



July 2019 Monthly Commentary

Corn and beans rallied early in the month with poor crop ratings and ongoing acreage uncertainty providing support along with forecasts for a hot/dry spell to exacerbate the issues. However, it turned out to be somewhat of a bust – much shorter in duration than had been expected. By mid-month, futures turned weaker as forecasts backed off on the heat with more rain than expected as well. Corn conditions have improved some and yield ideas seem to be coming up while bean ratings have not improved much. The general consensus seems to be that beans are very small. I don't think the ratings are taking into consideration how behind the crops are and that there may not be enough time for finishing. Harvest and strong HRS conditions have weighed on wheat in addition to growing EU crop ideas. For the month, corn was down 26, Chgo wheat down 40, KC down 39, and Mpls down 34. Beans gave up 42 cents with meal down \$17 and oil 60 points lower.

Liquidation took hold in corn as ratings/weather improved. Bull markets need to be fed. Market ideas vary widely on acreage ideas and the USDA's 91.7 mil given at the end of June is a thorn in the side of bulls. There is disagreement on where original intentions started – some think 95 mil. The green canopy of corn may be masking some of the issues, but that won't likely be known until harvest. The algo traders took over from the fundamental traders in LH July and there wasn't much to stop the momentum. Despite the ridge and hot/dry spell being shorter than expected, there could be some damage from it as there were 3-5 days where overnight lows were in the 80's F. The big kicker has been the realization that the USDA could be 400 milbus too high on exports as huge SAm supplies priced much cheaper are eating away at our exports. Given the lower demand prospects (USDA is also too high on feed and ethanol), it will take a major cut in acreage and a 160 bu/a or lower yield to get the market excited again and we likely won't know either for a few months. For now the market may leak further as length is reduced.

Beans continue to have more upside in my opinion as acres could be another 1-3 mil lower than the 80 mil presented at the end of June. Lower acres with a yield reduction could tighten the balance sheet up considerably. There is still time for yields to improve, however, and the markets just don't hold risk premium like they used to. China hasn't stepped up their buying and talks continue to falter but US beans are competitive again and should start to see better business outside of China. The market has a wide range of bean carryout ideas too (400-800 milbus) and it will take a lot more time to determine who is right. For now the path of least resistance is further weakness.

There really isn't much exciting in wheat. Australian crop ideas may be getting smaller but EU is getting bigger despite major heat (came too late for wheat). The major exporter balance is a bit snug, but there is plenty of wheat in the world and demand continues to underwhelm. The best opportunity may be buying KC against Chgo and/or corn. It is historically narrow to both. The HRW S&D is not that exciting however, with a 400-450 carryout expected.

In 1993 the market broke in July and again LH Aug before the market realized the extent of the problems and rallied into Dec. I think a similar move could happen this year and will position accordingly. The Aug report may look rather bearish if the USDA lowers demand (corn and beans) and doesn't change yield or acres much. This should provide an opportunity to extend length.

Regards,

Megan Bocken
August 5, 2019

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