S. soybean sector, however. The U.S. exports very little soy to Australia and Chile as both are geographically closer to competitors in South America, which means the lower freight offsets the tariff advantages. Likewise, those exports to Jordan, Oman, Bahrain and Singapore are limited because they are small markets.

The following FTAs have done much to assist the U.S. soybean industry:

NAFTA - Although the U.S. exported a great deal of U.S. soy to both Canada and Mexico prior to the agreement, there has been significant expansion since it was signed. Mexico is now the largest export market for U.S. soymeal at 1.829 MMT in 2014/15 and sales of 2.087 MMT in the first eight and one-half months of the current marketing year. It is also the largest market for U.S. soyoil. U.S. exports of soybeans, soymeal and soyoil to Canada have declined in recent years, though, because of that country's increased soybean production. However, it remains the third-largest export destination for U.S. soymeal.

The U.S.-Colombia FTA - This agreement has proven to be very important. Prior to its implementation in 2012, Colombia imported almost all of its soymeal and soyoil from other South American nations because of its membership in the Andean Pact and preferences granted to Argentina and Brazil. The U.S. exported only 63,947 MT of soymeal and 13,911 MT of soyoil to Colombia in MY 2011/12, which rose to 812,564 MT and 58,749 MT, respectively, in MY 2014/15 after implementation of the FTA. In the first eight and one-half months of MY 2015/16, the U.S. had sold 601,800 MT of soymeal and 63,200 MT of soyoil to Colombia.

Meanwhile, U.S, soybean exports to that country rose from 80,793 MT in MY 2011/12 to 530,151 MT in MY 2014/15 with sales this year of 473,700 MT as of 16 June 2016. U.S. soy exports to Colombia are expected to continue to grow in the future.

U.S. Soy Exports to FTA Partners
MY 2014/15
(MT)

Destination	Soybeans	Soymeal	Soyoil	Total
Australia	-	241	349	590
Bahrain	-	-	40	40
Canada	233,918	845,149	28,804	1,107,870
Chile	116	585	169	869
Colombia	530,151	812,564	58,749	1,401,464
Costa Rica	270,777	53,180	5,596	329,553
Dominican Republic	61	477,058	116,519	593,638
El Salvador	10,615	181,516	5,988	198,119
Guatemala	52,438	353,287	45,941	451,665
Honduras	21	214,976	1,466	216,462
Israel	85,904	89,139	-	175,043
Jordan	-	526	268	794
Korea, South	597,372	5,165	57,656	660,193
Mexico	3,562,456	1,829,128	245,771	5,637,355
Morocco	109,221	126,934	64,658	300,813
Nicaragua	770	113,352	36,349	150,470
Oman	-	19,313	-	19,313
Panama	29,497	179,503	5,434	214,435
Peru	109,094	202,405	104,743	416,242
Singapore	3,375	804	7	4,186
Grand Total	5,595,786	5,504,823	778,506	11,879,115
Share of Total Exports (Pct.)	11.2%	46.6%	85.2%	18.9%

Source: U.S. Census Bureau

U.S.-Morocco FTA - The free trade agreement became effective on 1 January 2006. The U.S. exported just 6,579 MT of soyoil and no soymeal to Morocco during MY 2004/05, which grew to 291,889 MT and a high of 533,618 MT, respectively, in MY 2011/12. However, the volumes of both have declined since then, primarily because of an agreement between Morocco and the EU that has led to preferential access for the latter's soymeal and soyoil. Nevertheless, the U.S. exported 300,813 MT of soy products to Morocco in MY 2014/15, and sales in MY 2015/16 totaled 210,400 MT on 16 June 2016.

U.S.- Peru FTA - The agreement went into effect on 1 February 2009. The U.S. exported only 38,730 MT of soy to Peru in MY 2008/09, mainly due to its sourcing supplies from Bolivia and other South American countries, but the volume immediately grew after the FTA was implemented. U.S. soy exports to Peru in MY 2014/15 reached 109,094 MT of soybeans, 202,405 MT of soymeal and 104,742 MT of soyoil or a total 416,241 MT. Sales in MY 2015/16 totaled 165,200 MT of soybeans, 196,300 MT of soymeal and 88,800 MT of soymeal as of 16 June 2016. It is clear that the U.S. soy industry would be selling far less to Peru now if there were no FTA.

