January 2023 Monthly Commentary

Ag markets remained firm in January on South American supply concerns. A general lack of selling during a tricky transition between tight nearby stocks and more adequate supplies expected following South American record harvest also provided support to the soy complex. Heading forward, I feel there is potential downside in soybeans and soybean oil, with the move most likely beginning in February as Brazilian harvest ramps up and depleted pipelines are refilled.

South American production potential has been the focus of the market. Argentina and extreme southern Brazil remain in a drought situation. Much needed rains occurred late in the month to most likely prevent a disaster, but the market is not satisfied just yet. Northern Brazil is set to produce a record crop, with early yields even larger than expected. Wet weather has slowed harvest though, and that pushed additional old crop export business back to the US. As of early February, only about 10% of the Brazilian crop has been harvested vs. 16% in a normal year. It is going to take some time to refill depleted soybean and meal pipelines (3-country stock levels are the 2nd tightest since 2000), but the process has begun (as we move to more adequate mid-range stock levels post-harvest and towards the upper end by the end of 2023 with a normal US crop). Meal has the strongest fundamentals in the soybean complex due to dramatically reduced crush in Argentina in January and is expected until they can get into harvest in April/May. My general expectations are that crush margins will remain firm (as the Western Hemisphere just isn't producing enough meal, and even when they do the world will soak it up until pipelines are refilled), meal will gain on oil, and soybeans and the soy complex in general will peak in early February before turning lower into spring and summer.

Corn and wheat both seem fairly adequately priced to me at this time. As corn moves up towards $7, it tends to shut off world buying and spur farmer selling (the US farmer is well undersold on corn with considerable tonnage available on rallies). On the other hand, pullbacks towards $6.50 do the opposite – shut off farmer selling and promote some world demand. US export sales and shipments of corn have been very slow, but there are some signs of demand picking up for the spring and summer. But there just isn't enough showing to really promote a significant move. Further, fertilizer and input costs have been falling, suggesting a larger US corn production this fall. Thus, the tilt may be towards lower new crop corn prices, meaning the old crop tightness might be solvable by basis and spreads.

The bottom line is that my bias remains lower over the next several months, led by soybeans and soybean oil. The expected move is likely to be choppy (with several upswings) – providing opportunities if played correctly.

Regards,

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