



October 4, 2018

Advanced Ag Program Commentary

Last month I noted I was still negative to soybeans, but at the same time I was fearful of a possible “early” seasonal bounce as prices neared the \$8 mark and there was still a modest degree of uncertainty towards the crop size. That stance allowed us to largely escape much damage as soybeans have rallied since mid-September despite our bearish bias. While final crop size is still of course debatable, with nearly 30% of the crop harvested we now have a much better picture of supply potential and we also now know the final 17/18 carryout estimate. The bottom line is we’re looking at an amply supplied market with limited demand opportunities. The recent rally is providing an excellent opportunity.

The following breakdown of near term demand prospects against current projections of supply really shows the opportunity well. What I want to highlight above all from the chart is the line “Needed/Crop”, which is an estimate of how much of the new crop the market will “need” to move into demand channels very quickly following harvest. You notice in years in which we’ve had a relatively high level production needed immediately, we’ve also tended to post solid rallies during the month of October. However, look at this year’s demand projections. With China largely absent from the US export market and with the highest carry-in stocks in a long time, the “pull” on this year’s crop is the smallest we’ve seen in about a decade. Yet note that this year’s rally since mid-Sept would be relatively large compared to even some of the years in which we had massive “pulls” on the crop. This leads me to believe that the current market is liquidating shorts and nothing more. After the recent round of wet weather clears the Corn Belt, harvest will resume and cash markets will fall under pressure again. This should open up a very good opportunity for US soybean prices to test the lows...likely making new lows in the process. A <\$8 price on SF’19 cannot be ruled out.

US Soybean Quarterly Supply and Demand

	08/09	09/10	10/11	11/12	12/13	13/14	14/15	15/16	16/17	17/18	18/19
Carryin (Sep 1)	205	138	151	215	169	141	92	191	197	302	438
Production	2,967	3,361	3,331	3,097	3,042	3,358	3,927	3,926	4,296	4,392	4,693
Sep-Nov Imports	3	3	4	3	4	7	8	6	5	6	7
Total Supply	3,175	3,502	3,486	3,315	3,216	3,506	4,027	4,123	4,498	4,699	5,138
Sep-Nov											
Crush	420	445	443	412	452	446	439	471	485	495	524
Exports	387	536	622	425	626	677	813	793	926	856	450
Seed	0	0	0	0	0	0	0	0	0	0	0
Residual	92	183	143	108	172	229	248	146	189	187	240
Total Use	899	1,164	1,208	945	1,250	1,352	1,500	1,409	1,600	1,538	1,214
Stocks (Dec 1)	2,275	2,339	2,278	2,370	1,966	2,154	2,527	2,715	2,898	3,161	3,924
Stocks/Use	253%	201%	189%	251%	157%	159%	168%	193%	181%	206%	323%
Needed Sales	691	1,023	1,053	727	1,077	1,204	1,401	1,218	1,403	1,236	776
Needed/Use	77%	88%	87%	77%	86%	89%	93%	86%	88%	80%	64%
Needed/Crop	23%	30%	32%	23%	35%	36%	36%	31%	33%	28%	17%
SX % Gain Oct	-11.5%	5.5%	10.8%	2.4%	-3.4%	-0.2%	14.6%	-0.9%	5.1%	0.6%	7.14%*

We have to keep in mind that the situation with China is not getting better but rather intensifying beyond trade dispute. Consider the following headlines from just the past week in major news outlets:



- *Axios: The Trump admin's secret anti-china plans*
- *Bloomberg: China used tiny chip to infiltrate US*
- *WSJ: Pence to step up US criticism of Beijing*

Chinese tariffs against US soybean purchases are not going anywhere. The market seems somewhat relieved that US PNW prices (after tariffs) have now leveled off near Brazilian values, but we have to make the point that the Chinese action is more of an embargo rather than an outright tariff. Chinese sources indicate that there is no way that they will buy US soybeans even if the simple economics would make sense on paper. Then consider that Brazilian soybean planting is progressing very quickly and weather conditions appear to be very favorable at the moment. *Brazilian new crop harvest is only ~4 months away.* Most meteorologists continue to call for an El Nino to develop this winter, and it is in El Nino years when Argentina typically sees some of its best yields. So add it all up and we're looking at 1) Massive US soybean supplies + 2) Terrible US demand prospects + 3) Potential record-breaking South American production. That all points towards a scenario that limits upside to US soybean futures outside of short-covering bounces. We have been slowly reestablishing our short position in soybeans and will continue to add on further upside.

**Argentina soybean yields (versus the 30-year linear trend)
in El Niño Modoki years**

2014/15	+13.05% (record)
2009/10	+9.47%
2004/05	+6.32%
2002/03	+12.89% (record)

While I do view the set up in soybeans as very opportunistic, I am somewhat agnostic towards both corn and wheat prices at the moment. I feel that corn is likely to eventually settle into a wide trading range over time, perhaps from 3.50-3.80. As prices are currently near the middle of that range, I don't see the situation as a favorable risk/reward set-up. I hold a very similar view towards wheat at the moment.

I have initiated a small short position in cattle for summer 2019. I will go into this thought process in more detail later, but the bottom line is the market appears to be either grossly over-estimating demand or under-estimating supplies. I also think we might once again run into slaughter capacity restraints that we discussed (and profited from) this past spring.

Thank you,
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