

AgReview

April 2016

Volume 28, No. 3

World Perspectives, Inc.



Immigration Debate and Agriculture

Immigration Challenges in Russia and Japan

EU Immigration and Agriculture

U.S. Dairy Labor Pool versus Global Dairy Demand

Commodity Market Review

WORLD PERSPECTIVES: AG REVIEW

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Cover Design: Renee Boudreau, Studio Del Ray

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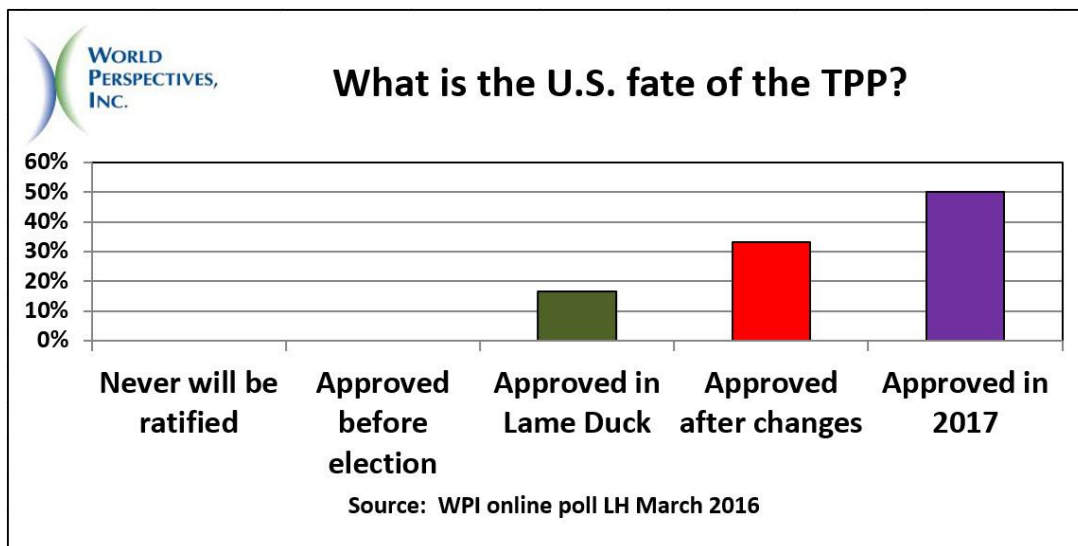
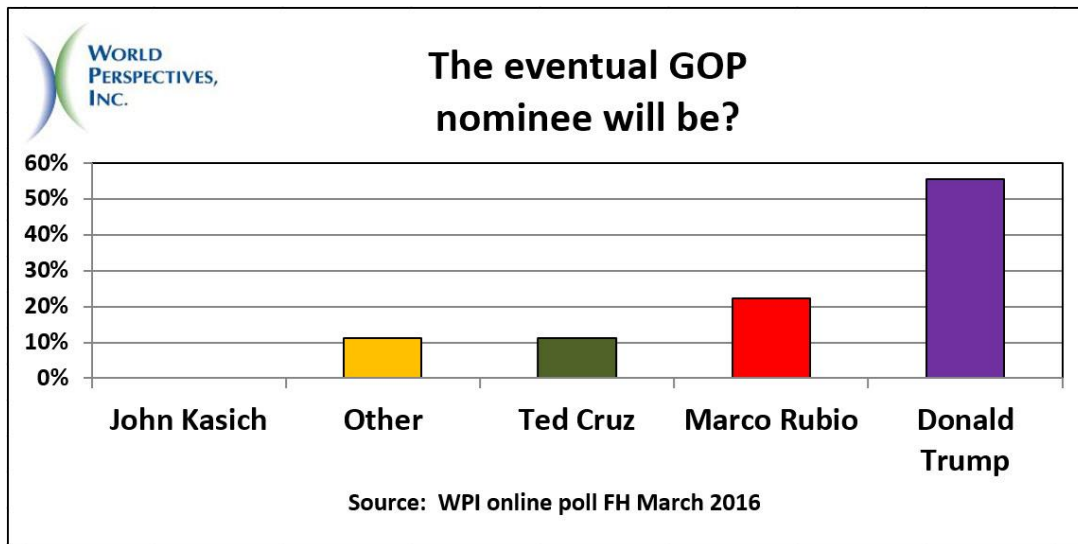
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“Don’t ever take a fence down until you know why it was put up.”
— *Robert Frost*

