



## August 2018 Monthly Commentary

Everything broke throughout the month, but held July lows (aside from meal). Favorable Corn Belt weather and aggressive Black Sea offers weighed on the markets with beans leading (as Aug is the key month for beans). The Pro Farmer crop tour fueled bearish ideas and add'l tariffs were applied to China. For the month, beans were down 73 cents with meal down \$35/ton and oil down 49 points. Corn was down 20 with Chgo wheat losing 27 cents, KC down 31, and Mpls down 24.

Wheat trade has been frustrating with Russian offers continuing to be quite aggressive. Exporters may be trying to get as much out the door as possible ahead of any export restrictions that could happen later in the crop year. Their gov't is reportedly monitoring the export pace and may move to restrict exports once wheat exports reach 25 mmt. The USDA is using 35 mmt for Russian wheat exports. They are also too high by 5-6 mmt on their EU export forecast and as much as 6 mmt too high on their Austr export forecast. None of this matters however in the meantime while US business remains slow and Russia continues to undercut the market. Russia had big supplies going into this crop year and it is a matter of how much they want to draw down stocks. On paper, the major exporter balance is extremely tight, but the market is not performing. Either Russia will get tight at some point which would rally their FOB values and the US sees extraordinary business or I am missing something. I realize that the next growing cycle is starting and wheat area could be up considerably in the US, but I hadn't felt like this year's shortfalls had been resolved. Timing is difficult, but I would like to maintain at least small option length.

Corn has been disappointing all around despite strong demand and a considerably tighter outlook for 18/19 than was seen in 17/18. The Pro Farmer crop tour reinforced the USDA's record yield, but early anecdotal yield results have been less than expected. I maintain that if there is a material reduction in yield it won't happen until the October report. Demand is strong, but the re-introduction of export taxes in Argentina has made Argentine corn the cheapest grain in the world for the time being. The grain export tax there could actually encourage less corn acres in the next cycle. The US is already facing expectations for a possibly huge acre shift to corn following the loss of China bean imports, which could keep the US corn balance sheet quite comfortable next year. Actual yield results should determine direction in the near term. Users are cov'd and funds are carrying a massive short. Either we continue to grind lower into harvest or less than expected yields combined with a strong demand base push us higher into OND.

Yield ideas in beans continue to grow with many now expecting 53+ bu/a. Given China will take very little beans from the US this growing season, US ending stock ideas could be north of 1200 milbus. This could mean a 30% stocks to use – the highest in history. It is difficult to think we will not make new lows especially if yield ideas continue to get bigger. Even if the China issue is resolved, there has been demand destruction on top of the African Swine Fever that has infected China and could spread around the world. It almost seemed too obvious and I was scared to get short especially in such a crowded trade. Funds are still long meal and there may be an opportunity there to get short before beans have another leg down.

Regards,

Megan Bocken

September 5, 2018

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