



November 2018 Monthly Commentary

It was an agonizing month waiting for the G20 meeting in hopes of more clarification on the “trade war.” Markets could scarcely think about anything else. The ranges in corn and wheat were roughly 20 cents each and both markets finished the month nearly unchanged. The bean market seemingly had the most to gain from the meeting between President Trump and President Xi, and futures gained 42 cents in November. Meal finished up \$2.60 with oil down 19 points.

There was very little satisfaction even after a trade deal was made at the dinner in Buenos Aires. More confusion. More headlines. More tweets. More rumors. The trade issues have completely muddied our fundamentals. You need to make assumptions to form balance sheets, but it is very difficult to make an assumption or hold a position with the risk of the next tweet or headline coming at any time. For now however, it appears that the Chinese are considering buying US beans for reserves and possibly US corn, wheat, and ethanol. For corn it could be a big deal as there will likely be another yield cut and the balance sheet could get fairly snug. There seemed to be quite a bit of optimism about potential purchases this week (even whispers of China sniffing around for US wheat), but to further muddy the waters, Canada arrested a top executive in a major Chinese telecommunications company to be extradited to the US. This cannot make coming to a truce any easier. Such an environment makes it very hard on traders.

The fundamental situation in beans remains decidedly negative. Even if China buys 5-10 mmt US in the near term, it is difficult to get ending stocks below 700 milbus. The biggest carryout in recent history was 574 milbus in 06/07. South American production prospects are nearly ideal currently. The recent rally pushing new crop into the mid-\$9.00 range is not discouraging area. We may end up with only a slight decline in area next spring which could keep stocks burdensome at least another year with trend yields. Producers are set to get another government apology payment soon which could spark another round of selling. I thought it would be a “sell the fact” type trade following the G20 meeting, but it still remains extremely difficult to stay short in the face of a potential chunk of buying that could happen at any moment.

There should be another yield reduction in corn in the January report. Export demand is holding up okay despite bigger and bigger crop/export ideas in Ukraine. If the Chinese buy a package of US corn, the balance sheet could be fairly snug. A few months ago the market was considering a big acreage increase in the spring at the expense of beans. This may not be the case anymore so it will be important to have a trend yield in 19/20.

Wheat remains an unfulfilling prospect. Russia continues to be aggressive with their exports although their values are creeping higher. US soft wheats are competitive on the world market, but few want to offer SRW. Argentina is the cheapest wheat but there are quality concerns. US exports should pick up in the last half of the crop year. My confidence is waning for a sustained rally however, unless China makes a move to buy US wheat in size. It remains difficult to tighten the old crop US balance sheet and countries that had issues last year (Australia, Russia, EU, US winter) likely won't repeat that again. There is a small window for US to dominate world trade and then the focus likely goes back to increasing supply next year.

Regards,

Megan Bocken

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