<i>HARVESTED DATA</i>	
Farmers’ Challenge	
Core Issue	64.4 percent of those surveyed said commodity prices were the greatest challenge facing agricultural producers in 2016, and 21.1 percent indicated input costs. Farm Credit
Education	
School Matters	A majority (60.27 percent) of those surveyed who work in agriculture have a degree in the subject, while an approximate 26 percent do not. ZimmPoll
Congressional Action	
Do Little	When asked what Congress should do about GMO labeling, 35 percent of poll respondents said it should pass voluntary, educational law with 31 percent indicating it should do nothing and let the states decide. ZimmPoll
Cause and Effect	
The Heat Is On	69 percent of Americans polled believe reports of record-high temperatures in 2015; 49 percent think the reason is human-caused climate change, and 46 percent attribute it to natural variability. Gallup

WPI POLLING

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



THE IMMIGRATION DEBATE AND AGRICULTURE

By Gary Blumenthal

To one side in the immigration debate, opponents of “undocumented” workers are heartless and uncaring – even irrational. To the other side, not only is it unfair competition for work, illegal immigration symbolizes that the rule of law is broken and thus all of society is at risk to lying, cheating and stealing. Of course things are never fully this black and white except to the polar opposites in politics. American agriculture at once plays a peripheral and yet key role in the U.S. immigration debate.

Presidential Politics

Sharp differences over immigration policy are ever-present in a “melting pot” nation like the U.S. and have been so since the nation’s founding. Presidential election years have a way of concentrating the debate. Notably, the share of foreign-born in the U.S., and consequently its notoriety, was much greater prior to the 1920s. The great exception was the period of 1920- 1970 when the share of foreign-born declined due to the constraints of law (the Immigration Act of 1924, the National Origins Act and the Asian Exclusion Act), conflicts and other dynamics.

Political pandering to ethnic groups and populist insularity certainly have their respective roles, but not always in straightforward ways. For example, the contestants in the 2016 U.S. presidential contest from the Democrats have all been Caucasians of European ancestry supporting a more welcoming immigration policy. By contrast, the immigration skeptics amongst the Republican challengers have included an African-American, an Indian-American and two with families originating in Cuba. Indeed, the attitude toward immigration policy is far more

determined by economic class and geography than political philosophy.

Immigration in Perspective

Native-born Americans fretting over the level of foreign-born residents are not wrong in their interpretation that the flow has increased. An estimated 45 million citizens currently fit that category, accounting for 14 percent of the total U.S. population. That is a level approaching the share of immigrants last seen in the late 1800s–early 1900s. However, residents of the United Kingdom have a greater diversity of birth origin countries, and the vast majority (80 percent plus) of the populations in several Persian Gulf countries hail from a foreign nation.

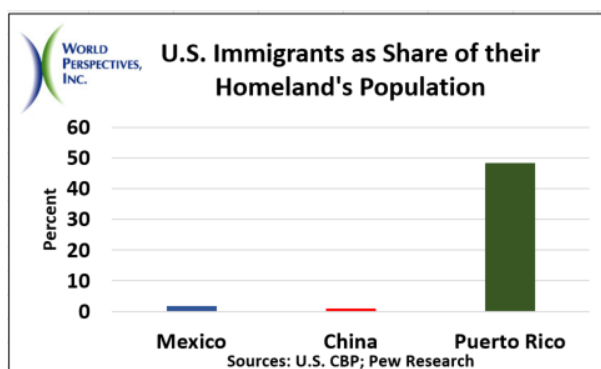
What is key in understanding immigration is that it is largely driven by resource limits in the originating countries. And lest one assume it is the hard-earned freedom and wealth of the United States that beckons millions, Russia has the second-largest number of foreign-born residents after the U.S. The one common attribute is the apparent pull by former and current global powers – Great Britain, the Soviet Union and the United States.

Trend in the U.S.

While Europe grapples with large volumes of people escaping the poverty of Africa or the civil strife of the Middle East and North Africa, the U.S. continues to attract migrants from Latin America and increasingly from Asia. Mexico receives the largest share of blame for illegal immigration (the reason one U.S. presidential candidate wants to “make them pay for the wall”), but that nation increasingly funnels Central

Americans across the border instead of its own citizens.

Mexican-Americans represent roughly 1.8 percent of the population of Mexico. The more recent surge is from China. It has been historically observed that Chinese restaurants can be found in every country, but the out-flow was stifled during the Mao era. Chinese migrants in the U.S. represent just 0.9 percent of the Middle Kingdom's population. By contrast, the equivalent of half of the population of Puerto Rico has moved to the U.S. mainland in recent years.



