March 2022 Monthly Commentary

It was a wild month with major volatility, wheat being the feature. What started as adding risk premium for the Russia/Ukr war, turned into an all-out short massacre in wheat. Futures rallied roughly $4-5.00/bushel with the synthetic high of 14.10 in Chgo, surpassing the 2008 all-time high of $13.34. The printed high was $12.84. It was a 6-day massacre and then it was over, and the market gave back most of the rally. Liquidity issues were at the forefront and there was actually concern for the industry as a whole. When the dust settled, Chgo finished the month 85 cents higher (but $2.82 below the printed high), KC was up 89, with Mpls 90 cents higher. Corn and beans were just in a big sideways trade most of the month (until the acres numbers came out on the 31st). Corn was up 55 cents for the month with beans finishing down 22 cents. Oilshare corrected with meal up $16/ton and oil down 228 points in March.

There have been attempts at resolutions in the Black Sea, but nothing very promising and recently tensions escalated with a missile attack on Odessa (a major Ukrainian port). This could be a drawn-out affair. Both old and new crop exports are at risk for Russia and Ukraine. Ukraine's production is also under threat with some 22/23 crop estimates down over 50% from last year. Russia's crop is expected to be up, but their combined exports could be down significantly next year. Canada's crop and exports are forecast to rebound in 22/23 which could offset some of the Ukraine shortfalls. However, there are a few other issues at play going forward. US winter wheat conditions were the worst rated since 1996 with not much rain in the forecast for the dry HRW areas. The USDA forecast spring wheat area down marginally from last year. The HRS balance is very tight going in, and without an increase in area, stocks may not build in 22/23. There have also been reports that China's winter wheat is in one of the worst conditions ever and their import needs will be a big swing factor going forward. I don't think wheat can break much until more is known about the above issues. At the same time, I am not eager to participate given the extreme day to day volatility. Even though it has calmed down, the daily ranges remain huge.

Wheat's issues spill into corn as high-priced wheat should force more corn feeding. This is a problem as corn's 21/22 ending stocks are shaping up to be quite tight given SAm crop issues, Ukraine's issues, and China demand. The USDA then threw fuel on the fire with acres forecast to be down almost 4.0 mil from last year. Even with a trend yield, the 22/23 balance could be extremely tight given the loss of acres. In a normal year, we could easily say that high prices will cure high prices and we will end up with 2-3, even 4 more mil acres than the USDA presented in March. However, this is not a normal year with fertilizer shortages/extreme high prices posing serious constraints to gaining area. Currently the US weather is a bit wet/cool for planting. It is very early and there is time, but any issues will raise alarm in the current environment. It will be difficult to break much ahead of the June acreage report, especially if the weather stays cool/wet. Other items to consider are safrina crop development in Brazil, China buying (there has recently been confirmation of switching from Ukraine origin to US), and obviously developments in the war and planting/crop expectations for Ukraine. There could still be considerable upside in the near and longer term.

The USDA squelched some of the bullish momentum in beans with acres coming in almost 4 mil higher than last year and 2-3 mil higher than expected. There is now a bit more cushion. And not sure we will give back many of these acres to corn given the fertilizer circumstances. That said, the USDA is likely still low on old and new crop exports given SAm crop losses. Even with a 4.0 mil acre increase, a trend yield will still be needed to ensure comfortable supplies. Not sure beans need to test the highs without a major weather issue this summer, but at the same time, I don't think they can break much with strong product demand and sun seed prod'n/export disruptions supporting beans.

Regards,

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