

January 2020 Monthly Commentary

Ag markets were lower in January, with soybean oil leading the charge. Phase 1 of the US/China trade agreement was signed, but the deal did little if nothing for actual US exports in the near-term, and markets sold off accordingly. Favorable weather in South America and fear over the spreading coronavirus helped fuel the bearish fire. Grains were only moderately lower on the month, but soybeans lost nearly 10%, soybean meal down about 5%, and soybean oil down a dramatic nearly 15% on the month.

At these lower levels, there are a lot of cross-currents. The US export season for soybeans is winding down quickly, with Brazil set to harvest a record crop and take over the vast majority of soybean exports well into the summer if not into the fall. On the other hand, slowing Argentine crush has created a window for soybean meal exports that will likely last into April – pushing US crush potentially higher to meet the demand. Soybean oil has the longer-term veg oil story and is helped by increasing biofuel mandates both in the US and elsewhere, but the higher potential crush could delay/push back/end that story at least for the next several months. Corn exports have been lousy, but the US is now the market for corn exports for the next several months.

While the nearby story seems supportive in corn and meal and bearish on soybeans, I see a somewhat opposite story developing in the new crop. US farmers are extremely disappointed with the lack of Chinese soybean exports even with favorable trade relations between the two countries. Further, with SX trading just over \$9 and CZ trading nearly \$4, the incentive is there for US farmers to increase corn planting at the expense of beans in 2020. The total corn+soybean acreage pie is poised to increase by about 13 mln acres (due primarily to the assumption of more normal weather this spring), but the bulk of that increased acreage is likely to flow to corn. At this time, I am projecting corn acreage near 97 mln acres (up about 7 mln acres) and soybean acreage near 82 mln acres (up about 6 mln acres), but I fear the switch could be of an even stronger magnitude if soybean futures remain depressed while corn futures offer profit opportunity for farmers. Even with the higher South American production this year, the soybean market likely needs closer to 85 mln acres to be comfortable given the stronger than expected Chinese demand and expected annual growth. With this type of acreage projection, I have US corn stocks ballooning to near 3 bln bushels (which would be a record), while I have US soybean stocks declining to a tight 300 mln bushels in the 2020/21 marketing year. I also see world soybean stocks falling by potentially 10 MMT in 2020/21. Obviously, this is a developing story and it will take time for the market to shift its focus from big South American soybean crops and slow nearby US soybean exports//strong nearby corn exports, but it is something that I do see developing. I have started with a small long SX/short CZ position with the idea of adding to it on further relative corn strength.

In the near-term, as much as I hate it – it appears we are in trading markets rather than trending markets. Stay tuned for further developments.

Regards,



Mark Ditsch

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