

October 2019 Monthly Commentary

I wrote last month that I sensed a turning point taking place. Fundamentals in October reflected this change is continuing, but flat prices and spreads have not reacted yet. I still expect that to take place – and am even more convinced than I was a month ago.

Cash soybean basis in the gulf rallied from the 30s to the 60s in October as yields came in well below a year ago (that part was expected), but the farmer sold even less than anticipated. My data suggests USDA is still too high on soybean yield (46.9 in October), but some others are projecting an increase to as much as 47.5 bpa. My data indicates something below 46, but not sure USDA catches that this month with so much harvest still remaining on November 1. Even with a USDA-type yield though, world stocks are contracting faster than I expected with Chinese demand recovering more than expected. It seems the decline in soybean imports due to their ASF problems and the US tariffs has run its course. While ASF remains a big problem over there, poultry and aquaculture demand is expanding at a very fast rate. Further, the government has cracked down on scrap feeding, creating new demand for meal despite the ASF problems. I now expect China to import somewhere between 88-90 MMT of soybeans in this marketing year vs. 83 MMT last year and a current USDA projection of 85 MMT. Keep in mind that had it not been for ASF, China would be importing over 100 MMT of soybeans today – so this is not as stretched as it may appear. The larger demand and somewhat smaller crops expected suggest a world stock pulldown of near 20 MMT year-on-year. In similar type world stocks years, soybean futures have been above \$10. Further, US export inspections are running some 10% ahead of last year with places like Egypt, Mexico, and parts of the Far East taking record quantities. The market has not reacted yet – most likely because the mentality remains bearish. We may need to get past the Friday USDA report and a little more harvest movement, but I feel it coming.

Corn basis has gone up even faster than soybeans. A wet, delayed harvest and what the farmer considers low prices (esp given lower yields) has combined to create both quality/dryness issues and a general lack of corn availability. This combination has also not allowed most commercials, especially in the east, to fill space. All of this has supported corn basis. Corn futures have paid little notice, but I feel as if corn prices are also in the process of bottoming. Corn export demand should pick up in 2020, and futures will likely have to work harder to move bushels as demand picks up. The farmer is expected to be a very tight holder of corn at current flat price levels.

The bottom line is that I still feel ag prices will appreciate in coming months. Soybeans have more upside than corn, but both have limited downside in my view. Wheat is a follower for the time being.

Regards,



Mark Ditsch
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