December 2021 Monthly Commentary

Dryness in Southern Brazil and Argentina have taken front stage in our markets. Parts of southern Brazil have set records for lowest rainfall amounts over the past 1-2 months. Argentine dryness is less of a concern in that crops are not very far along, but the area covered is larger. The parts of southern Brazil that are farthest along have almost certainly lost production already, and this extends into Paraguay. Extreme southern Brazil and Argentina have more time to recover, but forecasts continue to call for below normal rainfall. If this dryness continues, crop production ideas will continue to decline.

Parana (in southern Brazil) and Paraguay have almost certainly lost production, with estimates in the 5-7 MMT range for these areas combined. Extreme southern Brazil and Argentina are less clear, but looking at the forecast, they may have lost another 6 MMT each. This will likely be somewhat offset by increased production in northern Brazil, but it still looks as if the USDA, at current 'mid-point' estimates may be at least 10-12 MMT combined for all of South America (5-6%). If dryness persists this will continue to climb.

World soybean stocks have been increasing over the past 12 months and were poised to increase again over the next 12 months. However, the production shortfall in South America is likely to pull stocks down by 7-9 MMT vs. earlier projections of a 2-4 MMT increase. This is a reasonably significant swing. When one looks at 3-country (US/Brazil/Argentina) stocks, the decline is likely to be even more prevalent because much of the increase in world stocks over the last several years has been due to Chinese stockpiling.

It is important to remember that soybean futures spent much of early 2021 in the $14 range. This was with what now appears to be looser 3-country and world fundamentals than we are now looking at for 2022. It was also with lower priced corn and grain prices. Throw in worldwide inflation concerns (and with producers and speculators seemingly ready to fully buy into these ideas) and the overall suggestion is that soybean futures have more upside. Additionally, crush margins are extremely elevated at this time, encouraging more crush and suggesting beans catch up to products at some point.

The crosswind against these price ideas is that US carryout is probably growing, or at the very least it will feel that way for the next several months. Higher prices are encouraging South American producers to sell more early harvested soybeans. Obviously with lower overall production, the US will become competitive again at some point, but that may be late summer or it may not be until the fall. If South America aggressively ships beans all summer (which is possible), US 21/22 carryout will increase, but the backside of this story is that US exports would be poised to be record high in 22/23. This combined with new crop soybean futures not fully keeping up with new crop corn futures suggests SX22 forward could ultimately have the most upside potential – obviously depending upon ultimate US acreage and growing weather.

As for corn and wheat – prices have appreciated quite easily on inflation and world stock concerns along with strong domestic corn demand. South American weather will obviously impact corn production as well, but South America's percentage of world corn production is much smaller than soybeans. I think soy prices need to go up to 'catch up' with grain prices, and grains may continue to rally but more slowly and lag soybean advances.

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We are now in a weather market, meaning things can shift quickly. I will continue to keep a close eye on developments in coming months, but my bias at this time is that South American production ideas will continue to push lower and soy prices will push to new higher levels, despite an increasing US 21/22 soy carryout.

Regards,

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