June 2018 Monthly Commentary

I had made a note in my calendar to take July off this year after two bad Julys in a row but was blindsided in June this year. Just when you thought the trade war issues were over and it was going to be back to business as usual – actually better than usual after China said they would buy extra US beans to replenish their reserves – President Trump escalated the trade wars and has shown no sign of backing down. This now looks to be a long term issue that could alter trade patterns and China feed patterns for years to come. In retrospect it looks fairly simple – why didn't I get short beans???? Many reasons – we still have the Arg shortfalls to deal with, summer weather, etc. But the main reason is the risk that you wake up one day and the US and China have kissed and made up. Funds got caught long in everything and the relentless liquidation continued throughout the month. For the month, corn was down 44, Chgo wheat down 42, KC down 72 cents, and Mpls down 83. KC fund length was sizable and thus caused a huge break in the KC-Chgo spread. Much better rains in US spring wheat areas along with bigger than expected spring wheat acreage weighed on Mpls. Beans were down 158 cents in June (almost 200 for the May/June move) with meal down $45/ton and oil losing 201 points.

The additional acres and larger than expected Jun 1 stocks takes a bit of the story out of corn. Leaving demand unchanged, and considering larger carry-in stocks and larger area, the USDA could print a 1750-1850 carry-out in the July 10 report vs 1577 in June. However the USDA needs to raise their export forecast for 18/19. They are still 4 mmt too high on Braz/Arg prod'n and are 5-7 mmt too high on Ukr/Russ prod'n. Crop year exports could be anywhere from 250-400 milbus above the USDA's current forecast of 2100 milbus. Early in the month, better rains and very high early crop ratings had the trade fantasizing about a 180+ yield. The June rains have been excessive in IA, parts of IL, and parts of MN. In order to achieve an above trend yield, July temps will need to be on the cool side, which at this point, does not look like it's in the cards. We have overnight lows forecast to be 10-20 degrees above normal. Using the updated USDA acreage and 174 bu/a yield forecasts, and assuming 18/19 exports center in around 2400-2500, US ending stocks could be in the 1400 milbus range (up from previous ideas of 1200-1300), down from 2200 this year. That's a 9.5% stocks-to-use ratio, and would be the lowest since the 13/14. That type of stocks-to-use ratio could mean $5.00+ corn. The weather in the US, EU, and Black Sea region going forward will become increasingly important. We have not had a warmer than normal July in a number of years. I also think that wheat will support corn going forward.

Wheat retraced the entire move as well, but is also still facing the same issues it was a month ago. Early Ukraine winter wheat yields (Ukr is over 90% winter wheat) are down 5-15% from year ago and early Russian winter wheat yields are down anywhere from 2-22% year ago. Russian spring wheat did not get fully planted and large portion got seeded after the optimal window. EU crop ideas continue to get smaller with Strategie Grains reducing their French prod'n estimate by 4.6 mmt on Friday. Austr still needs much better rains, with some crop ideas below 20 mmt. The market could be facing a much tighter situation this year given that EU/Ukr/Russian crop potential is diminishing. The US may need to fill in for much of this shortfall given that Canada, Australia, and the EU are starting their crop years with low stocks. The USDA is using 950 milbus for US exports, but a case can be made for 1100-1200 with even conservative crop estimates for Russ, the EU, and Austr. The major exporter balance could tighten considerably

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going forward and the market will be very sensitive to Black Sea and Australian weather. Russian FOB values sank in June, presumably on harvest pressure. If I am right about diminished Black Sea export potential, Russ/Ukr FOB values will need to lead the move higher from here. In 2010 and 2012 (the last two years where the region had short crops), FOB values started to move higher in early July.

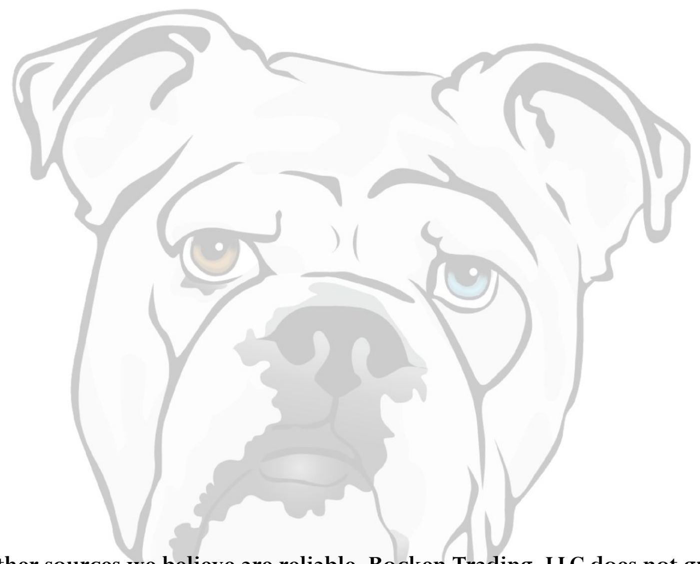
Beans are tricky here because we've already dropped roughly $2.00 from the highs. Brazil basis is screaming higher but will take another 120-150 cents to make US more competitive than Brazil with the 25% tariff (or the board going down another 120-150 cents, or a combination of both). China is obviously the biggest piece of the world soybean matrix. 4-6 weeks ago we were talking about 18/19 China imports of 103 mmt (vs 97.5 this year) and now the risk is 91 mmt. That could balloon US carryout. US carryout ideas can range from 350-850 milbus depending on China. The trade that stands out may be long corn vs short beans going forward with the ongoing risk that trade issues are resolved and things go back to normal. However the longer this drags out, the less and less chance of this happening. I contend that meal still needs to resolve the Argentine shortfalls. There are quality issues on top of their short crop, crush is already dropping faster than I had expected, and Brazil's crush is going to suffer given their monster exports.

Weather and trade issues continue at the forefront. Wheat isn't as sensitive to the trade war issues and may have the most upside in the near term given major crop issues around the world. Corn can sit around these levels but may be supported by wheat in the near term and beans can leak further. I think inverses in meal will widen further. However, funds are now holding sizable short positions in beans and have started to get short corn. The US producer is not going to sell much here.

Regards,

Megan Bocken

July 2, 2018



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