July 2016 Monthly Commentary

Felt like déjà vu to last July, which I honestly just didn't think was possible this year. However it was a triple whammy with abundant rains, China starting their soybean auctions, and fund length massive. The other issue was many in the trade don't recognize that old crop bean exports are 75-100 milbus above what the USDA is carrying. Funds liquidated beans, and liquidated corn length/went short as weather remained warmish and wet – nearly ideal. For the month, beans lost $1.50, with meal down $54/ton, and oil down 116 points. Corn lost 32 cents while Chgo wheat was down 30, KC down 12, and Mpls down 20.

Despite forecasts that kept showing a blocking ridge pattern (something quite threatening), this never quite played out even though it was expected a handful of times. Instead we had a bout of cool temps and only a very few hot days in the heart of the Corn Belt. And…the rain just kept coming. It ended up as the 5th wettest July on record (going back 121 years). I was frustrated with the forecasts, but I should've been more focused on protecting the gains I had made in April, May, and June. I still think the break is providing opportunities. This week, FC Stone forecast a 175 bu/a corn yield – a record by 4 bu/a. Every other year we've had a record corn yield, it has been a cool summer. Overall the summer temps, particularly the overnight lows are averaging above normal. I think we may be premature with the 175 yield idea. There are some anecdotal yield reports with issues of tip-back and yield checks below the last couple years in the Eastern Corn Belt. I have heard very few problems in Iowa. But I also wonder if the fringe areas – west, southwest, and delta/southeast will drag down the nat'l average given the heat they have experienced this summer. I am not talking a disaster in corn whatsoever but we may have overshot yield ideas too early. We also have found levels of user interest. US corn remains the most competitive in the world and Brazil needs to import. They have approved 1.0 mmt of non-GMO US corn for import. In add'n, Ukraine's maize production is at risk with the recent hot and dry pattern. The forward story is not very compelling with Argentine and Brazilian corn area expected to be up considerably. But in the near term, it feels like we are low enough especially with warm temps expected to continue through much of Aug.

In beans, the market has priced in a 49-50 bu/a yield, low old crop exports, as well as smaller China demand on the move to the low 900's. Given a smaller carry-in (assuming larger old crop exports) and using a 48.4 yield (still a new record), my 16/17 ending stocks are 169 milbus. A far cry from the 400-500 milbus some in the trade are assuming. We need to define supply and then I am expecting we can have a significant demand led rally. The forward situation continues to tighten if Argentina has smaller area and Brazil has unchanged to only slightly higher area in their next cycle (which is currently what is expected). There is also a threat in southern Brazil and Argentina if we are in La Nina by their growing season. In the last La Nina (11-12), Argentine prod'n was down 26% from their previous record and Brazil down 10%. This would translate to something near a 45 mmt Arg crop and an 86 mmt Brazil crop if were similar. We are expected to reach La Nina status by this fall/late in the year. Currently I am using a 97.5 mmt Braz crop and a 54 mmt Arg crop. Even with the record Braz crop and slightly trimmed Arg crop, the 3 country S&D continues to tighten. The business is starting to show up as well. We have had sales announcements every day this week for old and new. Shipments are ramping up and the trade will be forced to raise their old crop projections. Both Arg and Braz crush and exports are slowing and US crush and meal export demand should start to pick up in the near term. US exports and crush should be record in 16/17 even without La Nina reduced yields in South America.

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Wheat has worked into multi-year lows. Supplies are plentiful but too much rain in France during harvest has lowered their crop potential over the last month. I am now using an all EU crop 10 mmt below what the USDA printed in July. The EU has exported 34 mmt in the last two years and they may not export more than 24-26 mmt this year now. Their captive buyers (N Afr esp Algeria) may need to turn to the US and would likely buy HRW (traded in KC). KC has gone to a slight premium to Chgo after months of trading discount. This trend should continue as HRW demand should be strong this season and SRW exports could be record low. Russian crop ideas continue to get bigger but they likely cannot make up for the EU's entire shortfall as they will run into export capacity constraints. The fund short in Chgo keeps getting bigger and there is chance they are getting complacent that the market is going down forever.

I have low risk positions on for now with the focus on meal spreads and forward meal calls. The biggest opportunity I see going forward is the realization of record demand for US soy.

Regards,
Megan Bocken
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