

June 2019 Monthly Commentary

June ended with more questions than answers following a shocking USDA report on the final business day. USDA reported corn acreage nearly 5 mln acres above trade expectations while projecting soybean acreage nearly 5 mln acres below trade expectations. Trade was prepared to 'not believe' this report due to a record slow planting season leaving much more acreage up in the air than normal, but the actual combined acreage pie of corn plus beans came in very close to expectations. In other words, total corn+soybean acreage was expected to be trimmed by about 5.5 mln acres and it was indeed trimmed by about 5.5 mln acres. The shocker was in the distribution. This report, for those who choose to believe it, basically told us that as early June US farmers had indeed lost some acreage to historic flooding/wet/cool weather, but it also told us that farmers were doing everything in their power to maximize corn acreage and minimize soybean acreage. The most logical reasons behind this general shift in farmer mentality counter to common reasoning (weather would suggest more beans and less corn) were a) the price relationship that favors corn production, and b) the fear (especially in areas highly dependent on soybean exports) that US/China trade disputes may not be resolved for another year and soybean basis levels could be very weak again in the 2019/20 marketing year.

As has been the case for most of the past year, however, the June acreage report left more questions than answers. There is a contingency that still very firmly disagrees with the distribution, particularly in the ECB. They will further point out that with so much acreage unplanted in early June, the shift to soybeans was not properly reflected and that will be caught in the special acreage survey coming up next month. Further, corn basis in the ECB has firmed tremendously over the past month or so, despite historically high corn stocks to end this marketing year. The farmer in the ECB has stopped selling corn, with many now suggesting that the farmer knows his corn acreage and/or yield won't be any good this year, so he's holding old crop for better values. At the same time, some ECB end users are panicking. How much of this corn basis upswing is caused by producer greed and end-user fear vs. how much is a legitimate concern remains extremely unclear, but it has supported corn futures and spreads here in the early days of July.

On the other hand, weather has improved significantly in July and condition ratings should be expected to improve in coming weeks. Further, although we remain quite convinced that acreage will go down from the June estimates, it does seem as if farmers were aggressive in planting soybeans in very late June and very early July as the weather pattern changed. This is bearish in my opinion. Further, as reported in previous reports – US demand remains extremely slow (especially for corn) due to increased worldwide stocks and competition.

The bottom line - much is very cloudy. From here on out, weather will have a bigger influence than normal. Corn yields will be much more susceptible to weather than in normal years, and could range anywhere from a disaster to near trend. Soybean yields are probably not in quite as much danger, but the same applies to a lesser extent. Given the larger acreage and the poor world demand – markets look to have some near-term downside to them, particularly corn from these elevated levels. However, once again, stay tuned to all weather developments.

Regards,



Mark Ditsch
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