Roles and Conflicts

One source of the conflicting views toward immigrants, legal and illegal, can be found in occupation. Illegals form a very small share of the generally understaffed fields encompassing the professions, management and business operations. Those in better-paying fields benefit economically from the influx of low-cost physical laborers, and as benefactors, they tend to have a more welcoming attitude.

Illegal labor tends to concentrate in construction (15 percent) and services (33 percent), creating more intense competition in the workforce for native-born or legal migrants with lower skill sets. Converting these strata to geography, opposition to illegal migration is strongest where the native or legal residents have the lowest skills.

Agriculture's Role

One view toward migrant labor involved in U.S. agriculture, largely handling horticultural crops, is that over half are doing it illegally. The flipside is that these unauthorized workers represent just 0.5 percent of America's illegal workforce, and they are doing jobs unattractive to the legal working population. Thus, most of the owners of capital in the agriculture sector broadly support the application of migrant labor to their operations. They contend that if not for the paperwork burden, most would qualify for legal working status under the H-2A Temporary Agricultural Worker program.

At this juncture, there are conflicting anecdotal assertions about the impacts of labor law enforcement. Those states that have aggressively challenged illegal labor have found both a shortage of farm workers and some improvement in employment by legal workers in fields like services.

The Future

It is much more difficult but not impossible to train a machine to identify and gently pick a ripe peach. One result of the most recent bull market period was a huge influx of investment in agricultural technology. The benefits of that investment will come to fruition in the years ahead and will greatly impact the labor component of production agriculture. The past, present and future dominance of machine over migrant labor for U.S. agriculture is driven by three key factors:

1. Increased border protections for both improved security against terrorism and as economic protectionism;
2. Reduced out-migration pressure as developing countries progress economically; and
3. Advances in automation and the application of informatics and robotics to manual labor.

Thus, U.S. agriculture is a voice for more liberal immigration policy, but it is a relatively small one, and technological change will cause its significance to decline further over time.

IMMIGRATION CHALLENGES IN RUSSIA AND JAPAN

By John Baize

Immigration is certain to be a major issue in the future as people from most developing countries seek better lives in other parts of the world where incomes and employment opportunities are greater. The largest exodus likely will be from nations in Africa, the Middle East and South Asia where population growth is the highest and a lack of resources, conflicts, and poor governance will create the highest incentive to emigrate.

For many reasons, no other countries are likely to face as many challenges from immigration as Russia and Japan. First, the populations of both are forecast by the U.S. Census Bureau to decline over the next two decades. Russia's is expected to decrease from an estimated 142.4 million this year to 135.9 million by 2036 and Japan's from 126.7 million to 117.1 million.

Russia's population is declining because of the country's low birth rate and the low life expectancy there, particularly for men as alcoholism remains a major cause of premature deaths for that group. Additionally, the Russian health care system is far from the best. In Japan, the issue is also a very low birth rate as well as a lack of immigration. As a result, the average age of the Japanese population is high and increasing.

The challenge for Russia will be to control a large, expanding illegal immigration from countries to its south. Some of the world's highest population growth rates are in places such as India, Pakistan and Bangladesh where overpopulation already is a problem. Inhabitants there can move north over land to Russia and will do so if the situation becomes difficult enough in their native lands. It should be noted that China covets the immense available natural resources in neighboring areas of Russia. As pressure builds

over time for people to emigrate in order to build better lives, Russia is going to find it increasingly difficult to prevent that from occurring.

For Russia, the issue will be worse because many of those who move there will likely be Muslims. It already has had severe problems dealing with the Muslim population in regions such as Dagestan and Chechnya who want independence. The situation is likely to grow worse as Muslims from the south move northward, especially if the hundreds from Chechnya believed to be fighting with ISIS return to their homelands.

Japan's problems are its declining, aging population and extremely insular immigration policy. The former is increasing societal costs, reducing domestic demand and decreasing the number of available workers. Japanese companies already are developing robots to serve the needs of the elderly and moving manufacturing jobs to other countries with a larger labor pool. As the number of people depending on government benefits rises and the total that are working declines, the Japanese government's debt will grow to unsustainable levels.

Should the Japanese government decide to allow more immigration in order to expand its labor force, there will undoubtedly be strong resistance from its very homogenous population. The country currently has one of the most restrictive immigration policies in the world, which makes it very difficult for people from other nations, even doctors, nurses and scientists, to receive a permit to move there and work except when they are managers of multinational companies with operations in Japan. Yet, many more immigrants will be needed in the future if Japan is going to

avoid a declining economy, but it is difficult to envision how that is going to happen politically.

