

September 2020 Monthly Commentary

As the US moves into harvest – a harvest that appears by all counts to be a fast harvest across the country – our markets have finally paid a bit more attention to the tightening global supplies, particularly in soybeans.

Early harvest results have been mixed, and it appears as if soybean yields are running above trend but below record levels. The heat and dry weather in August offset the early planting to a certain degree and likely prevented a record national yield. It is still a good crop, but not as big as it could have been had August not turned so dry. Trend yield is somewhere around 50 bpa and record yield is 52 bpa. My best guess at this time is that national soybean yield will finish near 51 or maybe 51-51.5 bpa.

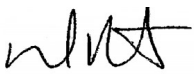
Corn yields are a bit more dicey. The derecho that hit a wide swath of Iowa obviously had a bigger impact on corn yields than soybean yields (corn was knocked over whereas soybeans had a better chance of surviving). Corn yields are also mixed, but it appears as if, unlike beans, a trend yield may not even be sustained. My best guess at this time is that corn yield will finish between 175-177 bpa.

Despite soybeans potentially yielding slightly better as a percentage of trend, the soybean market is where its at. Chinese and rest of world demand has exceeded expectations. Brazil has the tightest stocks in their history; they are essentially out of exportable surplus until their new crop hits in Feb/March and they will likely have to import more soybeans from Paraguay and Uruguay than USDA is projecting just to have enough to crush to meet their domestic needs. Argentina has the soybean supplies, but their currency and inflation issues are preventing farmer selling. Quite simply, South America is rapidly becoming an unreliable supplier of soybeans and soybean product to the world. We had anticipated their soybean exports would dwindle to practically nothing, but their decreased crush and lower product exports will result in more whole soybean exports from the US through January (as many users will buy more beans and less products and crush at destination). Further, Brazil planting of their new crop is off to a very slow start. This, combined with their very low old crop carryout, should extend US export business into February. All of this combined with stronger than expected Chinese and rest of world buying should push US soybean exports 150-200 mln bushels over the current USDA projection. US crush should also exceed USDA estimates by 25-50 mln bushels. Taking that with a 51-51.5 yield suggests US carryout somewhere in the 125-150 mln bushel range, well below the 460 mln projected by USDA last month. Finally, extremely strong SON demand suggests December 1 US soybean stocks could be the tightest in history as a percentage of supply – near 60%. In other words, an amazing 40% of the soybean supplies could be used up in the first quarter of the marketing year.

Corn may always be interesting, but it is certainly less interesting than soybeans. Strong Chinese demand for corn (USDA appears to be dramatically underestimating Chinese corn imports) should boost US corn exports as well. It looks to me like US corn carryout could be near 1.9 billion bushels, slightly lower than this past year's 1.995 billion bushel carryout. Corn downside may be limited accordingly. Weather problems in several wheat and corn growing areas can push both corn and wheat futures higher – but I don't see the same potential that I see in the soybean and product markets.

Soybean futures have a strong chance to rally another \$1 post-harvest or perhaps after Friday's October USDA report. Barring a surprise (such as an increase in soybean yield), the market should begin to realize just how strong the soybean export pull actually is. We will remain positioned for further soybean upside in coming months.

Regards,



Mark Ditsch
October 5, 2020

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