

The Maloni Report

Daily Food Service Commodity Markets: What to Do and When

March 13, 2018



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www.AmericanRestaurantAssociation.com

	Prior Day Close	% Change	This Morning
Corn Fut	390.60	1.98%	391.50
Soy Meal Fut	370.40	-0.35%	372.70
Soy Oil Fut	31.75	1.05%	31.94
MN Wheat Fut	624.40	1.53%	629.25
Coffee Fut	119.45	0.50%	119.50
Choice Beef	223.90	-0.11%	n/a
Cattle Fut	121.55	-1.28%	121.55
Pork	74.88	1.97%	n/a
Hog Futures	67.68	-0.57%	67.68
ARA Chicken	97.69	0.54%	n/a
CME Cheese	155.00	-1.27%	n/a
CME Butter	220.50	0.00%	n/a
Crude Oil Fut	61.53	-0.83%	61.43
Nat Gas Fut	2.778	1.68%	2.80
US \$ Fut	89.43	-0.71%	90.01

Overview – Good Tuesday morning! There's a lot of anticipation and interest for this week's PGA golf tournament at Bay Hill with the sudden resurgence of Tiger Woods. The equity markets are firm this morning and the U.S. dollar is higher as well. News overnight includes mixed price action in world equities with eagerness on today's U.S. inflation data. Yesterday, the equity markets fought a decent fight, but were unable to hold on to early gains and finished mixed. The greenback was lower as so was the 10-year yield. Trade continues to debate the Trump administration's steel and aluminum tariff announcement. The consensus is that it is not good for the economy, but the fine details and implementation remain to be seen. It would not surprise us or our mothers if this is just a negotiation tactic in the longer run. Also on the trade's radar are next week's Fed meetings, which are expected to be accompanied by another interest rate increase. Orderly rate increases are not a concern to the market, but disorderly increases due to rising inflation are a concern and could create volatility. Speaking of adding, last week, the USDA made some modest adjustments to its 2018 protein forecasts, which we address today in Speaking of Statistics.

Grains – Grain futures are higher this morning: Nearby corn is up 1, soybean meal is up 2, Minneapolis wheat is up 10, soybeans are up 21 and soybean oil is up 21. The grain markets battled to start the week, finishing higher almost across the board. Several soybean meal futures were lower. Minneapolis wheat (think: high-protein spring wheat futures) led the gainers but were way overdue to do so. Other wheat futures found modest support as key producing states released their weekly crop ratings. As expected, the ratings remained historically poor, but this is already built into the markets. Crop challenges elsewhere, particularly in Russia, may be needed for wheat futures to move notably higher from here. But there is no indication of this yet. Weekly wheat and soybean export inspections met expectations while corn exceeded. Corn futures have firmed very quietly in recent weeks due to potential South American supply concerns. Last week, the USDA raised its 2017-18 U.S. corn export projection by a noteworthy 175 million bushels. Corn exports are still anticipated to be modestly less than the previous crop. Nearby corn futures are in breakout territory technically, suggesting underlying strength in the fundamentals. But this market is due for a short-term correction lower.

Proteins – On Monday the USDA boxed-beef cutouts were mixed: choice lower and select higher. Shipment volume was light as the mood of a Xavier Musketeers fan. Nearby live-cattle futures were weak. Last week, boxed beef and beef grinds spot shipments were soft. Forward beef sales improved but still well below prior year levels. Per the USDA, Q2 beef output is expected to be much larger than Q1 but less than Q3 supplies, which isn't the norm. Still, strong beef supplies in the coming weeks should temper seasonal price hikes. Over the last five years, the average move for the choice boxed-beef cutout from the first week in April through most of May has been 6.3 percent higher. The USDA pork cutout was higher yesterday. Nearby lean-hog futures were lower. This week's hog slaughter is expected to be solid, which should support pork supplies. The USDA is calling Q2 pork output 4.8 percent higher than last year. This should temper seasonal price increases. Since 2013, the average price move for spareribs during the next three weeks, including this week, has been 4.9 percent higher. The USDA chicken markets were mostly higher yesterday. Wing prices usually find modest support soon. Since 2013, the average move for the ARA Chicken Wing Index during the next three weeks, including this week, has been up 2.6 percent.