Russia and Japan will not be the only countries to face major problems from immigration in the future. All developed nations are likely to see major inflows, both legal and illegal, and

developing countries will face internal pressures from poverty and famine that will drive their citizens to emigrate. That will particularly be the case if climate change impacts food production and water availability.

EU IMMIGRATION AND AGRICULTURE

By Joost Hazelhoff

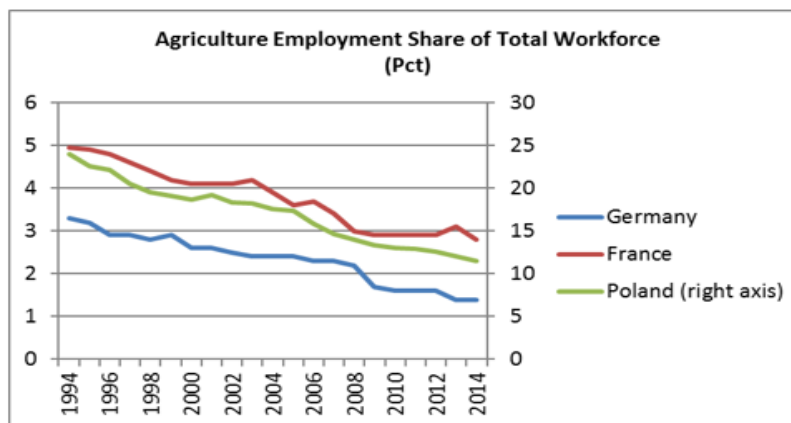
Headlines about the refugee crisis in Europe continue to dominate the news there. While the EU is receiving an ever-growing number of immigrants fleeing wars and deprivation in their respective home countries, member state governments are moving toward increasingly restrictive immigration policies, differentiating between those seeking shelter from war and those who are mostly economically motivated. At the same time, however, Europe's farmers worry that more restrictions on foreign workers will leave them with labor shortages, resulting in unpicked high-value crops such as fruits and vegetables. General media coverage on this topic usually paints the same picture, which is that opportunity associated with the actual labor supply (or lack thereof) brings immigrant workers to European farms, not necessarily the lower costs.

Structure of Europe's Farm Labor Force

Data from Eurostat, the farm structure survey and the agricultural census illustrate that besides family, (seasonal) hired labor is crucial for EU

agriculture. Over 25 million workers are employed at EU farms – fulltime, part-time, year-long and seasonal. Although the number of individuals involved in non-regular labor isn't specified, the amount of work they produce is. The collective annual total of that is almost 11 million Annual Work Units (AWU), the EU's equivalent of 11 million workers employed fulltime for an entire year. Almost 30 percent of the AWU are non-family hires. Many of these workers find employment in the EU's fruit, vegetable and flower sectors, mostly during harvest. While a majority of the work is seasonal, year-round employment can be found in greenhouses.

Germany, France and Poland house some of the largest rural populations in the EU and are among the biggest beneficiaries of Common Agricultural Policy (CAP) payments. However, the number of native citizens employed in agriculture in these countries is decreasing. While a substantial part of farm work, especially in horticulture, has been replaced by high-end mechanization, data on farm employment also suggests their places have been taken over by temporary immigrant workers.



Source: FAOSTAT, WPI analysis

In the UK, the upcoming referendum on Britain's exit (Brexit) from the EU has its farmers nervous for several reasons. Not only fearful of missing out on CAP payments, they are just as concerned about their access to seasonal labor. While Mediterranean countries producing horticultural crops often rely upon such workers from northern Africa, Britain has been a more popular destination for those from Eastern Europe. In the event of a Brexit and the single market for workers, access to Eastern European farm workers would be considerably more complicated.

There is no official data that provides a breakdown of these numbers based on nationality. Over the years, the EU's enlargement in central and Eastern Europe has been a catalyst for farm workers from countries like Romania

and Bulgaria to pursue seasonal work in the UK, France, Germany, the Netherlands, etc. Reportedly, though, that supply of workers is also dwindling as income levels in Eastern Europe improve.

