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July 2021 Monthly Commentary

Wheat took center stage as the market focused on US HRS/Canadian crop losses and the Russian crop was downgraded. World business has picked up and it is not likely that the EU and Australia alone can make up the shortfalls. Chgo was up 28 cents (market still holding a short position) with KC up 17, and Mpls finished the month 50 cents higher. Corn and beans continued to leak as timely rains fell. Corn was 44 cents lower with beans down 45 cents. Oil remained the strongest product – up 190 points while meal lost $26.

The USDA came in lower than trade expectations on the HRS crop in its July report – printing other spring wheat 112 milbus below the average estimate. I had been using something similar but it was surprising to see the USDA take off so much in one report. Their total US wheat crop was 100 milbus below trade ideas. Lower than expected durum and HRS crops were partially offset by larger winter wheat (mainly HRW). The US N Plains has been in a hot and dry pattern for months and the Canadian Prairies' spring wheat areas have had the same, if not worse weather. What really jumped out was the USDA printing a 31.5 mmt Canadian crop, only down 500 tmt from June. Most private estimates are in the 24-25 mmt range and the USDA will have to address this in the Aug WASDE. The next big item is that Russian crop ideas have come down from 85-ish (mmt) to 75-78 mmt mainly due to worse than expected winter wheat yields and reports that area was vastly overstated. All of the private Russian outfits have come down considerably over the last month. In the July WASDE, the USDA published an 85 mmt crop. They have roughly 15 mmt to take off world production. They may raise Australia some as reports have been very good so far out of that region. Argentina has been dry however and there are quality issues in the EU with half of France's crop still in the ground and rain continuing to fall. Kazakhstan's crop may be overstated as well. We are facing a tight corn year (more below) as well as increased wheat demand out of the Middle East (Pakistan, Iran, Turkey). The EU and Australia can't make up all of the export demand and US ending stocks may dip below 500 milbus for the first time since 2006-08. Major exporter stocks are forecast to the be the tightest since 07/08 with the exports/stocks ratio the tightest in history. I don't think the market has fully addressed all of this yet. Russian values are ramping up and world buyers are also stepping up. HRW exports should have to do a lot of the work to make up for Canada/US HRS shortfalls with HRW carryout potentially tightening (after being rather burdensome for the last 7 years).

This leads to corn's issues. Brazil crop estimates continue to get smaller due to dryness and multiple frosts. Ag Rural came out with a total Brazil crop of 77.5 mmt. This compares to the USDA's latest estimate of 93 mmt. This crop's shortfalls will translate to increased 21/22 US exports. US new crop exports could be 2950 milbus – up 100 milbus from this year and 450 milbus above the latest USDA forecast. In addition, most private forecasters are using a smaller yield than the USDA's 179.5. Many are in the 176-178 bu/a range. US corn ending stocks could easily be in the 800-1000 milbus range in 21/22 and futures should work back towards the highs as this is realized.

Beans seem to be the weakest market currently due to better rains expected to come in August as well as a weakening demand picture. Most private forecasters are using a higher yield than the USDA and also lower exports. We could see a more comfortable S&D in beans in 21/22. There is still a lot of weather ahead and China demand could surprise the market and be bigger than currently expected. I plan to "trade" beans as it is difficult to get an edge on weather and the S&D could really go either way at this point.

I don't think corn and wheat are done on the upside and I plan to position accordingly.

Regards,

Megan Bocken

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