DR-CAFTA and U.S.-Panama FTAs - The Dominican Republic-Central America-United States Free Trade Agreement and the U.S.-Panama Free Trade Agreement include countries that are large markets for U.S. soy. U.S. Census Bureau data indicates the U.S. exported 364,179 MT of soybeans, 1,582,871 MT of soymeal and 217,292 MT of soyoil to the seven countries that are FTA signatories. It is not evident, however, how much these agreements have boosted the volumes of those exports. None of the countries has significant soybean production, and only Costa Rica has a soybean processing plant. As a result, all need to import in order to meet their soy demand. They maintained low tariffs on those products before the FTAs, a time when most of these countries were already importing almost all of their soy requirements from the U.S. due to its close geographic proximity. However, the FTAs assure the U.S. of being their dominant supplier in the future.

U.S.- Korea FTA - Korea has long been a sizable market for U.S. soybeans but a sporadic one for soymeal and soyoil. While it allowed duty-free imports of soybeans, tariffs of 5.4 percent and 1.8 percent were applied on soyoil and soymeal, respectively. Under the FTA terms, though, the tariff on soymeal was immediately eliminated and the one on soyoil, currently at 2.7 percent, is being phased out over 10 years.

Thus far, the FTA has been of little benefit to the U.S. Korea's soybean imports are barely growing, and the U.S. is capturing only about half of the total, practically none of its soymeal imports and only about one-fourth of its soyoil imports. China is a large supplier of soymeal to Korea because of its close proximity and ability to ship small quantities to smaller ports. Thus, the outlook is not very positive for future growth in the U.S. share of this market.

The U.S. soybean sector has also been helped by the increased exports of U.S. pork and poultry meat that have been made possible by the FTAs as that animal protein likely was produced with soymeal. Likewise, the higher exports of processed and consumer-ready food products containing soyoil and soy proteins have benefited the industry. The most positive factor, though, has been the expanded economic growth in the U.S. and FTA countries.

Looking ahead, the proposed Trans-Pacific Partnership (TPP) trade agreement stands to benefit the U.S. soybean industry by giving it preferential access to some key growth markets in Asia, which will not be afforded to Argentina and Brazil. In particular, the U.S. may achieve increased sales to Vietnam and Malaysia.

The proposed Transatlantic Trade and Investment Partnership (TTIP) does not promise much improvement for U.S. soybeans in terms of tariff reductions. This is because the EU already provides duty-free access for soybeans and soymeal and is a net exporter of soyoil. However, the industry could benefit if the agreement helps eliminate onerous EU restrictions on biotech crops. Unfortunately, it appears the TTIP is likely not going to be enacted as a result of objections from European farm interests and the recent vote by the United Kingdom to exit the EU.

COMMODITY MARKET REVIEW

By Robert Kohlmeyer

Grain and soy futures markets were mainly dominated by five factors during the month of June:

- The inflow and outflow of noncommercial managed pools of speculative money
- Ever-changing weather conditions
- South American crop problems
- The referendum vote on whether Great Britain should remain a member of the EU, commonly referred to as Brexit
- The 30 June USDA reports that included updated estimates of planted acreage and estimates of 1 June U.S. stocks of grain and soybeans

Activity of Noncommerical Funds

Commodity funds and hedge funds that traded in commodity derivative markets took quite a beating during 2015, and many of them left those markets. By the spring of 2016, however, continuing low interest rates, stagnant equity and bond markets, and the lack of other investment opportunities lured a number of funds back into commodities and, specifically, the corn and soy futures markets. Funds had already built a substantial short position in Chicago wheat futures where huge world wheat supplies and limited demand had established a firm downward price trend. However, low corn and soybean prices seemed to offer an attractive risk/reward opportunity, and funds began to build up substantial long positions in those markets. By mid-June, the Commodity Futures Trading Commission (CFTC) reported that the aggregated long position of noncommercial traders (funds) in combined corn futures and options had reached more than 220,000 contracts. Their aggregated long position in soybean futures and options together rose to about 210,000 contracts.