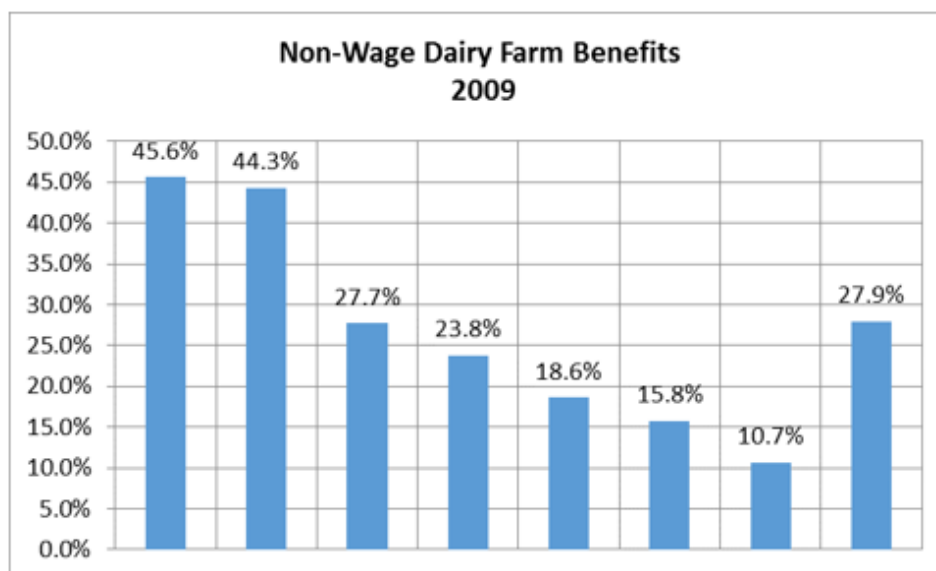
Somehow, Europe will have to find a way to reconcile the crucial role immigrant workers occupy in its agricultural sector with an increasingly restrictive stance on economically-motivated immigrants. The number of refugees fleeing war in their home countries isn't likely to stop growing anytime soon, and Europe will continue to accommodate them. As long as this situation doesn't improve, "economic refugees" will stand little if any chance to stay in Europe legally. In addition, programs to facilitate temporary work visas for seasonal workers could likely suffer as well.

U.S. DAIRY LABOR POOL VERSUS GLOBAL DAIRY DEMAND

By Dave Juday

In a recent town hall meeting in Milwaukee, Wisconsin with presidential candidates, Ted Cruz said that dairy farmers' "first option should be trying to find American workers." Hired labor accounts for about \$1.65 for every hundred pounds of milk or about 7 percent of the average milk price of \$22.53 in 2014 from the largest-sized dairy farms milking 1,000 cows or more. For other categories of larger commercial farms that milk more than 200 cows, labor costs can be more than \$2.00 per hundredweight, reaching more than 8 percent of total production costs.

According to Cruz, seeking domestic labor "may mean wages come up." However, a report and survey of more than 5,000 U.S. dairy farms, conducted in 2009 by the National Milk Producers' Federation (NMPF), indicates the dairy industry already pays wages that can reach \$30,000 per year. It notes that dairy farm labor was paid an average \$10 per hour or about \$31,500 for a full-time job, which applies to four of the average 5.6 workers per dairy farm. Many farms also provide some non-wage benefits, according to the NMPF study.



Source: NMPF, WPI

Today dairy farm wages reach between \$13-15 per hour. For perspective, that is higher than the national farm labor average of \$11.58 per hour, according to the U.S. Bureau of Labor Statistics.

It is also competitive for hourly wage jobs in Wisconsin where, for example, the average hourly wage for a full-time Walmart position is \$12.92 per hour. The following table details other average wage rates within that state:

Average Hourly Wage Rates in Wisconsin	
Certified Nurse Assistant (CNA)	\$11.81
Administrative Assistant	\$14.69
Customer Service Representative (CSR)	\$13.73
Office Manager	\$15.51
Licensed Practical Nurse (LPN)	\$18.28
Cashier	\$8.56

Source: PayScale.com, WPI

According to dairy producers, however, the industry still cannot attract enough Americans to its labor pool. Ironically, the NMPF reports that the growth in dairy farm workers, which accompanied the wage rate increases for that sector, has been among the approximately 50 percent who are foreign-born. The theoretical model used in the NMPF study yields the following projection:

Lower milk supplies also have major implications for the level of retail milk prices. This analysis assumes that the domestic labor force is constant and that the responsiveness of the quantity of milk demanded at retail has a negative relationship with price of -0.26 (Huang). Or, if retail prices rise by 1 percent, the quantity of milk demanded by consumers would decline by 0.26 percent. Conversely, by taking the reciprocal of -0.26, it follows that if the availability of milk at retail declines by 1 percent, retail milk prices would rise by 3.86 percent. As a result, a 50 percent reduction in foreign labor would raise retail milk prices by 30.6 percent. Eliminating all foreign labor would result in a 61.1 percent increase in retail milk prices. These higher prices may induce substitution to other foods and beverages or increase dependence on foreign milk products.

