

January 2021 Monthly Commentary

January was a wild ride, with ag futures pushing to new highs, collapsing to down on the month, then rallying back to finish at or above the mid-month highs. Corn was the winner for the month, finishing near those highs – while meal was the loser, finishing up only very slightly on the month.

The US made consistent and surprisingly large corn sales to China throughout the month of January. While corn export shipments have been modest at best, all signs point to record months March through August, once the bean program winds down. Outstanding sales suggest a 3 billion bushel export program could be possible. Even if we can't get quite up to 3 billion, it's become quite clear that USDA is just too low with their current 2.55 billion bushel estimate. To put into perspective just how strong the corn export program is – the current record export volume is 2.438 billion bushels shipped in the 2017/18 marketing year. This record will be broken, the only question is by how much. In addition to perhaps 4-500 million additional exports versus the USDA projection, both their feed and ethanol forecasts could be marginally too small as well. This suggests a carryout near 1 billion bushels, or only about a 7% stocks to use ratio vs. USDA current projection near 11%. Rationing will be required later in the marketing year and some areas will simply run out of corn. The rally is justified. This rally in corn has spilled over to wheat. As the spread between corn and wheat narrows, wheat has to be careful not to become a 'feed grain'. Expect wheat to reluctantly follow.

Soybeans have had a tougher time at these new higher levels for a few reasons. First, weather in South America has improved. We had stated a few months ago that the soybean market was a demand-driven market and it was very, very bullish with a poor South American harvest, or just very bullish with a good harvest. It appears as if South America will have solid production. Estimates for Brazil are moving up to the 132-136 MMT range (USDA is 133), and Argentina is mostly in the 47-50 MMT range (USDA is 48). This has put a bit of doubt into the market. However, even with these production levels, world demand has been strong enough for us to project a 20/21 US carryout near 0. US exports set a record in December and again in January, and look to do the same in February. While Brazil production is expected to be a record, they have virtually no carryin stocks and their harvest is late. They barely loaded anything in January and February will get off to a slow start. This will keep US exports stronger than normal through the month of February. Further, some countries that prefer US beans have already locked in some summer needs from the US, and China and others have begun buying larger quantities of August US beans (because Brazil is expected to be past their big push by then). August is obviously still old crop in the US, so these sales – along with ongoing record US crush rates and solid meal demand – look unattainable in the end. At some point, the market will be forced to either slow US crush or force these spring/summer US export sales to switch to Brazil. This only happens via higher futures prices and lower Brazilian premiums in my opinion. While soybeans seem to be looked at with more caution by most now, I would argue the fundamentals are stronger than ever, and a push to new highs will come again in coming months. I feel soybean futures have the most to gain from current levels.

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There is also an interesting acreage battle developing for 2021 in the US. Tight US and world stocks suggest the US will need to plant some ~10 million acres more of corn and beans combined than they did last year. This is not easy to achieve. Current prices seem to indicate soybean acreage may be only near 87 million acres, with a bare minimum of 90-92 million acres needed to supply the world. Corn needs at least 92 million acres or maybe more. Stay tuned, but this spring and summer weather will be watched closer than ever, it could get very intense. It looks like we will have some good markets to trade for the foreseeable future.

Regards,



Mark Ditsch

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