Fund managers were always alert for opportunities to add to their long positions and also for circumstances that made it prudent to liquidate some of their long position and reduce risk. Although making the case that fund activity created or changed long-term price trends is difficult, there is no question that daily buying or selling activity by funds often drove prices up or down in the short term. Market participants have become very sensitive to whatever funds might be doing.

Weather Conditions

Each spring and summer, weather always commands great attention from traders in derivative markets representing crops. Ultimately, it is the quality of weather conditions during the planting and growing seasons that is the most important determinant of crop yields and production. Thus, markets are always highly sensitive as to how and when they might change. Will weather conditions allow for speedy and timely planting of crops each spring, or will they be too wet or dry and cause planting delays? Will newly seeded crops emerge and start their growing cycle amid favorable weather conditions, or will they encounter too much or too little rain, excessive heat or abnormally cold temperatures? Can these weather conditions be predicted in advance?

U.S. government agencies, including the Weather Service, issue short-term weather forecasts several times each day. In addition, there are a number of private weather forecasting services that focus on agriculturally important weather for fee-paying clients. Nearly all public and private weather forecasters rely on two principal computer weather models, the U.S. or GFS model and the EU model. Both generate two computer runs each day, which forecasters study and use as a basis for their own weather outlooks. The models project likely conditions in different time frames of one-four days, four-seven days and eight-15 days.

Complicating matters has been the slow death of a strong El Nino, a name associated with warmer-than-average surface water temperatures in the Pacific Ocean. It tends to generate favorable weather conditions for crops in the central U.S. The most recent El Nino has receded and is forecast to be replaced by La Nina with its below-average Pacific Ocean water temperatures. This is considered likely to deliver less favorable crop weather in the central U.S., including the possibility of potentially severe drought. Weather forecasters have differed on how quickly El Nino would disappear and change over to a La Nina. Some believed that a rapid transition would take place by mid-summer and have warned of possible hot, dry conditions for U.S. corn and soybean crops as a result. Whereas there is no doubt that El Nino has ended, plenty remains as to when a La Nina might evolve. Based on the evidence of relatively favorable weather conditions east of the Rocky Mountains since mid-May, it is not developing as quickly as some private weather services had predicted.

Traders have been frustrated by the frequent inability of the GFS and EU models to agree on what weather conditions are likely to be even just a few days out. Moreover, there has been a lack of consistency on the part of both from one model run to the next. The result has been market price action often whipsawed by constantly changing forecasts. As inconsistent as model runs and weather forecasts have been, however, the net result has been a weather pattern that allowed U.S. corn and soybean planting to finish slightly earlier than average and get off to a good start to the growing season through June.

South American Crop Problems

An important part of the anticipated buildup of world soybean and corn supplies and bearish markets was based on anticipated record or near-record production in Brazil and Argentina. Early estimates had Brazil producing as much as 102 MMT of soybeans and 82 MMT of corn. However, lower-than-expected yields for late-planted soybeans reduced its 2015/16 production to an estimated 97 MMT. An autumn drought in north central Brazil negatively impacted the winter corn crop and dropped total corn production to near 77 MMT. Meanwhile, excessive rainfall on mature soybeans lowered Argentina's crop approximately 4 MMT from previous estimates to about 56 MMT as well as the quality of a certain portion.

The loss of around 7-8 MMT of South American soybean production and approximately 5 MMT of corn production meant similar reductions in export potential. Since Brazil had already shipped record-large volumes of soybeans in the February-May period, supplies tightened considerably. This then left the country mostly out of the world soybean market as a supplier in June, similar to how its lowered corn stocks curtailed those exports. In a way that was unexpected a few months ago, the U.S. rather suddenly became the low-cost supplier of soybeans and corn to world users. This surprising surge of export demand for those U.S. stocks has been a contributing fundamental factor supporting the bullish futures markets.

The Vote on Brexit

Prior to the last parliamentary election in Great Britain, Prime Minister David Cameron promised to hold a referendum on whether Britain should stay in the EU or leave it, an issue that became known as Brexit. Voting took place on 23 June after a bitter political campaign between the opposing sides. The decision was considered to have long-term implications for Britain's economy, and a departure from the EU of one of its most important and economically significant members was sure to have serious ramifications for that body as well.