Global Dairy Demand

What impact would such a dire change in dairy production have on the global market? First, consider the overall demographics. Even though the annual rate of global population growth has declined every year since 1992 and is projected to continue doing so through 2050, there will still be more than 2 billion people added to the planet for an estimated 9.4 billion total by that year. Today an estimated 54 percent of the world's population lives in urban areas, and the United Nations indicates that will grow to about 66 percent by 2050 due to the trend of urban migration in the developing world. This will result in a global population gain of 2.1 billion people, and all plus 200 million will be urban dwellers. The trend will also yield a bigger demand for protein, including dairy, most of which will have to be met by global trade.

At the recent World Dairy Summit in Vilnius, Lithuania, the International Dairy Federation predicted that were dairy consumption to grow on a nutritional basis to where it should be in global diets, total world demand for milk and dairy products will double by 2030 and triple by 2050. To put that trend in perspective, global consumption of pork, the world's most widely-consumed meat, has doubled over the past 20 years. That of broilers, one of the world's most affordable meats, has doubled over the past 18 years. Thus, the projection that dairy consumption will double in 15 years is well within proven growth curves for protein sources.

Globally, the average dairy farm currently has only 2.9 cows. Moreover, 38 percent of all milk is never sent to a processor as it is either consumed on the farm or sold or bartered to a neighbor. Thus, much of the new demand for milk will need to be met by the four top exporters now responsible for 75 percent of the world's tradeable supply: the U.S., Australia, New Zealand and the EU. Among these countries, the U.S. would likely play the largest role. New Zealand is presently the top global milk exporter in terms of volume, but expansion capability is

limited on the small island nation and its total production is only about 20 percent of that of the U.S. The second-largest exporter is neighboring Australia, although domestic per capita milk consumption there is decreasing. While the EU produces more milk than the U.S., much of its production will be diverted by intra-EU trade because of the new lifting of the quota system there. That leaves the U.S., which is already the world's largest cheese exporter and a more efficient producer than either New Zealand or Australia at 22,393 pounds of milk per cow. It also now exports about 14 percent of total dairy production.

The bottom line is that the future growth in U.S. dairy is in exports, and the potential is very high. However, this potential is dependent on maintaining an adequate and growing labor supply that to date has not been able to attract sufficient domestic U.S.-born laborers, emphasizing the importance of the immigrant labor pool as underscored by the NMPF study. According to NMPF's projections, eliminating one-half of the immigrant workforce would reduce U.S. dairy herd size by 671,424 cows, leading to a 14.7-billion-pound decline in milk production and 2,266 fewer farms. Total elimination of immigrant labor would decrease herd size by 1.34 million cows, lower milk production by 29.5 billion pounds and eliminate 4,532 farms. Thus, the dairy industry continues to pursue immigration reform to maintain a necessary level of labor.

COMMODITY MARKET REVIEW

By Robert W. Kohlmeyer

Under the burden of very large supplies of corn, wheat and soybeans that have swamped the modest growth in demand during 2015/16, futures market prices for those crops have languished at the lowest levels seen in many years. But having finally priced in the unbalanced supply/demand outlook for grains and soybeans in the U.S. and the world as a whole, those oversold markets were overdue for some sort of price rally. For the most part, that is what they got during the month of March – a modest rally. Between the market’s closings on 29 February and 31 March, the CME Group’s May soybean contract climbed about \$0.50/bushel. Chicago May wheat gained about \$0.20/bushel while the May corn contract fell about \$0.05/bushel. Corn’s loss (based on its 31 March close) as a measure of corn market action during the month is somewhat misleading since it resulted from a steep price decline on that date. At the close on 30 March, the May corn contract had gained about \$0.15/bushel compared with 29 February.

The March price rally had very little to do with any fundamental changes in the supply/demand outlook. In fact, estimates of the Brazilian and Argentine soybean and corn crops as harvests got well underway during February grew larger, adding to potential supplies without any commensurate increase in demand prospects. Grain and soy futures prices rallied periodically during March as the U.S. dollar weakened somewhat against other currencies, which was seen as benefitting the U.S. position in world grain and soy markets. This prompted managed funds holding large short positions in grain/soy futures and options to intermittently buy futures contracts to cover portions of those short positions, reducing the funds’ risk exposure.

