

# ArrowStream's Maloni Report

Daily Food Service Commodity Markets: What to Do and When

October 4, 2018

	Prior Day Close	% Change	This Morning
Corn Fut	364.60	-0.76%	366.00
Soy Meal Fut	307.50	-1.19%	307.50
Soy Oil Fut	29.52	0.54%	29.52
MN Wheat Fut	589.60	-0.30%	588.50
Coffee Fut	106.60	-0.98%	106.25
Choice Beef	204.42	-0.23%	n/a
Cattle Fut	113.20	-0.68%	113.20
Pork	80.37	-0.14%	n/a
Hog Futures	67.48	1.58%	67.48
ARA Chicken	83.11	1.30%	n/a
CME Cheese	161.30	-0.12%	161.70
CME Butter	233.00	0.67%	231.20
Crude Oil Fut	76.20	1.41%	76.25
Nat Gas Fut	3.11	-1.71%	3.23
US \$ Fut	94.93	-0.19%	95.54

**Overview** – Good Thursday morning! Well there is another Boston Red Sox vs. New York Yankees MLB playoff series on tap. Nice! But, the National League MLB playoff games take center stage today. The equity markets are off to a lower start this morning. The U.S. dollar is firm. Lots of chatter overnight about rising interest rates. On Wednesday, for the first time this week, the equity markets all finished in the same direction, up on the day. The NASDAQ led the charge, but the DJIA hit a record high. The 10-year yield was Klump strong (“Hercules”), trading at its highest since Matt Holliday won his only World Series title with the St. Louis Cardinals in 2011. Perhaps an omen, Rockies fans? The dollar was mixed but managed to trade at its highest vs. the Japanese yen since last fall. Just a reminder, Japan is a major destination for U.S. agriculture, and any trade disruption would not be bullish for the markets (nor would a continued weak yen). Yesterday’s big story was crude oil, which traded at its highest since 2014. Part of this due to Iranian sanctions. It’s important to monitor this for signs of speculative money being directed towards crude oil, as many expect escalated inflation in 2019. Yet, around the ag commodities, a big move higher seems far-fetched, at least for now.

**Grains** – Grain futures are mostly higher this morning. Nearby corn, soybeans and soybean meal are all up 1, soybean oil is up 16, and Minneapolis wheat is down 2. On Wednesday, the grain markets set back

with only soybean-oil futures in the black (more on that in a moment). Market declines in soybeans, corn, and wheat were modest, which isn’t a bad showing given recent gains this despite weekly ethanol production falling and ethanol stocks rising. Obviously not a bullish signal for corn. Markets expect rain to delay the harvest for the next week or so. This supports futures but is likely only short term. Nonetheless, the five-year average fall bottom for the corn market is this week. Suggests the upside price risk is greater than the downside. Soybeans typically don’t bottom until the last week of October. But we’d be very hesitant not to have long-term coverage in place now. Yesterday, nearby soybean-oil futures closed at their highest since June (“Look, kids. Big Ben. Parliament.”). Soybean-oil futures closed just below a key resistance level yesterday. A move higher from here could open the door to \$.305. But a runaway market is not expected. The USDA forecasts 2018-19 world food-oil supplies at a three-year high.

**Proteins** – The USDA choice and select boxed-beef cutouts were lower on Wednesday. Shipment volume was decent. Nearby live-cattle futures were lower. Big cattle supplies are likely to fuel solid year-over-year gains in beef output in the coming weeks. This should temper seasonal price increases, especially for some holiday items such as tenderloins. The choice flank market fell notably in the last week but is still 19.4 percent more expensive vs. a year ago. Since 2013, the average move for the choice flank market during the next two weeks has been 2.5 percent lower. The wholesale USDA pork markets were mixed yesterday. The pork-belly primal is 34.9 percent more expensive vs. a year ago, but big belly stocks and seasonal weakness should influence prices downward soon. Since 2013, the average move for the USDA pork-belly primal from mid-October through late November has been 12.4 percent lower. Yesterday, nearby lean-hog futures were strong again as the still-unknown impacts of African swine fever in China and parts of Europe linger. Yet, strong hog supplies are expected to equal big pork output in coming weeks, which should influence pork prices lower. The wholesale USDA chicken markets were mixed yesterday. Typically, chicken wing markets seasonally peak in the next week or so.

**Dairy** – The dairy-futures markets are mixed this morning – November class III milk is down 17. Wednesday’s CME spot trading produced only six (think: Roy White) transactions: three cheese blocks and three cheese barrels. Blocks fell \$.04 to \$1.670. Barrels were flat at \$1.385. Butter lost \$.005 to \$2.330 due to an unfilled seller offer. Nonfat dry milk was unchanged at \$.8750. Whey was unchanged at \$.560. CME class III October futures were lower. Lingering warmer-than-average temperatures are covering parts of the Midwest and East Coast, but cooler temperatures should eventually prevail, especially in the central U.S. Milk output is expected to seasonally increase this month. Yesterday, the cheese block price premium to cheese barrels narrowed by four cents but is still historically big, suggesting more downside potential for cheese blocks. This

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week, Midwest cheese producers are buying spot milk flat to \$1.50 over class III government grade. Cheese demand is reportedly healthy, especially from pizza manufacturers. Over the last five years, the average move for the cheese barrel market during the next five weeks has been 6.7 percent higher. Cream supplies have been spotty depending on the region of the country but are sufficient to meet butter production needs. The spot butter market typically trends downward in October.

