

December 2019 Monthly Commentary

Markets focused a bit more on the fundamental agricultural picture in December. After breaking hard in November, markets generally regained losses and pushed higher in December. Soybean oil led the charge higher with soybeans and wheat also posting solid monthly gains while corn and soybean meal lagged but still closed higher on the month.

The recent rally in soybean futures places them at a level that is probably more 'fairly priced' given current market fundamentals. The China/US trade situation is seen as improving, with both sides indicating they would like to sign off on Phase 1 of the deal. Numerous reports have circulated that China will increase buying of US ag products, which obviously would improve US soybean demand the most. However, to counter-balance this, while South American weather suggests some issues in some isolated areas, overall weather has not been overly threatening. If anything, South American production estimates have been inching higher on general lack of threatening weather outside of RGDS. This has Brazilian exporters hungry to make sales February forward. Unless China buys US beans uneconomically to boost their imports from the US, the US export window should close rapidly after January/very early February provided normal harvesting weather. Argentine farmers on the other hand have reduced sales due to higher export taxes. This could ultimately support soybean product values. Finally, USDA will provide their final 2019 US crop production estimates and December 1 stocks this week. If anything, expect that they could report small to modest reductions to both yield and harvested acreage, lowering production accordingly.

There are a lot of unknowns going forward (China/US trade relations, Chinese crush and import pace, South American production, South American farmer selling pace, US production, US 2020 acreage, etc.), and all will need to be watched closely. While soybean futures have rallied to a more suitable mid-point level, I still believe the general trend to soybean and soybean meal futures could be steady to higher given that Chinese crush seems to have bottomed and now is showing signs of increasing and world soybean stocks appear to be going lower with current assumptions. However, it could be more of a back-and-forth market in the near-term.

Corn futures have lagged with slower US export demand than hoped for. As South American corn exports slow, many had projected/hoped for an increase in US corn exports beginning in January 2020. While sales are clearly picking up somewhat for February forward, demand has not been overwhelming by any means. The later and slower pickup in export sales has weighed on US corn cash markets. On the other hand, corn could potentially be impacted even more than soybeans in the final USDA 2019 US production report this week. The late harvest will likely reduce both yield and harvested acreage. As of the end of 2019, North Dakota had amazingly still only harvested 48% of their corn crop. South Dakota had only harvested 90%. Michigan reports considerable corn still in the field to be harvested in 2020. This, combined with a slowly increasing export market should support corn futures with nearby futures potentially able to push over \$4. Finally, wheat cash markets have been incredibly firm and remains well above DVE. Expect wheat spreads to continue to firm/invert at least until 2020 harvest.

Regards,



Mark Ditsch
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