



## August 2019 Monthly Commentary

Corn took a relentless pounding in August, which set the tone. The trade war escalated with more tariffs being added on both sides, combined with the weather which was generally favorable with cool temps and timely rain. Crop ratings improved and with it yield and carryout ideas. Funds went from long to short corn in size and corn lost 41 cents for the month. Wheat followed with Chgo down 30, KC down 43, and Mpls losing 36 cents. Beans held up better relatively as bean stocks have the potential to be cut nearly in half. Beans lost 12 cents. Meal made new lows losing \$10 for the month and oil was up 64 points. World oils are firm and provided support to oilshare.

The corn S&D is rather unexciting if USDA's acres are correct and yield is around 168 bu/a. There is still a camp in the 165 and below area but it is difficult to have any confidence. The Pro Farmer tour implied a slight acreage reduction but nothing that would materially change the balance sheet. In addition, the trade is now expecting a considerable increase in US area next year which could result in quite burdensome stock levels. One bright spot is that Brazil has been so aggressive in their exports that they will have to slow considerably during the Sep-Feb period which should benefit US export prospects. This could coincide with a harvest low.

Wheat is oversupplied with no "story" to speak of. Its price action is erratic from day to day to say the least and it is difficult to know what we're trading at any given time. KC futures haven't traded as low as they did to start September since 2005. KC is historically very cheap to Chgo wheat and to corn, but there hasn't been a catalyst for these relationships to correct. Trading against computers (algorithms) has made the entire grain/soy complex more volatile and erratic, but it is that much worse in wheat where there is not as much volume. The market will next look to SAM harvest and crop outcomes (Australia is in their 3<sup>rd</sup> year of drought) and winter wheat seeding – HRW area could be down considerably given recent price action. If/when corn can stabilize, wheat likely can too.

I think the biggest story right now is in the soy complex. There are four things that seem to be coming together that suggest upside risks far outweigh downside from current levels, especially in light of the massive short positions funds are carrying in beans and meal. The last three times that funds were short meal, there was a subsequent \$45-150/ton rally. Funds don't typically hold short positions in meal. The first issue is crop size and development. Yield ideas range from 45-48 bu/a. USDA was 48.5 in August and most are expecting a reduction next week. Pod setting is currently the slowest in recent history with only 86% setting pods, this is below even the major flood year of 1993, which was at 88%. Average is 96% and last year was 98% suggesting there may not be enough time to properly finish the crop. There are no real frost threats at this time but the calendar alone implies there will likely be a frost/freeze before beans are to maturity which should cut yield potential. The second issue is politics in Argentina with the gov't imposing currency controls. This is a step back to the old policies and producers will fear an increase in export taxes and likely shut off selling in a hurry as a currency hedge. This will slow their exports and their crush. The next issue is the ongoing trade war, which has and will need all of Brazil's exportable bean surplus for China. This has two consequences; first Brazil's crush will slow as will their meal exports (US will need to crush more and export more meal), and second the US will need to supply the rest of the world with beans (especially now that Argentina will be back to hoarding). Putting all of the above together, the fourth issue is that US ending stocks could be cut by more than half in 19/20 and that world stocks have already peaked. I am positioning from the long side in meal and beans in the form of futures, calls, and spreads.

Regards,

Megan Bocken  
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