May 6, 2019
Advanced Ag Program Commentary

As I type this commentary, we're roughly 24 hours removed from President Trump lighting the current US-China trade negotiations on fire (again) via Twitter. Just when there seemed to be an end in sight, his double-down on threats of additional tariffs raises the prospects that this saga will drag on additional weeks or maybe months. In the end, I suspect President Trump will back off these threats and claim some sort of victory in the process (per usual), but the truth is I don't have any informed read on what the President is thinking and I'm not sure many do. For our purposes in the ag markets, however, the implications are no different than they were a month ago. Simply put – the current US-China negotiations no longer matter for corn and soybean prices. That is not to say that headlines stemming from the negotiations won't affect markets; they certainly will. However, given the current landscape of global supplies and, more importantly, the US 2019 growing season the "staying power" on prices from trade headlines will be very short lived. My strategy in dealing with the trade negotiation headlines going forward – ignore them.

Instead, as alluded to above, the main focus for me in the months ahead will be the US growing season. As noted in last month's commentary, South American production is almost assured to be very large and that will weigh on US demand prospects in the future. However, the market will trade *supply first*, and of course that supply will be predicated on how the weather influences crop production in the US over the next few months. I noted last month that yields in El Nino summers typically average above trend due to ample moisture and cool temperatures. However, it is precisely that set of conditions that is creating problems in the Corn Belt today. After the wettest winter on record in the Corn Belt, the above average spring rainfall has created flooding problems across the Corn Belt. A very limited percentage of the crop is planted at the time of writing and the outlook for the next two weeks does not appear promising for an appreciable catch-up. There is the distinct risk that US corn planted area might fall below prior expectations, and many analysts would argue that late planting could also negatively impact yield potential. The bottom line is – as of *today* I believe the market will look to re-price production risk in corn (and to a lesser extent, soybeans) in the weeks ahead. As long as the spring weather outlook remains wet, I believe there will be upside potential for corn and soybean values.

Make no mistake…the world remains very well supplied with corn and soybeans. And there is nothing that would support an argument for increased demand as ASF continues to wreak havoc in China and as European production of wheat (and other grains) is due to rebound dramatically. The actual upside in corn and soybean prices will largely depend on how long the excess rainfall sticks around this spring and to what extent it affects planted area. This will require us to be nimble in our approach. Though I am looking for potential significant upside in the short term, I still stand by the idea that the longer term trend likely remains lower for corn and soybean prices.

Thank you,
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