# November 2017 Monthly Commentary

The USDA didn't lower the bean yield as the market expected in the November report and raised corn by more than expected (to a new record), with futures making lows early in the month. There was not much follow through however and monthly changes were rather small. The exception was in products with meal gaining on oil. The oilshare did not play out as expected despite the potential tightening (more on that below). For the month, corn was down 4 cents, Chgo and KC wheat were down 3, and Mpls wheat was down 5. Beans were up 3 with meal up $13/ton, and oil down 95 points.

Wheat traded in a rather narrow range until the end of the month when new lows were made. There doesn't seem to be much enthusiasm for further downside with larger risks skewed to the upside. The protein shortage issue is coming to the forefront, especially with heavy rains in eastern Australia where roughly 5 mmt is yet unharvested in those areas. US winter wheat area (how much is it down?) coupled with late planting is also supportive. The January 12th report is a big one for wheat. World values bottomed in late August/early September and have bounced/held steady since then. As we enter the winter season, Black Sea exports should slow after a very strong start. Funds continue to build shorts with the risk/reward to that trade waning.

Corn has shown signs of life after a very bleak past few months. The USDA November yield was a new record despite less than optimal summer rain, and producers are still undersold both old and new crop. However the fund short keeps building, while at the same time demand prospects are getting better across the board. In addition, US corn is among the cheapest grains in the world as South American values have firmed. Argentina was the cheapest but has firmed recently. Ukraine's crop and exports may be overstated with potential for US exports to increase. The pace of ethanol use is far above the USDA's forecast and crop year use could be 75-100 milbus above the USDA's most recent forecast of 5475 milbus. China is also ramping up their ethanol program in an effort to clear out corn stocks. They have also been importing corn more aggressively than expected in recent weeks. This is a bigger picture issue but should be supportive in the longer term. Expect that there will continue to be a large amount for sale above the market, which should cap near term gains. A South American weather issue could provide a more sustainable rally. However, beans should continue to gain on corn as it is more important to maintain/increase US bean area than corn area.

Sentiment was pretty bad in beans after the USDA didn't lower yield in the November report. There was a huge position in long oil/short meal on the growing biodiesel use (with less imports) play, which has been a complete bust. Oil weakness was basically the unwinding of the share. Meal took the lead on a combination of items. Domestic use has been much better than expected and South American ownership is not that great with Argentina pulling nearby meal offers. Their meal shipping lineup has fallen well behind year ago. Chinese meal has been firming on tight port stocks. China is uncovered for January and February bean purchases and US is competitive. US sales and shipments are lagging last year's record pace, but should narrow the gap in the 2nd quarter. COFCO forecast China's 17/18 bean imports at 100 mmt (vs USDA's 97 mmt) which is more in line with the last couple of years' gain in pace. If 99-100 mmt imports materialize, the US share may need to increase to balance the matrix. The item currently at the forefront is ongoing dryness in Argentina and southern Brazil that is typical of La Nina weather patterns and remains a risk going forward. With lower area in Argentina, they need a record yield to obtain a 53-54 mmt crop (USDA forecasting 57 mmt). The USDA is likely also overstating last year's Argentina crop, which could explain the poor ownership/ slowing crush/slowing exports there. Oil World was 55.5 mmt last year on the Argentina crop while the USDA stuck to 57.8 mmt. This difference could be a big deal if adverse weather continues into January/February. I continue to think the upside risks are greater than downside in the near term as risk premium is warranted for South American production/bigger than expected China demand. Beans should continue to gain on corn on the need to maintain US bean acres next spring.

Regards,

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