December 7, 2018
Advanced Ag Program Commentary

November was a difficult month, and indeed 2018 a difficult year, as the grain and oilseed markets continue to gyrate erratically. I've taken to calling the current market environment "headline bingo", as prices simply oscillate back and forth following the most recent headline or tweet. It's a frustrating and difficult time but if you believe, like me, the fundamentals always "win" in the end then all it means is one thing – *delayed gratification.*

There is simply zero doubt in my mind that soybeans are grossly overvalued here. As I explained in the report sent last week describing why Chinese tariffs on US soybeans no longer matter (please contact our office if you didn't receive and would like a copy) the simple fact is the world is extremely over-supplied with soybeans. Brazil's crop last year has obviously been underestimated, and growing conditions thus far this season are exceptional. Another record crop appears to be in the making right now. Drop Chinese tariffs today and it still doesn't matter. Brazil is more competitive into China than the US at these prices even if you take out the tariff.

In the US, the can-kicking actions of the Trump administration is keeping some hope for a resumption of US exports to China and that hope continues to overshadow the reality that it doesn't matter. While can-kicking in politics is certainly nothing new, its influence is better felt in financial markets rather than agricultural commodities. In agricultural commodities, the outlook "recalibrates" at least once every six months due to the crop production cycles around the world. Can-kicking in trade policy in an effort to temporarily support prices will create distortions that will immediately be felt when the world moves into a new crop cycle. At current prices, the US is *not* discouraging 2019 soybean acreage which (assuming "normal" weather) will lead to bigger than necessary production in the US. This could lead to a further increase in US carryout on top of the current year's carryout that is already a huge new record.

The world is over-supplied with soybeans. Soybean prices are too high. Soybean prices will crash…just not necessarily on my preferred timetable. At the time of writing soybean prices are in excess of $9. I personally believe there is *at least* $1 downside from these levels and probably more.

The outlook for both corn and wheat is cloudy. I actually view both of these markets as likely-range bound in the next several months. In corn, we'll need to closely monitor Brazilian safrinha production prospects, but we won't be able to speak intelligently on that until this spring. In wheat, we're also looking ahead to spring for ideas of what to expect from both US and FSU winter wheat production. In the meantime, look for choppy price action to be the norm.

In the livestock markets, I feel summer month contracts for both cattle and hogs are over-valued as the market is pricing in what in my opinion is overly optimistic export demand.

Happy Holidays to you and your families.

Thank you,
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