



## December 2019 Monthly Commentary

Markets rebounded in December after a resolution to the China trade war finally took place. We may finally be able to put the last two years of agony/tweets/headlines behind us and get back to fundamentals. Corn sank further early in the month but rallied to close 16 cents off the lows and 6 higher for the month. Wheat was strong with Chgo up 17, KC up 29, and Mpls gaining 47 cents. Both hard wheats corrected vs Chgo, although Chgo is still the highest priced wheat. Chgo is well above delivery and there are no offers which should keep this relationship skewed. Beans rallied from the beginning of the month after November's pounding, finishing 67 cents higher. Meal was up \$7.00, but oil was the star, making new highs and rallying nearly 400 points. ASF in China has slowed China's crush which has created shortage of oil. This is going on while palm production has been low and biodiesel is ramping up around the world.

Beans were the leader in December on the agreement on Phase I of the trade deal which will be signed on January 15<sup>th</sup>. The US agreed to no new tariffs and to lower existing tariffs on some goods. China vaguely agreed to make US purchases worth \$40-50 bln in 2020 and 2021. The details of Phase I are expected to come out after the signing next week. China lowered tariffs on some bean purchases and bought US during December. Purchases have now slowed with US beans at a premium to SAM. China is not likely to buy US if it is not economical. Our window for the moment seems to have closed, and with no major weather issues in SAM, they may continue to buy from Brazil. However, an unknown is China's overall demand. With hog production coming back online, their overall demand could be closer to 100 mmt than 90 mmt. The USDA has been underestimating demand with their current forecast for imports at 85 mmt (82.5 in 18/19). Another factor to consider is that the market is forecasting a 7-10 mil acre increase in US acres this spring. I am not sure the incentive is there for that much of a gain in the low \$9.00 range. In addition, even if we do get an 8 mil acre increase, and a yield increase, neither US nor world stocks will build in 20/21 given increased demand forecasts. US 19/20 supplies are half of 18/19 supplies and I maintain that beans are at the least fairly valued and likely undervalued given that we need the acre increase this spring. Argentine tax policies will also favor hoarding going forward. Meal has value near \$300 and oil should see a set back in the near term given index fund rebalancing. The Dec stocks report and final production report on Jan 10<sup>th</sup> should set the tone for the near term as will details on the trade deal and SAM weather. Given we're on a decent rally, near term risks are more fairly balanced and I will wait and take direction from the reports at the end of the week.

The Jan 10 report has potential to be near term friendly for corn with additional reductions in harvested area and yield likely. Over half of ND's corn crop is yet to be harvested. Also, near term friendly is the fact that US corn is finally cheaper than Argentine and Ukraine and there are no offers out of Brazil (nor will there be until the summer). Hopefully more details will be forthcoming on the trade deal and whether China will buy US corn. This could be a game changer. While near term fundamentals support strength in corn, the forward outlook is less compelling. With increased acres and yield in the US, stocks will build next year and be quite comfortable without a major China import program. I am expecting corn to be a trading market in the near to intermediate term with no long lasting pattern anticipated.

Wheat has been trending higher and this should continue at least in the near term. The winter wheat seedings report at the end of the week could show the lowest winter wheat area ever. EU winter wheat area is also down considerably in a number of areas. Australia is in their third year of drought and short supplies. KC wheat is 70 cents below Chgo and 70 cents below Mpls. There is room for funds to build length in KC and there should be index buying coming up with the rebalance. It is likely there will be some wheat buying from China if they are to fulfill \$40 bln of purchases. US and major exporter stocks are expected to decline for the 4<sup>th</sup> year in a row in 20/21 even without China, and additional strength is likely in wheat in the near/intermediate term and I plan to keep some length in KC.

I look forward to the year ahead that looks to hold many opportunities.

Regards,

Megan Bocken  
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