The Commstock Report

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On The Hogs:

Packers killed 487k head Tuesday and are reportedly planning a larger Saturday kill for a big week. The CME KH cash average added 15 cents quoted 77.41. Every day, I expect it to run out of gas. The national cash hog average lost 40 cents quoted 64.08. The pork cutout lost 2.45 quoted 92.55 continuing to perform like a yo-yo. This time it was a $16 bust in the ham market. That should bring buyers back on the loss. Bellies continue to outperform for BLT season. Folks planted bigger gardens this year and must have gorged on BLTs. My tomato crop was phenomenal. Wish I could have said the same about my corn and soybeans. Failure to pass the Covid-aid bill hits the hog and pork markets directly and indirectly. There was Covid-aid in it for hog producers. There was also money in it for consumers to buy pork with.

Where did all of the hogs go? Industry sources tell me that they have identified 1 mln head of hogs that were euthanized and producers are not very forthcoming about it. National Hog Farmer says that large numbers of heavy weight butchers were slaughtered through sow plants. There were also a large number of sows aborted and baby pigs euthanized. USDAs September Hog count is not accurate. It will take more time for the industry to measure the disruption. Right now, there are 10% more hogs in the USDA count and they obviously do not exist. This was an impressive exercise in industry supply management that has restored profitability more quickly than I would have imagined. They had a choice of biting down hard or enduring an extended period of pain to get supply adjusted. I think they made the right choice.

On The Cattle:

Packers killed 120k head. Still no cash trade reported. The choice cutout lost 74 cents quoted 216.94. What I see are divergences on cattle charts. The first divergence was feeder cattle turning lower leading LC. Feeder cattle turned down a few days ahead on LC from the August high. Feeder cattle gapped lower and have not been able to fill that still open chart gap and have subsequently made new lows for the move. Feeders are still leading the complex lower. Another divergence is that while cash cattle have eked out some gains, the high in LC futures was still made in August. There have been no news highs in LC futures. LC future have only tested August highs. If feeders are still leading the bulls could be disappointed this week.

Fundamentally, you have continued drought forcing feeder cattle movement, higher corn prices and now a delayed at best Covid-19 aid bill depriving consumers of cash for beef. Unemployment is poised to pick up again and consumer income is not doing well. We could well be seeing a secondary top in these markets. Canada has shared very little of the North

American drought while Mexico has some yellow and red on the drought monitor map. Canadian feeder cattle imports are accordingly down almost 10% while Mexican feeder cattle import are up nearly 12%. Mexican imports are over twice as large as those from Canada so the raw numbers of feeder cattle imports are up.

On The Grains:

Brazil Update from Matthew Kruse: The market is watching reports of dry weather in Brazil. Brazil as a whole has planted less than 2% of their soybean crop. Mato Grosso has planted roughly 4% of their crop but some of that may have to be replanted as most of it was planted in hot, dry weather hoping for big rains that have not yet materialized. It has been extremely hot in these regions and so soil temperatures are not conducive to planting in the dust for extended periods of time. There are signs of rains next week which we should see planting quickly speed up. There is still time to catch up to the five-year average, however, we have pointed out already how there will be limited soybeans for Brazil to export to China in January. This could help the US export more than expected in early 2021.

Mato Grosso has historically planted over 20% by the 10th of October. This would put them at least 15% behind schedule. Bear in mind this does not necessarily impact soybean yields, but rather pushes the season back a few weeks. It could impact the second crop of corn which follows as there will be less time to get it planted.

There were scattered showers in parts of Parana and Santa Catarina and so the first season corn crop is mostly on schedule and there are no disruptions planned for the 10 million+ acres being planted. They are eager to get their corn planted in these areas quickly to switch over to beans. This first crop of corn should fill Brazil’s needs for the first six months of 2021 until the second crop begins its harvest in late June.

With record prices in Brazil, they are now offering forward contracts for 2022 soybean crop already at $10.10 at the port. There have not been many takers yet, but an estimated 3% of the projected soybean crop has been sold at those levels. *****

Another hurricane, this one named Delta and a Category 4, is forecast to make landfall on the gulf coast in the same general region where others have hit. They have not recovered from the last ones and it feels like Groundhog Day. In the western US a single fire has destroyed over a million acres and it is now the worst fire season out there in recorded history. In the heartland the Mississippi river is running at its lowest level since 1936.

December corn was trading up 2 1/2 cents, November soybeans were up 3/4 cent and December KC wheat was up 2 cents near 4:45 a.m. farmers are finishing with soybean here and are moving right on to corn. The drought provides excellent dry down conditions for corn so it is an easy crop to handle. I will not be using any of the dryer gas that I purchased. There is only one day in the next 10 days here with any forecast of rain in it. Tillage doesn't work well when it is this dry.

The spring price for revenue crop insurance was 3.88. Our crop agent, my partner, says that he has never sold a revenue policy that did not have what they call the "Harvest Price Exclusion". Under this policy if the fall harvest price, set as the average of December corn through the month of October, increases above 3.88 then the revenue guarantee goes up. You now have to opt out of this coverage which is why they call it an exclusion. None of our clients opt out. So, if the fall price is 4.00, they get that higher fall price over the spring price. I think that the fall price will be the higher of the two.

I am bullish on corn and soybeans. Our yields here are poor. They were a little better than expected in soybeans but still down, not up, as USDA forecasts them. Corn yields are a big disappointment with light ground and corn-on-corn terrible. They will adjust for acres in the October crop report. Some believe that 550k acres of corn will be unharvested in IA because of the derecho. I have pointed out that more acres were harvested for silage which is not counted as grain. Deducting these acres increases the average yield because they are not included in that calculation. I think that private estimates like Informa and FCStone are too high in their estimates. That benefits their end user clients so that they can steal more bushels from farmers at lower prices until the USDA corrects them. Sometimes the USDA is complicit in the theft. Little harvest was done in time for the October crop report but they will have plenty of harvest data for the November report. I think that given the late planting in Brazil that China could clean the US out of soybeans by spring. We have a drought here that frankly would not be surprising to extend into spring. The winter wheat crop is going to try to germinate without moisture how? By next spring corn, soybeans and spring wheat could all be competing for acres. South American farmers plan more acres but the la Nina could nix those plans too. All my crops are going in the bin intended to hold until spring. I am also long December corn from 3.46 and November soybeans from 9.12. End-users are scrambling to tighten basis during harvest. The September stocks report may have overstated stocks.