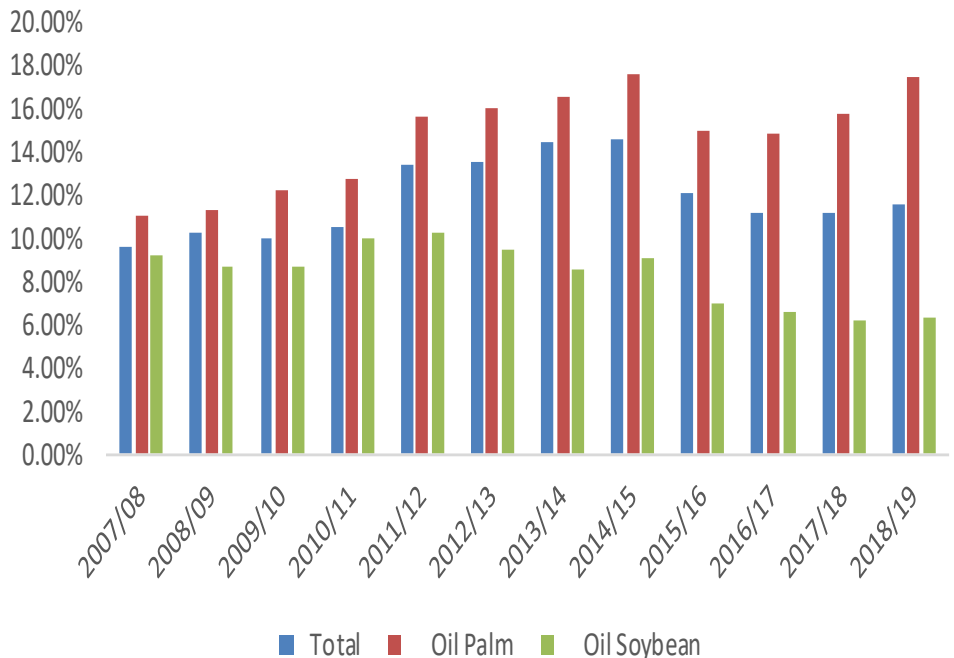
**Softs** – Soft futures are varied this morning, with nearby global sugar down 8, cocoa up 16, and coffee down 35. On Wednesday, nearby global sugar (#11) futures were in positive territory for the fifth straight trading day and hit the highest level since July. The Brazilian real continues to find support against the greenback, and if this currency trend persists, it would equal fewer U.S. sugar imports. Like coffee, the global sugar market may have set a long-term bottom last month.

**Energy** – Energy futures are mixed this morning, with nearby crude oil up 5, natural gas up 3, diesel down 63, and gasoline down 30. Yesterday, nearby RBOB gasoline futures were in positive territory for the fourth time in the last five trading days, rising 4 percent in that time. The EIA's most recent weekly national retail average was \$2.947 per gallon, the highest in 20 weeks and up 9.9 percent from a year ago. Still, history suggests that gasoline prices could seasonally peak sometime this month.

**Speaking of Statistics** – As noted in today's Grains section, nearby soybean-oil futures rose to a three-month-plus high yesterday. But it's hard to find fundamental drivers for such a move except that product is historically low priced for buyers. World palm-oil futures remain fairly low, and the value of the Malaysian ringgit is depressed as well. Add to this that world food-oil supplies are projected to expand with the 2018-19 crop year and it's easy to think that the upside price risk is limited.

**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: [JDalton@arrowstream.com](mailto:JDalton@arrowstream.com) or call 941-315-9989.

