



September 2018 Monthly Commentary

Wheat, the commodity with the actual fundamental story, lost 20-40 cents in September, while the most bearish thing on the planet, beans, held steady. Obviously beans have had a huge break and bearish sentiment alone provided support. Corn and beans ran out of selling with funds already heavily short and producers holding back due to very weak basis levels. US wheat continued to miss out on business and values leaked. For the month, Chgo was down 35 cents with KC down 42, and Mpls down 21. Corn lost 10 cents and beans were basically flat. Meal lost 70 cents while oil was up 18 points.

Corn yields and Sep 1 corn stocks came in above trade ideas. While we were once looking at potential for a 1400 carry-out in 18/19, it will likely be closer to 2000 milbus despite strong exports, due to big yields (even considering some isolated issues) and larger than expected carry-in. Feed numbers remain a mystery but it is what it is. Given the above, futures have rallied off of mid-September lows and could possibly move higher in the near term given structural considerations, strong export demand, and a very wet forecast. IA could be on track to have the wettest September-October on record with flooding a concern. Seasonally there is precedent to rally into November with a possible pause during next week's USDA report. I think USDA raised yields more than enough in the last report but the S&D will not look friendly given large carry-in stocks. Harvest delays and lack of producer selling may drive prices in the near term with quality and quantity at risk, especially in IA, with 15-20" totals likely in some areas for the September/FH October period.

Beans have been working higher as well on harvest delays/lack of selling with recent strength in South American currencies also providing support. Beans did the job of going to a level that makes US beans competitive even with the tariff, yet it seems China won't buy US at any price. They are dug in and importers don't want to risk shipments getting hung up. China is figuring out ways to use less meal and this could have long lasting effects. In the aggregate, bean yields continue to be off the charts but there are growing quality concerns that could affect meal yields down the line. An upward revision to last year's bean crop put 17/18 ending stocks above the 400 mark and 18/19 stocks look to be above 1000 milbus and possibly above 1200 milbus. First quarter exports should be the lowest since 11/12. Given we have already rallied nearly 60 cents from the mid-September low, and with export demand looking dismal and very few boats loading, further strength may be difficult to sustain despite harvest delays.

Wheat continues to be frustrating given paper tightness that is not yet translating to additional US business. Currencies and aggressive Russian offers have contributed to this as has VSR which gives the most incentive to storing wheat instead of exporting/feeding it. Russian values have firmed in the last couple of weeks and their exports should taper off. Australia's crop could be as low as 15 mmt due to the drought/freezes (USDA 20 mmt), and exports may only be 6-10 mmt (USDA 14 mmt). Canada is experiencing slow harvest given cold/snow. I maintain that futures will have to deal with Russian, Australian, and EU shortages in the next few months. Russia should price themselves out of the world market as the EU/Australia have done and the US should make up the difference, but it needs to happen in the next few months. I'm positioning for the wheat move higher and getting short on the bean rally in anticipation of a move to new lows.

Regards,

Megan Bocken

October 3, 2018

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