



## December 2020 Monthly Commentary

Finished the year on a very strong note with December an explosive month. Ongoing South American weather concerns, a prolonged Argentine strike, and Russian export taxes being introduced contributed to the strength. All of the markets made new highs for the move. Corn was up nearly 60 cents. Chgo wheat gained 55 cents with KC up 56 and Mpls up 46. Beans rallied \$1.40 with meal up \$40/ton and oil up 513 points.

The situation in Argentina remains a mess. The strike dragged on and it affected both crush and exports. It was technically resolved but nothing is back to normal. For some perspective, Argentine Dec crush was 1.1 mmt vs 2.7 mmt a year ago. Meal exports were only 600 tmt vs 2.0 in Nov and 2.0 a year ago. Oil exports were also down sharply. Brazil is out of exportable supply and their bean exports were only 100-200 tmt vs 1.5 mmt in Nov and 3.4 in Dec last year. China buying has slowed, but there is still a big supply/demand imbalance that is unresolved. We need to slow our crush and exports. In addition, Argentina remains dry and crop ideas are getting smaller. Brazil crop ideas are edging lower too (also some dry areas – Mato Grosso rain has been lacking/uneven). The world simply cannot afford short SAM crops, and this year's shortfalls could turn this into a multi-year problem. The US balance sheet remains incredibly tight in 21/22 even with a record yield and a 7-mil acre increase. We are going to need more than 90 mil acres and no weather issues here next spring/summer. Futures will need to maintain a risk premium until at least July/August, and we're not even through the SAM growing season. All that being said, the market has come very far very fast and is due for a correction. I am becoming much more cautious as we approach \$14.00 and would not be surprised to see a correction ahead of the USDA reports on the 12<sup>th</sup>. I will use it accordingly.

The problem with needing a 7-9 mil acre increase in beans is that corn will likely lose some acres. Corn cannot really afford to give up area. Even with a record yield and steady acres, the 21/22 balance sheet tightens and crop ideas are also getting smaller for Argentine corn due to dryness. Argentina suspended export licenses for corn until March, taking roughly 3-4 mmt off the market. As a result, producers are halting all sales. Argentine corn sales in Dec were 1 mmt vs 1.7 in Nov and 2.0 a year ago. China also remains a wild card – we don't know how big their buying program may be. Corn surpassed \$5.00 in the first week of the new year for the first time since 2014. Corn still has issues going forward (SAM weather, Arg strike/inflation/politics, China, US acreage), but the market is supplied for now and I would not be surprised to see a set-back/sideways trade for a bit.

Wheat does not have as compelling of a story as beans or even corn, but it does have a few things going on worth noting. Russia imposed a \$30/ton export tax which could shift business to the US. The EU is exporting at an unsustainable pace, and Canada and Australia are facing capacity issues. I continue to like owning KC vs Chgo in the deferreds as HRW could get fairly snug next year. Otherwise I am keeping my trading focus on beans and corn for now.

We were already facing a tight soy situation with Brazil oversold and China demand coming back. Now, we have a two-fold Argentine problem – weather and geopolitical, neither of which appear to be going away anytime soon. In addition, the dollar continues to make new lows and inflation concerns are increasing. We are starting to see headlines about commodities and “super-cycles” which will attract more attention to the Ag space. For the first time in a number of years we are facing a market with many fundamental opportunities going forward.

Regards,

Megan Bocken  
January 6, 2021

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