January 2019 Monthly Commentary

It was a rather long, dull month with markets whipping around on limited information. The shutdown dragged on, and then when reopened, was very disappointing, as we won't be caught up on Export Sales and Commitments of Traders until March and there could be another shutdown in the meantime. Corn chopped around in a 13 cent range and gained 2 cents for the month. Wheat worked higher as Russian values continued to firm and there was talk of the US doing better business. Chgo was up 13 cents with KC up 10 and Mpls up 21. Beans gained 22 cents mainly on Brazil crop issues and hope of a China trade deal. Lack of selling from producers both in the US and South America contributed to the strength. Oilshare was the real winner of the month with oil gaining 237 points and meal basically unchanged. Weakness in China meal demand due to ASF despite lower exports and crush weighed on meal and funds covered shorts in oil.

Brazilian bean crop ideas continue to get smaller with the lowest published estimate out last week at 112.2 mmt from FC Stone. There are concerns that the crop could be much smaller after a particularly stressful few weeks and with early yields coming in at 50% of year ago in some areas. The USDA's most recent forecast was 122 mmt. There is a wide range of ideas on Argentina's crop depending on area. Currently ideas range from 50-55 mmt with USDA at 55.5 mmt. Brazil's harvest is well ahead of schedule which typically does not bode well for yields. However, the rain forecast is more optimistic and could boost yields in some areas. Much is dependent on Brazil's crop outcome as well as the situation with China. Traders are hopeful that we may be able to put the trade war behind us by the end of February. Currently the range of ideas for next year's carryout is anywhere from 500 milbus to 1000 milbus which is making the trade whippy. What we know for sure is that the market should be discouraging acres for spring planting in the US but does not appear to be doing so yet. It could be that the lack of producer selling is propping the market up, but nonetheless, corn is going to need to gain on beans.

The Friday report is a big one for corn as the market is expecting a drop in yield. There is a faction of the trade expecting a 2-4 bu/a drop, which would be quite meaningful going forward and make it even more important that corn gain acres vs beans into the planting season. The other thing to watch is weather for second crop in Brazil. It has been dry the last couple months but there are hints that the pattern is changing. The other obvious wild card is the dangling carrot of large purchases by China. It has been rumored and would be a big deal to our balance sheets, but is difficult to trade. There is no telling on the timing and you have to be long ahead of time or miss the move. All of that said, I think corn has the most upside with or without China based on the potential for a crop reduction and the need for acres. There is also talk about excessive wetness in the Delta/mid-south. Late planting/less acres would be a big deal for corn.

The wheat market is seeing everything come together with world values (Russian, Ukraine, Argentine, and Australian) continue to rally making US wheat the most competitive. US cash is firming, spreads are tightening, and the Gulf is finally seeing a decent shipping line-up for HRW. Unless world trade is vastly overestimated, the US will have to make up the shortfalls over the next 4-6 months. US winter wheat seedings will be watched closely Friday. Estimates are low but it could be even lower based on anecdotal reports. Wheat spreads are signaling a move that would only be exacerbated by China buying US wheat.

I am sensing that the doldrums of the shutdown and the uncertainty of the trade war may be coming to an end. A lot will depend on the reports at the end of the week which has historically been the beginning to the trading year (was supposed to be Jan 11).

Regards,

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