The March rally of the soy complex was led by soyoil as it responded to declining palm oil production in Malaysia and Indonesia as well as the corresponding surge of Malaysian palm oil futures prices. Palm oil is the most widely-used edible oil in the world followed by soyoil. Thus, soyoil prices often follow the direction of palm oil. This led to a gain of 335 points (\$0.0335 per pound) or nearly 12 percent for the May soyoil futures contract during March.

USDA’s Quarterly Stocks and Planting Intentions

Ever since mid-January, grain and soy futures markets have faced a scarcity of fresh fundamental news and inputs, and the volume of futures trading has suffered as a result. There was the occasional reaction to items such as the above-mentioned bullish palm oil market and the increasingly dry conditions in the southern Plains of the U.S. that could potentially pose a threat to that region’s new 2016 hard red winter wheat crop. As well, there were a few brief outbreaks of cold temperatures over that region as well as the central Plains and in the winter wheat areas of southern Russia. However, neither weather factor was deemed to have caused significant damage to newly emerged winter wheat, and reactions in wheat futures markets were modest and short-lived. Toward the end of the month, markets mainly seemed to be marking time until 31 March when USDA would release one of its most important reports of the year: the estimated 1 March quarterly stocks of grains and soybeans together with its initial survey-based estimate of farmers’ planting intentions for spring seeded crops. The first of March marked the three-quarter point in the U.S. wheat marketing year and the halfway point for the corn and soybean

marketing years. USDA's end-of-March reports have given markets a jolt of volatility often enough in the past that traders approached this year's release with a mixture of anticipation and wary caution.

The following table summarizes the estimated 1 March quarterly stocks for corn, wheat, soybeans and grain sorghum compared with the average trade guesses as compiled by wire services, the estimated quarterly stocks as of 1 December as well as the 1 March 2015 and ending 2014/15 crop year stocks.

USDA Estimates of 1 March Quarterly Stocks (million bushels)					
	1 March 2016	Average Trade Guess	1 March 2015	1 December 2015	Final 2014/15
Corn	7,807	7,822	7,750	11,212	1,731
Soybeans	1,531	1,569	1,327	2,715	191
All Wheat	1,372	1,356	1,140	1,738	752
Grain Sorghum	201	159	120	314	18

Source: USDA, WPI

Unlike some years in the past, there were no major surprises forthcoming from these estimates. Corn stocks were only 15 million bushels below expectations, unusually close for 1 March estimates. All wheat stocks came in 16 million bushels higher than expected, which suggests that USDA will lower its projection for wheat feeding in its April supply/demand estimates and raise estimated ending 2015/16 wheat stocks accordingly. Soybean stocks were more than 35 million bushels less than expected, meaning they are slightly tighter than implied by monthly usage totals. USDA may choose to

increase its residual factor in its next U.S. supply/demand estimate as a way to temporarily account for the slightly lower stocks. It is too soon to draw any conclusions, but the lower-than-expected stocks hint that USDA may have slightly overestimated 2015/16 U.S. soybean production.

The table below summarizes USDA's estimated planting intentions for corn, soybeans, all wheat and various classes as well as grain sorghum versus last year.

USDA Prospective Planted Area (million acres)			
	March 2016	Average Trade Guess	Final 2015
Corn	93.6	90	88
Soybeans	82.2	82.9	82.7
All Wheat	49.6	51.7	54.6
Winter	36.2	36.9	39.5
Spring	11.4	12.9	13.2
Durum	2	1.9	1.9
Grain Sorghum	7.2	8.8	8.5

Source: USDA, WPI

The prospective planting estimates did provide the surprises that supplied futures markets with a fresh bout of volatility. The biggest one came from the very large prospective corn plantings of 93.6 million acres, which exceeded the average

trade guess by more than 3.5 million acres. If realized, it would be 5.6 million acres more than the total in 2015. The huge number immediately conjured up thoughts of 2016 corn production near 14.5 billion bushels and burdensome

2016/17 U.S. ending corn stocks soaring above 2.5 billion bushels. Thoughts like these immediately rocked the corn futures market, which traded down more than \$0.20/bushel minutes after USDA released the reports. Corn futures ended trading on 31 March down about \$0.16 cents/bushel.

Everyone involved in the corn market is aware that the March planting intentions do not represent farmers' final decisions. Springtime weather conditions and whether they allow early planting or cause delays will always modify the March intentions to some extent. Planting delays caused by persistent heavy rains across the Gulf States and the Delta region already have some farmers thinking of switching from corn to soybeans. However, the March intentions are a good indicator of what farmers would like to plant. The fact that they want to increase their corn acres as much as is indicated by USDA's acreage report provides a good buffer against corn planting delays that prompt some intended corn acreage being switched to soybeans. Without a major U.S. weather problem during July and August or in South America next January-March, it is difficult to see how the corn market can avoid another year in a bearish environment during 2016/17 like it experienced in 2015/16.

