September 2016 Monthly Commentary

Harvest is underway in the US with about 25% done nationally as of the beginning of October. Early yields have been very high (as in 'statistical outlier' high) for soybeans and reasonably high for corn. This report will focus mainly on beans, because the corn market seems to be one of huge supply, strong demand, but adequate to burdensome supplies until at least next fall. The demand will keep a bid in the market to keep corn moving, but the prospect of a large carryout next summer should provide resistance on rallies. There is not much more to say.

Regarding soybeans, fundamentals are shifting again. We began the month of September with most forecasting national soybean yield in the 49-50 bpa range, but we ended the month with projections trending up towards 52-53 bpa. Despite this massive increase (keep in mind at one point, forecasts were in the 46-47 bpa range), soybean futures actually moved higher in the month of September.

Was this rally due to increased demand? No, USDA and the market both seem to have finally caught onto the improved US demand prospects. Were cash markets overly strong? No, gulf cash markets plummeted nearly 40 cents during the month. Time spreads, which are generally a telling sign of the health of a market, were much weaker, with Nov16-Nov17 losing 30 cents through the month. Why, then, were futures higher? That is a tough question to answer. It seems to be tied more to technical considerations (Nov futures pressed down to the 930-940 area 3 times during the month but could not punch through), and a general lack of confidence by fundamental traders. Many traders were burned being short early this year due to South American production problems and then burned again being long this summer due to record US production. Thus, the speculative desire to sell an increasingly bearish market is much less than it normally would be. We share this feeling.

Despite all of this, we must look forward. Soybean fundamentals look to be as negative today as they have looked for at least 5 years. While South America did lose about 10 MMT of production in the spring, US production should be nearly 15 MMT higher than we thought it would be just a couple months ago. Further, world meal demand has been impacted negatively by cheap world feed grains. While we once thought world and major origin soybean stocks could decline year-on-year, we now look for a considerable increase. The one major caveat to this idea is that the market will begin to look at South American production closer as we move forward. Current prices are not overly attractive to South American producers, and weather is still an unknown. Given that trade frequently has a one-year memory, the market may maintain some risk premium until we get through more of the South American growing season. With that being said, pure fundamentals look more bearish than they did last fall when futures dipped down to $8.50 and remained under $9 until the following calendar year. I think this is a reasonable target for January futures, suggesting $0.75 to $1.25 of potential downside. As harvest ramps up, if these yields hold, and if USDA confirms these big yields, I'd anticipate a gradual decline in prices towards $9 or so. If yields decline, futures may go nowhere in a wide, choppy range.

The bottom line is that burdensome world grain supplies and solid US production of both corn and soybeans should continue to weigh on rally attempts. If yields hold, soybean futures should have downside. If yields do not hold, strong demand can provide support. We need to keep a close eye on production as harvest expands throughout the month.

Regards,

Mark Ditsch

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