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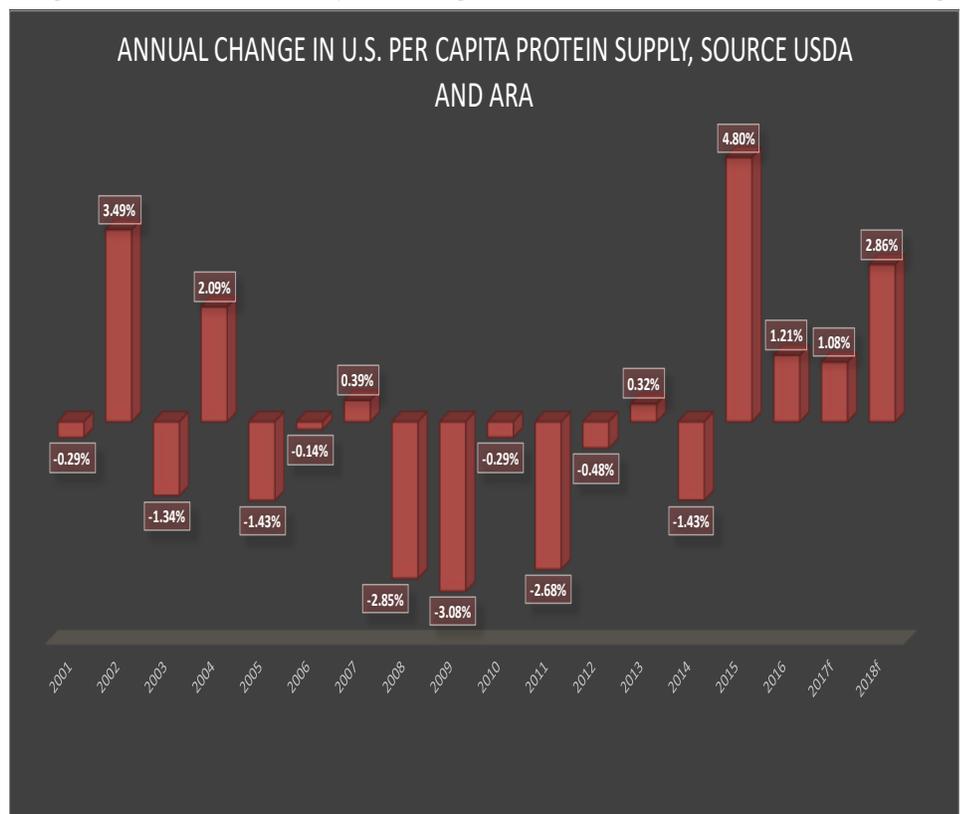
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Dairy – The dairy-futures markets are mixed this morning – April class III milk is up 1. Monday, CME spot trading was light as the mood of a Kansas Jayhawks fan: eight cheese barrels, four cheese blocks, and one nonfat dry milk load. Barrels added \$.0025 to \$1.500. Blocks declined \$.02 to \$1.550. Nonfat dry milk increased \$.0075 to \$.6925. Butter was unchanged at \$2.205. CME class III milk futures were lower. During the next week, colder temperatures are expected in the Midwest, which could temper milk output in the latter half of this month. Yet milk production will likely still outpace year-ago levels. Until the international glut of nonfat dry milk and skim milk powder supplies are reconciled, the dairy markets will likely remain range bound to weaker in the coming weeks. The EU doesn't seem anxious to cut milk output anytime soon, and margins in New Zealand tend to be the best compared to other regions. This leaves the United States as a likely candidate to eventually curb milk output, especially if margins continue to deteriorate. But history hints that modest gains can materialize in the near-term. Since 2013, the average move for the spot butter market during the next four weeks has been 3.1 percent higher. Over the last five years, the average move for the cheese block market during the next three weeks has been 3.3 percent higher.

Softs – The soft-futures markets are mixed this morning, with global sugar down 6, cocoa down 10 and coffee up 15. Yesterday, nearby cocoa futures began the week strong, achieving a new 16-month high. Dryness in West Africa, the world's largest cocoa bean region, along with strong international demand for chocolate are pushing prices higher. The quarterly pivot model suggests that nearby cocoa futures will likely hit the R3 at \$2,583 by the end of month.

Energy – Energy futures are mostly higher this morning, with nearby crude oil up 15, gasoline down 37, diesel up 76, and natural gas up 3. On Monday, nearby natural-gas futures finished 1.9 percent higher and established a new five-week high. Late-season winter temperatures are expected to plague a good part of the United States in coming weeks, which will boost home and commercial heating needs. Nearby natural-gas futures could move higher from here, but there is resistance at \$2.920/MMBtu.

Speaking of Statistics – The USDA made some very minor changes around its 2018 protein-production forecasts, which, generally, is good news. This year, U.S. beef, pork, and chicken output are all predicted to climb at least 2 (think: The Captain) percent with beef and pork north of 5 percent. This is expected to more than outpace any growth in exports and population, causing the available per capita supply to rise by the second biggest amount since the UConn women won their third NCAA basketball title in 2002.



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Quarterly Pivot Models — An achieved Support (S) level suggests a possible bottom is occurring, and an achieved Resistance (R) level suggests a top could occur. Still, a “discernable” violation of the (S1, S2, S3) hints that lower prices can still materialize, and a “discernable” violation of the (R1, R2, R3) suggests higher prices can happen. Monitoring price action when on (or near) these key (S and R) levels is required. Any questions, please email: Jerry.Dalton@americanrestaurantassociation.com or call 941-315-9989.

