April 2020 Monthly Commentary

COVID-19 continues to be the dominant force driving ag commodities. Initially, there were fears of supply constraints from origin countries, but most origins have deemed ag exports to be an essential business needed to help economies that in many cases have been devastated by the virus. Thus, the losses in demand have kicked in as the predominant impact of COVID-19. Ag commodities have generally been in bear mode accordingly. High world stocks of most major commodities and the implosion in energy prices have further contributed to this trend.

Corn futures have been hit hard by significantly reduced ethanol demand. Despite low exports, US stocks of corn have not ballooned this marketing year due to the lower production last fall and reasonably strong domestic demand to date. However, the plunging of ethanol demand (and overall weakness in energy) combined with good planting weather for the new crop have pushed corn to contract lows. The balance sheet for the new crop 20/21 marketing year looks ugly. With trend yields and even assuming ~3 million acres switch from corn to beans from the March USDA intentions report, production should reach about 15.5 billion bushels. Domestic demand for the new crop could be somewhere around 12 billion bushels even with higher feed/residual demand due to the poor ethanol demand, especially in the front end of the marketing year. This leaves ~3.5 billion bushels for some combination of exports and an overall stocks increase. Even if exports strongly exceed past years (they should) and reach 2.4 billion bushels, US stock levels would increase by over 1 billion bushels to a record level over 3 billion bushels. Quite simply, the corn balance sheet is ugly and a weather problem is probably needed to address this.

Soybean futures have also been hit hard by COVID-19, but they have held up somewhat better than corn, with futures remaining above contract lows in recent weeks. The demand for both soy products is being hurt by the virus. Soybean oil is suffering from reduced biodiesel and food use demand, while meal is suffering for the first time domestically from reduced animal numbers. If soybean acreage increases 3 million acres (at the expense of corn), ending 20/21 US soybean stocks probably remain about steady year on year – between 600-700 million bushels. This is a historically high level, but not as high as corn, obviously.

That is the bad news. There is a bit of good news. Corn and soybean futures are 'low', and may be pricing in high stock levels already. The US farmer has become a very reluctant seller of both (but particularly soybeans), making available stocks much tighter than total stocks. Soybean basis levels incredibly remain near DVE despite the high overall stock levels. South American farmer selling (esp Brazil) has been massive due to weak currencies putting their price levels near all-time highs in terms of their local currency. However, Brazil has been exporting soybeans so aggressively that their export surplus is nearly sold out now until new crop (beginning in February 2021). Brazil will continue to ship soybeans aggressively through June, but then it should taper off from July through October and be minimal in November through January. The US will have an export window for soybeans, and quite simply prices will need to encourage US farmers to sell. If crops are near trend, this may not be a problem as US storage space will be taxed. On the other hand, farmers and commercials probably opt to pile a record amount of sub-$3 cash corn on the ground, easing this storage space somewhat. Corn exports should increase significantly in the 20/21 marketing year, particularly January through May when the US soybean exports ease up and competing origins tighten up on corn. Further, corn is very cheap relative to wheat – suggesting world corn imports for feed use should increase significantly as destinations use their wheat for milling and import more corn for feed. It may not be enough to tighten the balance sheet, but at least demand will improve.

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The bottom line is that balance sheets look ugly, but flat price levels are already at very low levels. From these levels, I expect prices to follow US weather and perhaps become more two-sided. Soybean futures – while probably not headed to $10 – could push back up towards $9 to encourage farmer selling. Meal should be the stronger of the two soy products with soybean oil in trouble due to reduced biodiesel and food demand. Wheat has the most intriguing S&D, but wheat prices are now very high relative to corn. That will reduce worldwide wheat demand and suggests that wheat prices from here should struggle a bit without a bigger problem in world wheat weather.

Regards,

Mark Ditsch
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