December 2023 Monthly Commentary

Markets finally began to make some sense in the month of December. I still believe we are in the early innings of a bear market, provided weather at major origin countries cooperates.

The soybean complex led price declines in December. Weather in Brazil remains a bit of a mixed bag, and there are still some low production estimates circulating about. Weather is clearly improving in northern Brazil, but it is too late to reverse the damage done to the early soybeans. I will add that the Brazilian ag community (producers, etc. – generally bulls), has done a great job of marketing their problems via videos on social media. However, the market has gradually seemed to accept that even with a somewhat smaller Brazilian production level, world soybean stocks will likely build to record high levels and markets are bearish without a major supply issue.

One of the major factors that convinces me that the soybean complex has further downside is that both products – meal and oil – are increasingly working towards a lack of a bull story. Soybean meal got very tight in the 4th Quarter of 2023 due to a significant crush reduction in Argentina. Now, US crush is finally ramping up to full capabilities with new plants online and more to come. Meal did indeed get very tight in the US, and while the story may not be completely gone, South American crush is set to ramp back up as their 2024 soybean production hits. The US needs to export a significant amount of meal given increased crush. That was easy to do late in 2023, but will grow increasingly difficult in 2024. US soybean oil has been an island of high prices driven by biofuels demand, but increased US crush and higher use of substitutes such as used cooking oil being imported from China is now weighing on soybean oil prices.

Brazilian soybean production has likely taken a hit from the weather problems in Northern Brazil, but improving weather in the north and ongoing favorable weather in the south suggests production should still reach at least 155 MMT. Further, Argentine soybean production is set to more than double to 50 MMT or maybe even higher. This would be more than enough to increase world stocks quite considerably, especially considering USDA is too high on world soybean demand outside of China.

The one ray of sunshine for the bulls has been aggressive buying from China to build soybean reserves. China has bought US soybeans Jan-April and Argentine soybeans May-June to build reserves. Chinese crush has actually been disappointing, but the government seems to be aggressive in building soybean reserves possibly to reduce their reliance on food supplies from other countries as US/China tensions build. This can be temporarily supportive, but in the longer-term it probably reduces Chinese buying given their increased reserves.

All of the above tells me the soybean complex has further downside, particularly April forward. If the soy complex is in the early innings of a bear market, the corn market may be in the middle innings. While I remain generally bearish corn prices, US exports have picked up and Brazil has lost some corn production potential. Corn may be more of a market that just can never earn the carries, with each option sliding to the level the previous option finished at. Somewhat boring, but likely bearish. Wheat has a bit of a story in the strong Chinese buying, and I would suggest that wheat has less of a bear story than the soy complex and corn.

Regards,

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