

April 2019 Monthly Commentary


Ag futures finally broke down in April. Wheat futures led the decline, with MN down 12%, KC down 10%, and Chicago down 9% on the month. Soybeans dropped 5% with meal and oil each down 3%. Corn was the relative darling, losing only 1%. Corn losses were tapered somewhat by poor US planting weather.

These bearish fundamentals have been brewing for months on end. The combination of the trade war/tariffs with China, ASF in China and expanding into other parts of SE Asia, and generally big crops around the world is pushing world stocks to burdensome levels. More specifically, the tariffs and ASF in China lowered Chinese soybeans to significantly lower levels than earlier projected. This, in turn, pushed the US and other countries to increase corn/grain planted area simply because the world couldn't take any more soybeans. So now, the world is set to produce too much grain and too many soybeans and prices are finally reflecting the surplus reality.

I do think prices in general could begin to find some footing at these much lower levels. Corn should be the first to grab. US corn planting weather has been generally poor. Bad planting weather in April is more of a nuisance than a major problem, but cool and wet conditions into at least the middle of May suggest it could become a more significant problem. Corn acreage could easily drop by several million acres if the wet weather persists. We will know more in a couple of weeks, but there is a chance that planting delays could reach historic levels in May. The problem - of course - is that world surpluses and slower demand have such a buffer that it may take a very significant planting/weather problem to create any tightness. Weather throughout the month of May will be critical to price direction. Some potential weather issues in wheat production areas can also make grains potentially less bearish. Stay tuned.

Soybeans are going to face a much more difficult path. Some of the corn acreage lost will go to Prevented Planting where the farmer will collect insurance, but some will also switch to soybeans because they can be planted much later than corn. So this combination of potentially larger soybean acreage along with larger South American production and declining world demand suggests world soybean stocks could balloon even further over the next 6-12 months. Soybean and soy product futures should continue to decline relative to corn/grains over the next several months, but the downward outright acceleration may lose its steam at these lower levels.

Regards,



Mark Ditsch

May 2, 2019

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