In the weeks before the referendum, public opinion polls swung back and forth between the two sides, but most polls in the final week prior to the vote showed a majority favoring the Remain side. Influenced by those results, financial and currency market participants relaxed in the belief that there would be no change. To the great surprise of nearly everyone, however, the final vote count showed the Leave side was victorious by about 52 percent to 48 percent.

The financial world went into shock. Traders in both financial and commodity markets were caught leaning the wrong way. No one could predict with confidence what the ultimate economic and political impacts on Europe and the world might be, but most observers were certain that they would not be good. World stock markets plunged. The Dow Jones Industrial Average fell about 900 points in the two days following the Brexit vote, and most commodity markets also tumbled. Soybean futures dropped nearly $0.35/bushel, and energy futures contracts as well as those for industrial metals fell sharply. The U.S. dollar and U.S. Treasury notes soared as did gold and silver markets. The knee-jerk reaction by investors was to exit so-called risky markets such as equities and commodities in favor of those considered safe such as the U.S. dollar, gold and Treasury notes.

The world, though, has not come to an end. It will probably take two years to complete Britain's departure from the EU. There will certainly be some long-term economic and political consequences, but what they will be is still difficult to identify. In the week after the vote, most markets recovered some or all of their post-Brexit losses. The safe markets have fallen back from their highs although not back to their pre-Brexit values. One thing that can be said is that Brexit did add to the level of volatility that already existed in the grain and soy futures markets.

One way to picture market volatility during June is to look at the spreads between markets' monthly highs and lows. That spread for the July soybean futures contract was $1.37/ bushel or about 13 percent, and the one for the July corn futures contract was $0.65 or about 17 percent. The high/low price spread for Chicago July wheat was $0.95 or about 22 percent. In fact, the prices of all grain and soy contracts zipped up and down within their high/low trading range numerous times during the month.

USDA's 30 June Acreage and Quarterly Stocks Reports

A month of excitement for markets saved some of that for the last day. On 30 June, USDA released the results of that month's survey regarding the amounts of land planted to major U.S. field crops. This is an update of the original acreage survey conducted during March. USDA also provided its estimates of U.S. stocks of grains and soybeans as of 1 June 2016, which are provided for each quarter of the June-May year. The June acreage and stocks reports are typically released every year on the last business day of that month. They have a history of provoking a considerable response from the futures markets, and the current reports upheld this tradition.

The following tables summarize the main data from the acreage and quarterly stocks reports:

June Planted Acreage Estimates (millions of acres)				
	USDA 2015	USDA March 2016	Average Trade Guess	USDA June 2016
Corn	88	93.60	92.76	94.15
Soybeans	82.65	82.24	83.97	83.69
All Wheat	54.64	49.56	49.73	50.82
Winter Wheat	39.46	36.22	36.29	36.54
Spring Wheat	13.25	11.35	11.64	12.13
Durum	1.94	2	1.99	2.15

Source: USDA, WPI

1 June U.S. Grain Stock Estimates (millions of bushels)				
	USDA 1 June 2015	USDA 1 March 2016	Average Trade Guess	USDA 1 June 2016
Corn	4,453	7,808	4,528	4,722
Soybeans	627	1,531	833	869
All Wheat	752	1,372	982	981

Source: USDA, WPI

All but two of the numbers contained in these planted acreage and stocks reports exceeded average trade expectations. For example, the 1 June wheat stocks of 981 million bushels virtually matched the average trade guess. The U.S. statistical year for wheat ends on 31 May, so that estimate effectively becomes the ending wheat stocks for the 2015/16 wheat crop year.

The other number that did not exceed trade expectations was planted soybean acreage, which was, it can be argued, the one with the greatest importance for markets. USDA's estimate of 83,688 million soybean acres in 2016 is the largest on record, up just over 1 million acres from last year, but it is still about 280,000 acres less than the average trade guess. It is also less than what is needed to replace the lost production in Brazil and Argentina. The market hoped for soybean acreage that was at least 2 million acres higher than USDA counted last March, but it got only half of that. The fear is that without a larger increase in soybean planting, the newly-found export demand for U.S. soybeans will substantially tighten the U.S. supply/demand balance for 2016/17. During the morning before the USDA reports were issued at noon (EDT) on 30 June, the new crop November soybean contract was trading down a few cents per bushel from the previous day's close. Following their release, that contract price shot up to finish more than $0.40 higher than the previous close.