The second surprise from USDA's March planting intentions is the low wheat acreage number, which was more than 2 million acres less than expected. The decline came from winter wheat and spring wheat. Winter wheat acres of 36.2 million were about 600,000 less than USDA counted last January, and while it was widely expected that northern Plains farmers would elect to plant fewer spring wheat acres than last year, USDA's planting intentions of 11.3 million acres were at least 1.5 million below expectations and 14 percent less than last year. The impact of reduced wheat plantings was partially offset by the quarterly wheat stocks that were slightly larger than expected, indicating that less wheat was being fed than USDA had forecast. USDA is likely to lower estimated wheat feeding and raise 2015/16 end stocks accordingly, putting them closer to the 1-billion-bushel mark.

The large wheat carryover, composed primarily of hard red winter wheat and northern spring wheat, will cushion the reduced U.S. 2016/17 wheat production indicated by the acreage numbers. Also countering it will be the large carryover wheat stocks in Europe. Moreover, new crop winter wheat in Western Europe, Russia and Ukraine appears to be in excellent condition with production likely to be as large or greater than last year. U.S. wheat is likely to once again be uncompetitive in global markets with export demand probably limited to captive customers. As a result, the U.S. share of world wheat trade is expected to decline again in 2016/17.

The main takeaway from the eagerly awaited USDA acreage and stocks reports of 31 March is that under normal spring and summer weather conditions, 2016/17 will be another year of big corn and soybean crops as well as enlarging U.S. grain and soybean stocks. Even U.S. wheat stocks should grow somewhat larger despite the smaller production indicated by the reduced acreage. Barring a serious U.S. summer drought or severe disruption to crop production elsewhere in the Northern Hemisphere or South America, 2016/17 promises to bring on more of the same for grain and soy futures markets. That is, markets will again be driven by expanding supplies that outstrip the growth of demand, leading to world (and U.S.) stocks that become increasingly burdensome.

The Market Activity of Managed Funds

The state of commodity markets cannot be discussed these days without touching on the market activities of managed funds. Six months ago when stock market indexes were soaring, the U.S. dollar was rallying and crude oil prices were sliding below the \$50/barrel mark, it was widely predicted that noncommercial managed funds would forsake grain futures markets, putting their money into financial markets and other commodity markets that seemed to offer chances for better returns. For a while, fund participation in grain futures markets did decline noticeably.

Early in 2016, however, stock markets began to stall, the U.S. dollar rally appeared to forge a top, and a variety of uncertainties stymied other markets. Managed funds began to return to the grain and soy complex markets, and fund managers discovered that they could do as well following bear market trends as when markets were trending higher. Before long, funds collectively built up huge short futures and options positions in wheat and soybeans. They went long corn and stubbornly stayed long as corn prices worked lower during the early weeks of 2016. Eventually, they sold out their long corn position and went short a large volume of corn. When soyoil prices turned higher following palm oil, funds began to build a long position in soyoil and soybean futures. Commercial activity seemed to decline during the 2016 bear market for grains and soybeans, but managed fund activity and trading volume kept those markets reasonably liquid.

The Commodity Futures Trading Commission's (CFTC's), Commitment of Traders Report of 1 April indicated that as of 29 March, managed funds were long about 106,000 contracts of soyoil, which is by far a record for funds in that commodity. They were long about 75,000 contracts of soybeans. In early March, funds had amassed a short position in corn of more than 200,000 contracts, but they were forced to whittle that down during the March rally. Also as of 29 March, the CFTC showed them to be short 108,000 contracts, but we calculate they built that back up to at least 150,000 contracts in the wake of the bearish corn acreage and stocks report from USDA. They are still holders of a major short position in wheat futures, which the CFTC put at about 121,000 contracts.

Some of us who have been around the commercial grain business for many years feel as though grain markets have become part of our being. Thus, we can understand why managed funds do not seem to be able to stay away from grain and soy futures markets for long.

May Chicago Wheat Futures Prices



Source: Prophet X (4/8/2016)

May Corn Futures Prices



Source: Prophet X (4/8/2016)

May Soybean Futures Prices



Source: Prophet X (4/8/2016)

May Soyoil Futures Prices



Source: Prophet X (4/8/2016)

May Crude Oil Futures Prices



Source: Prophet X (4/8/2016)