### USDA World Food Oil Available Supply



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2018 Fourth Quarter Pivots	Key Support Levels (Bearish Territory)					Key Resistance Levels (Bullish Territory)					
Grey highlight = Price level hit this Qtr	Current								2018 YTD	2018 Spot	2019 Spot
	Price	S3	S2	S1	Pivot	R1	R2	R3	%	Forecast	Forecast
Corn (ZC)	3.658	2.640	3.090	3.320	3.530	3.770	3.980	4.430	4.3%	3.422	3.644
Soybean Oil (ZL)	0.295	0.237	0.260	0.273	0.282	0.296	0.305	0.327	-10.8%	0.296	0.324
Soybean Meal (ZM)	307.5	228.0	271.8	288.6	315.6	332.4	359.4	403.2	-1.6%	349.5	358.8
MN Wheat (HRS) (MW)	5.885	3.200	4.470	5.100	5.740	6.370	7.010	8.280	-4.2%	5.423	5.657
KC Wheat (HRW) (KE)	5.220	2.210	3.710	4.410	5.200	5.900	6.690	8.180	22.2%	4.942	4.981
Chicago Wheat (SRW) (ZW)	5.183	2.770	4.000	4.550	5.240	5.780	6.470	7.710	21.4%	4.847	4.864
<b>Dairy</b>					<b>Pivot</b>						
Cheese Blocks (C4Y2000)	1.670	1.220	1.430	1.560	1.630	1.760	1.840	2.040	8.4%	1.612	1.735
Cheese Barrels (C3Y2000)	1.385	0.570	1.000	1.190	1.430	1.620	1.860	2.290	-4.0%	1.520	1.694
Cheese Futures (Nearby) (BJ)	1.617	1.190	1.400	1.530	1.620	1.740	1.830	2.040	-1.8%	1.586	1.672
Butter (Spot) (CSY2000)	2.330	1.860	2.080	2.200	2.290	2.420	2.510	2.730	5.5%	2.231	2.119
Butter Futures (Nearby) (BD)	2.312	1.980	2.130	2.200	2.280	2.360	2.440	2.590	3.8%	2.238	2.274
<b>Beef</b>											
90% Beef Trim	1.935	1.440	1.740	1.830	2.030	2.120	2.320	2.610	-8.9%	2.154	2.146
50% Beef Trim	0.426	0.063	0.125	0.250	0.610	0.797	1.157	1.703	-32.2%	0.749	0.758
Choice Ribeye (USDA-Primal)	3.725	2.010	2.730	3.200	3.440	3.910	4.150	4.860	21.3%	3.517	3.386
Choice Tenderloin (USDA-Primal)	2.581	1.770	2.260	2.420	2.750	2.910	3.240	3.730	-2.2%	2.845	2.729
Choice Beef Chuck (USDA-Primal)	1.647	1.350	1.520	1.590	1.700	1.770	1.880	2.060	-6.5%	1.744	1.697
USDA Choice Bxd Beef Ccutout	2.044	1.860	1.970	2.000	2.070	2.110	2.180	2.290	0.7%	2.127	2.047
<b>Chicken</b>											
ARA Chicken Breast Index (USDA)	0.967	0.305	0.702	0.848	1.099	1.245	1.496	1.893	-8.9%	1.128	1.257
ARA Chicken Wing Index (USDA)	1.527	1.198	1.361	1.469	1.523	1.631	1.686	1.848	-10.5%	1.533	1.653
ARA Chicken Tender Index (USDA)	1.405	0.660	1.100	1.250	1.550	1.700	1.990	2.440	1.6%	1.560	1.660
Large Shell Egg (USDA Avg SE, NE and MV)	1.090	0.180	0.690	0.860	1.200	1.370	1.710	2.220	-33.9%	1.400	1.259
<b>Pork</b>											
Belly (USDA- Primal)	1.230	0.084	0.168	0.678	1.206	1.716	2.244	3.282	-24.6%	1.100	1.261
72% Pork Trim Combo	0.612	0.216	0.422	0.558	0.627	0.764	0.832	1.037	3.4%	0.599	0.586
42% Pork Trim Combo	0.476	0.068	0.135	0.271	0.534	0.781	1.044	1.554	16.5%	0.359	0.328
USDA Pork Cutout	0.804	0.332	0.552	0.676	0.771	0.896	0.991	1.211	-11.4%	0.730	0.800
<b>Softs</b>											
Coffee (Arabica)(KC)	1.061	0.630	0.830	0.930	1.030	1.130	1.230	1.430	-15.9%	1.187	1.374
Sugar #11 (SB)	0.122	0.063	0.097	0.099	0.111	0.123	0.135	0.159	-19.8%	0.119	0.136
Sugar #16 (SD)	0.252	0.228	0.242	0.248	0.256	0.262	0.271	0.285	-6.5%	0.256	0.253
Cocoa (CC)	2,034	1111	1670	1863	2229	2422	2787	3347	7.5%	2386	2447
Orange Juice (OJ)	1.465	1.010	1.280	1.380	1.550	1.650	1.820	2.090	7.7%	1.538	1.445

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**About ArrowStream:** Founded in 2000, ArrowStream is a foodservice supply chain technology company that helps clients capitalize on data to improve their business. ArrowStream serves hundreds of chain restaurant operators, distributors and food manufacturers with a single platform that optimizes supply chain efficiency, enhances sourcing programs and improves food quality. [www.ArrowStream.com](http://www.ArrowStream.com)

David Maloni, Executive Vice President of Analytics at ArrowStream and founder of the American Restaurant Association, is the chief author of *ArrowStream's Maloni Report*. David's commodity market expertise has been featured on ABC News, Bloomberg, *Forbes Magazine*, CNBC, and *USA Today* plus numerous industry publications.