2018 First Quarter Pivots	Key Support Levels (Bearish Territory)					Key Resistance Levels (Bullish Territory)				2018	2019
Grey highlight = Price level hit this Qtr	Current Price	S3	S2	S1	Pivot	R1	R2	R3	Forecast	Forecast	
Corn (ZC)	3.835	3.175	3.263	3.385	3.473	3.595	3.683	3.805	3.490	3.645	
Soybean Oil (ZL)	0.316	0.283	0.302	0.316	0.335	0.350	0.369	0.384	0.346	0.359	
Soybean Meal (ZM)	371.8	256.6	281.2	296.9	321.5	337.2	361.8	377.5	326.1	336.5	
MN Wheat (HRS) (MW)	6.255	5.253	5.605	5.875	6.227	6.497	6.851	7.121	5.640	5.755	
KC Wheat (HRW) (KE)	5.090	3.484	3.712	3.992	4.220	4.500	4.726	5.006	4.852	5.007	
Chicago Wheat (SRW) (ZW)	4.945	3.281	3.573	3.921	4.213	4.561	4.853	5.201	4.751	4.889	
Dairy											
Cheese Blocks (C4Y2000)	1.550	1.072	1.253	1.397	1.578	1.722	1.903	2.047	1.642	1.757	
Cheese Barrels (C3Y2000)	1.500	0.958	1.179	1.311	1.532	1.663	1.884	2.016	1.588	1.716	
Cheese Futures (Nearby) (BJ)	1.545	1.390	1.500	1.573	1.683	1.756	1.866	1.939	1.615	1.737	
Butter (Spot) (C5Y2000)	2.205	1.888	2.029	2.118	2.259	2.348	2.489	2.578	2.195	2.119	
Butter Futures (Nearby) (BD)	2.183	1.786	1.995	2.111	2.319	2.436	2.644	2.761	2.195	2.119	
Beef											
90% Beef Trim	2.200	1.850	2.000	2.060	2.150	2.210	2.300	2.450	2.184	2.176	
50% Beef Trim	0.851	0.100	0.298	0.463	0.607	0.772	0.915	1.223	0.847	0.828	
Choice Ribeye (Primal) (USDA)	3.682	1.390	2.400	2.730	3.410	3.750	4.420	5.430	3.337	3.340	
Choice Top But Sirloin (184-3)	3.448	1.350	2.210	2.780	3.070	3.640	3.930	4.780	3.374	3.334	
Choice Beef Chuck (116a)	1.803	1.330	1.520	1.640	1.700	1.820	1.880	2.070	2.702	2.662	
USDA Choice Bxd Beef Ccutout	2.239	1.690	1.870	1.950	2.040	2.120	2.220	2.390	2.074	2.082	
Chicken											
ARA Chicken Breast Index (USDA)	1.180	0.750	0.910	0.990	1.070	1.140	1.230	1.380	1.277	1.257	
ARA Chicken Wing Index (USDA)	1.581	0.710	1.270	1.490	1.820	2.040	2.370	2.920	1.827	1.823	
ARA Chicken Tender Index (USDA)	1.705	0.900	1.210	1.330	1.520	1.640	1.820	2.130	1.708	1.660	
Pork											
Belly Cutout (USDA- Primal)	1.080	0.122	0.582	0.809	1.151	1.410	1.720	2.289	1.294	1.246	
72% Pork Trim Combo	0.676	0.414	0.520	0.566	0.627	0.672	0.733	0.839	0.726	0.624	
42% Pork Trim Combo	0.418	0.130	0.190	0.210	0.250	0.270	0.310	0.370	0.401	0.349	
USDA Pork Cutout	0.749	0.540	0.660	0.720	0.780	0.850	0.910	1.030	0.817	0.788	
Softs											
Coffee (Arabica)(KC)	1.182	1.020	1.095	1.178	1.253	1.336	1.411	1.494	1.367	1.444	
Sugar #11 (SB)	0.128	0.122	0.129	0.141	0.148	0.159	0.166	0.177	0.144	0.154	
Sugar #16 (SD)	0.248	0.254	0.260	0.265	0.271	0.276	0.282	0.287	0.265	0.270	
Cocoa (CC)	2,565	1,287	1,545	1,719	1,977	2,151	2,409	2,583	2,127	2,267	
Orange Juice (OJ)	1.388	0.833	1.072	1.216	1.455	1.600	1.839	1.983	1.537	1.445	

About the Principal Author: David Maloni is the president and founder of the ARA Group, including American Restaurant Association, ARA Trading, and ARA Hedging. David has been advising food service clients about commodity markets and contracting since 1996 with his expertise utilized by thousands of food service companies and numerous media venues, including ABC News, Bloomberg, *Forbes Magazine*, CNBC, and *USA Today*. *The Maloni Report* is a daily commentary on the commodity markets with contracting suggestions. For information on subscribing to *The Maloni Report*, email: info@americanrestaurantassociation.com or call 941-379-2228.

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