

August 2018 Monthly Commentary

Summer is shifting into fall and the US is set to harvest a very large fall crop of corn and soybeans while still in an ongoing trade war with China, by far our most significant bean destination. The market finally seems to be accepting and understanding that the US is about to go through a fall season of exports without their primary buyer.


This will have major implications on the soybean balance sheet, which over time is likely to spill over into the other markets as well. Soybean exports in the first quarter of the marketing year (Sept/Oct/Nov) could fall some 300 million bushels lower than last year, pushing Dec 1 soybean stocks as much as 700 million bushels (nearly 20 MMT) higher than last year. South American production is expected to increase next spring. This sets in motion the likelihood that US soybean acreage needs to drop dramatically in the US in 2019. This acreage would be expected to shift primarily into corn, but some into wheat and other grains as well.

Clearly the soybean balance sheet is bearish. Futures have dropped significantly, but harvest has barely started. I expect more downside in soybean futures, with soybeans ultimately 'running away' from 2019 acreage provided there is no progress between the US and China.

World grain balance sheets are more friendly, but there are a few reasons I don't expect a major rally. First, US corn production is expected to be very large. Second, while US corn (and ultimately wheat) exports should gain from shortfalls in production elsewhere in the world, even with that added demand balance sheets look more 'snug' than 'tight'. Third, due to the acreage implications mentioned above, the corn and wheat balance sheets are looking at a potential surge in supply in 2019. This could squash any tightness quickly – obviously assuming normal weather.

The bottom line is that I expect soybean futures to work lower in coming months. I expect corn and wheat futures to lag any breaks and lead any rallies as the world balance sheet tightens. However, despite a solid demand outlook, corn and other grains may struggle to maintain rallies as long as soybean futures keep working lower. Even if 18/19 corn carryout gets a bit snug, the market knows corn acreage is likely to expand significantly next year.

Regards,



Mark Ditsch

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