Other than for new crop soybeans, the sum of the 30 June reports appears to be bearish. Rather than cutting back on corn plantings as some expected, U.S. producers planted an estimated 94.15 million acres, the third-largest corn acreage since World War II. That is about 500,000 acres more than USDA counted last March and an astounding 6.1 million more than were planted in 2015. Prospects for high corn yields apparently overcame those for low corn prices. Assuming a trend yield of about 168.5 bushels/acre, which is a good possibility at this point, the U.S. would produce a record corn crop in excess of 14.5 billion bushels.

Stocks of corn and soybeans on 1 June exceeded analysts' expectation. In the case of corn, it was by a wide margin. Use of corn and soybeans during the March-May quarter of 2016 fell below that of last year. U.S. soybeans may be facing a tenuous situation before the Brazilian new crop becomes available in late January or early February, but it appears that the U.S. will likely have more than an ample supply of corn during 2016/17. This is especially true since wheat prices have fallen low enough to make wheat a competitive feed grain in many parts of the country. Some southwestern cattle feeders are already switching to wheat at the expense of corn.

One of the market's tasks is to encourage farmers in Brazil and Argentina to further expand their soybean production in order to replenish world supplies. Another is to spur wheat farmers worldwide to seek other cropping options so that the current glut of global wheat supplies can be drawn down. How well these tasks are accomplished will have a great deal to say about price trends during the last half of the 2016/17 crop year and beyond.

September Chicago Wheat Futures Prices

Source: Prophet X (7/11/2016)

September Corn Futures Prices

Source: Prophet X (7/11/2016)

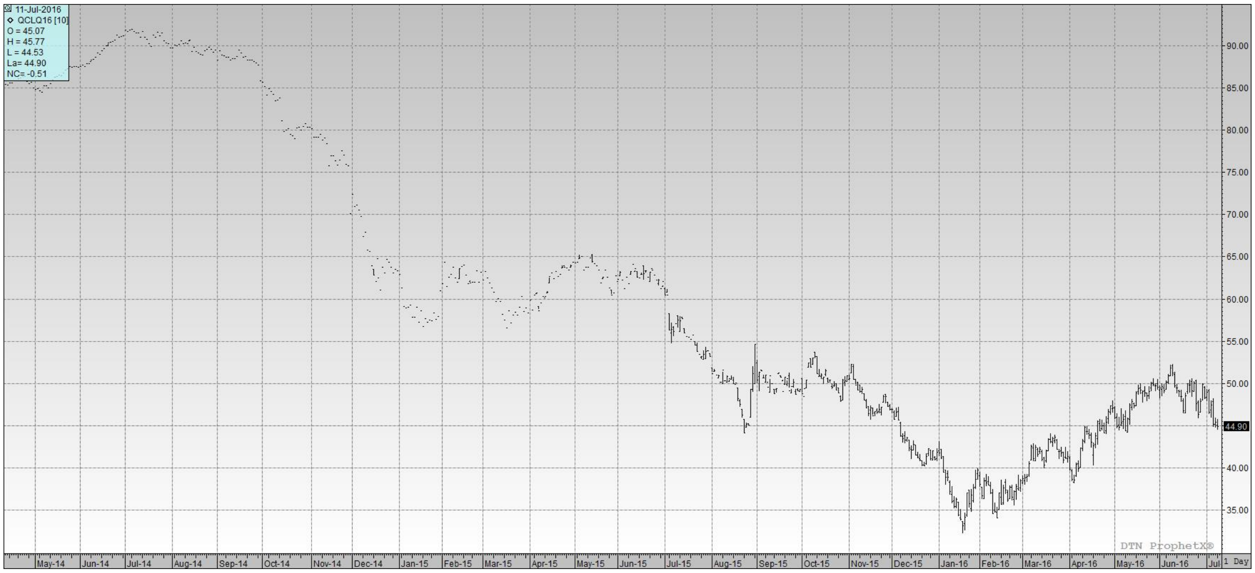
August Soybean Futures Prices

Source: Prophet X (7/11/2016)

August Soyoil Futures Prices

Source: Prophet X (7/11/2016)

August Crude Oil Futures Prices



Source: Prophet X (7/11/2016)