



June 2020 Monthly Commentary

Markets languished for much of the month in a choppy fashion. Wheat was decidedly negative making new lows on US winter wheat harvests and better than expected HRW yields. Corn made new lows but bounced back on a bullish surprise from the USDA with acres coming in much smaller than expected. Beans traded mostly sideways until the final day of the month with bean acres also lower than expected. Producer selling had slowed and fund short covering in corn and meal pushed markets higher on the final trading day in June. Corn finished the month up 11 cents. Chgo wheat was down 31 with KC down 37 and Mpls only down 16. Beans were up 35 cents. Meal finished the month up \$4.30 and oil gained 47 points.

Corn acres came in 3 mil acres below trade ideas and 5 mil below March intentions. The trade had been expecting a big switch from corn to beans with a 2 mil reduction from March anticipated. In hindsight, coronavirus along with depressed prices discouraged planting. It is a bit reassuring actually, as it means the market is functioning as it should (low prices cure low prices). Jun 1 stocks came in well above trade ideas – 275 milbus above. The acres trumped the stocks with market structure and lack of producer selling adding to the bullish reaction. 20/21 carryout stocks near 3 bln bushels is no longer a given with lower acres and now some weather risk heading into pollination. The pattern has slowly turned warm/dry with some ridging and high overnight lows. Independent of rain, it is difficult to have above trend corn yields when there are above normal temps, which is looking like it may be the case. Currently the USDA is forecasting a nat'l ave yield of 178.5 bu/a (up from 167.4 last year). Even if we take the yield down to 173 bu/a, there would be little/no stock growth in 20/21. US exports may not be great and US is at premium to SAM origins, but for the moment we are trading supply and weather. Funds still have a lot to cover, but direction in July should be almost entirely dependent on the weather.

Wheat took a beating in June on US harvest considerations. Stabilizing rains in the EU along with Russian crop ideas that are getting bigger added to the negativity. Black Sea values worked lower and the market is anticipating a front-loaded Black Sea export program which could get us to S Hem harvest. June 1 stocks (19/20 carryout) were bigger than expected at 1044 milbus. Most of the miss was durum and HRW. Spring wheat acres were less than expected. The major exporter balance can still get pretty snug in 20/21, especially if China has a sizable import program. In the near term, however, wheat should be a follower of corn. If Corn Belt weather is threatening and corn has a short-covering rally, wheat will follow. The funds are also carrying sizable shorts in Chgo and KC.

I maintain a friendly outlook in beans due to a number of factors. Brazil has aggressively exported and their availability will be down drastically Aug forward. US beans are discount to Brazil and China's demand is likely understated. Unless there is another pig disease, China will have no choice but to come to the US for their needs. China tensions should not be a factor aside from headlines. Bean acres did not increase the 2+ mil that many in the trade expected. This, along with demand that is being understated, and it becomes clear that the market currently is holding little to no risk premium. Even with a 50 yield, the balance sheet in 20/21 should be cut in half. If there are any yield threats, the balance sheet will tighten further. I still think the meal short is vulnerable and will trade accordingly.

Regards,

Megan Bocken
July 2, 2020

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