

## February 2020 Monthly Commentary

More and more Ag fundamentals are beginning to point in the same direction – suggesting lower Ag commodity prices over the next 6-12 months, or potentially longer.

Obviously, the coronavirus outbreak and its impact on world economies is getting the headlines. That is a factor, but only one of the many factors that point towards lower markets. While nobody knows the potential threat from this new virus, we do know that it is slowing down world travel (with some companies banning International business travel until further notice), and less travel means less eating out, less consumption of meats (fed by grains and soybean meal), and other products (that use wheat and vegetable oils). Obviously, the saying ‘people have got to eat’ remains true, but I do believe growth in world demand for our products is going to be much lower than it would be without this virus.

Reduced growth in world demand is the last thing our markets need right now. World supplies of basically everything seem to have bottomed with my projections showing world stocks, with normal weather, will now balloon to all-time highs over the next 12-18 months. South America is in the process of harvesting a record crop right now. US stocks of corn and soybeans tightened somewhat by the less than ideal weather last year that reduced acreage and also reduced yields. However, my numbers suggest that while US and world stocks as a percentage of use are somewhere in the middle of the past 20-year range, both will balloon to record levels following the big South American harvest and much larger US production with normal weather.

World currencies are also a bearish influence. The Brazilian and Argentine currencies continue their historic plummet. This is having a different impact on marketing from each country. In Brazil, the Brazilian farmer is aggressively selling his crop, locking in huge profits with soybean prices in terms of their currency soaring to record levels. These farmers are able to lock in huge profits because the inputs were bought with a much stronger currency. The Brazilian farmer is aggressively selling not only the 2020 crop that he is currently harvesting, but also the 2021 crop that won't be harvested for a year. Why? Because a portion of the inputs for next year's crop were also locked in with a much stronger currency, thus he is locking in big profits out there too. The Argentine farmer is taking the opposite approach. Their currency has been in freefall for quite some time now, so they know they do not want to hold too much of it. They see their soybean crop as a ‘store of value’. They are also protesting another 3% increase in the soybean and soy product export tax, from 30% to 33%.

The US farmer is also hoarding a historically large percentage of his 2019 crop. However, it is interesting when looking at the world numbers – the massive Brazilian selling is basically enough to satisfy most of the world demand for soybeans and meal not just for now but through the summer. The world does not need big selling from the US and Argentina. I have a feeling the US and Argentine farmers are going to be selling lower prices later. At least the ARG farmers are likely to have a lower currency to offset. The US farmers will likely not be so lucky.

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The US farmer hoarding is having an impact on US domestic markets. Despite ample to almost burdensome total US stock levels of both corn and soybeans, US domestic markets are having a difficult time buying enough from the farmer. Because domestic corn demand makes up a much larger portion of total use than soybeans do (a much higher percentage of soybeans are exported), corn spreads are actually inverting to try to draw movement. Beans, on the other hand, just lose the entire export market and there still seem to be enough moving (although tight) to supply the domestic market. There is a saying that farmer hoarding is bullish until it is bearish, then it is very bearish. I think that is what we are going through now. The farmer will eventually have to sell, and forward balance sheets suggest prices will need to 'find' more export business for both corn and soybeans in the 2020/21 marketing year. That will not happen at current prices. I expect prices to gradually work lower until the US can be a legitimate supplier into the world market for both corn and soybeans – rather than the residual supplier we have been for most of this marketing year. For 2019/20, I am currently projecting soybean exports at 1525 million bushels, some 300 million below USDA. Despite my higher 2019/20 crush projection, my 2019/20 carryout projection for soybeans is 685 million bushels – 260 mln higher than the USDA projection. My 2020/21 US soybean carryout projection balloons to 780 mln bushels assuming normal planting and growing weather. My corn projections are even more burdensome. I am currently projecting 2019/20 corn exports at only 1600 million bushels, 125 mln below USDA. My 2020/21 US corn carryout projection explodes to 3.3 billion bushels with normal weather.

I didn't even get into world stocks – that is a topic for another day – but they should also grow to record levels. Prices will eventually need to go to a level at which the US can do more export business, but that may not be until 2020/21. The reluctant farmer selling in the US will produce some bounces in price, but my feeling is that bounces should be sold. I expect a long slow grind lower in prices over the next year.

Regards,



Mark Ditsch

March 6, 2020

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