October 2020 Monthly Commentary

Ag markets pushed steadily higher for most of the month of October before setting back and giving up some of the gains late in the month. Tightening US and global balance sheets were the biggest story, and that should continue as we push into November.

US harvest is wrapping up, and later yields have clearly backed off from early yield results. This should result in lower production estimates from USDA in their November report. At the same time, world and particularly Chinese demand continues to exceed expectations. Further, South American supplies have tightened up – in Brazil because they shipped so much early, and in Argentina due to the currency crisis that has forced Argentine farmers to hoard their production as opposed to selling and taking their local currency in return. All of this has pushed the majority of world corn, soy, and soy product demand to the US for the next several months – at least. US and world stocks are tightening due to this combination.

With all of this being said, it does appear as if US pipelines have finally caught up with this record demand. US farmers sold a big chunk of their crop at these higher prices – much higher than they feared for most of the year. Cash markets worked into inverses which encouraged commercials to move their ownership aggressively. With all of this movement nearby, I am beginning to think that the tightness really shows up in 2021. While the farmer sold aggressively early, enough to satisfy SOND demand, it will be difficult to get them to reengage without a further rally.

I do believe corn, soybeans, and soybean products have a bullish fundamental outlook for the foreseeable future. Markets will need to encourage at least 6 mln additional soybean acres even if South American production is as good as anticipated. At the same time, corn can't afford to give acreage up. That means encouraging a higher total acreage pie. Higher wheat acres in many areas further complicate these issues.

The bottom line is that I expect higher corn and soy prices over time. Wheat may be more of a follower. With that being said – I do think the next big move may hold off until 2021, especially with world buyers now bought up at least until the early part of 2021. Until then, markets are probably choppy with a general higher trend.

Regards,

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