January 2019 Monthly Commentary

January 2019 has, as a friend put it, mercifully come to an end. The ag markets have not made a fundamental move in quite some time, but I do believe markets are setting up for some interesting moves in coming months.

The South American soybean crop has suffered from dry weather recently, bringing production estimates lower. The market tried to latch onto this a bit, but the continued trade dispute with China, overall slow Chinese demand driven by swine flu, and overly burdensome world stocks kept things in check. Overall, the decline in South American production does not appear to be enough to significantly change the world fundamentals.

Late in the month, there was another 'good-will' Chinese purchase of US soybeans, believed to be another 5 MMT for spring and summer months. This, however, is more of a musical chairs change than any fundamental change – it is simply pushing China to buy more from the US and the Rest of the World to increase their South American purchases. Even though China has now bought about 10 MMT of US soybeans for January through August shipment (approximately 1.3 MMT shipped in January), this is still far below the nearly 30 MMT China took from the US last year – and probably would have taken again this year without the trade war. Despite these 'good-will' purchases, I am forecasting US exports to finish under 1.7 billion bushels vs. the latest USDA estimate of 1.9 billion bushels, resulting in record ending US supplies (by more than double the previous record) come harvest time this fall. The market continues to ignore this – partially because the US farmer has been willing to carry the inventory and thus its not pressuring the market – but these farmers are likely to grow increasingly nervous as they plant the 2019 crop and begin to consider fall storage needs.

One change that I see developing is that corn and wheat futures are looking potentially more bullish. I have talked for months about how current market fundamentals are sending the wrong signal to the US farmer. Soybean futures are priced high enough relative to corn to keep US soybean acreage nearly unchanged this year, despite corn likely needing more acreage and soybeans needing less. This is happening as US farmers are finalizing their planting decisions for 2019. I expect corn futures to strengthen relative to soybeans, and if it happens too late to make a dent in the planting decisions, the price relationship may intensify. I'd expect wheat to follow corn due to world demand substitution, along with tightening global wheat supplies. While I still believe the relationship between corn and soybean futures is likely to adjust more via soybean prices going down – it could happen partially via stronger grain futures as well.

Regards,

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