

August 2019 Monthly Commentary

Crop conditions slowly improved as the world trade situation between the US and China soured throughout the month of August. This, along with a general 'sell ags' mindset from the managed money community, combined to push corn, wheat and the soybean complex down towards or through contract lows. It really has been an amazing turn of events given the massive flooding and late planting that occurred in the US this year.

On the demand side, the common belief has been that demand is slow. With China no longer willing to buy US ag commodities and struggling with hog disease, total Chinese demand and China's pull from the US is, indeed, a negative weight. US corn exports have reached historically poor levels due to increased world competition. US corn demand should gradually ramp up late in 2019 and into 2020, but soybean/meal demand is even more interesting. A few stats: 1) US domestic meal demand reached an all-time record in July, not only for the month of July but for any month ever. Slower ethanol grind has led to increased meal use for domestic feed. 2) August US soybean exports will reach a record level, not only for the month of August but for any month in the 7-month seasonal from March through September (they should reach 175-180 mln bushels, previous record was 165.5 mln bu in Sept 2017). China is buying up the South American beans (due to the US tariffs), pushing South American basis levels about \$1 above US. Since world meal prices are equal for everybody, this has pushed South American replacement crush margins to negative levels, and will increase demand for US meal. As China continues buying beans from South America, South American crush will slow and world meal supplies should tighten in OND 2019 and into JF 2020.

From a soybean supply side, weather has clearly improved but acreage is down 13 mln acres and production is likely to fall by 20-25% (or about 1 billion bushels down), with pod setting at a record slow pace heading into September. Despite all of this, prices are hovering near contract lows. Last year, with projected carryout nearly 500 mln higher than this year – soybean prices struggled to stay under \$9. This year, with supplies tightening significantly, soybean prices are struggling to stay over \$8.50. . I think there is considerably more upside in soybean and meal futures than there is downside risk. Obviously, nobody can predict when the bottom will be reached, but I feel we are getting close.

Corn is pretty tame at this time. Prices are hovering around levels at which we were trading at the same time in previous years, with remarkably similar carryout projections. Corn is a prime example of shattered dreams after the early season flooding. Quite simply, farmers kept planting corn until they couldn't plant anymore, and that led to a decrease in bean acreage from the flooding rather than a decrease in corn. Wheat prices are very beat up, with nearby KC making new lows for the decade. I don't really feel there is any edge in wheat at this time either.

Regards,



Mark Ditsch
September 9, 2019

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