June 4, 2019

Advanced Ag Program Commentary

Spring 2019 will go down as possibly the worst planting season on record. Record rainfall and cool temps throughout the Corn Belt has planting of both corn and soybeans running at unprecedentedly slow rates. At present, there is an unprecedented amount of corn acreage remaining to be planted…at least when compared to the USDA's Prospective Planting report. It is highly unlikely all of this acreage gets planted.

As an illustration, consider the following. This shows a breakdown of the most recent USDA planting progress data as of 6/2/19. It also gives my current best guess for planting progress for 6/9/19. What is important to note here is the acreage highlighted in orange, which notes this is acreage that is already past the insurance planting date. Any farmer that wishes to plant this acreage now will lose some insurance coverage (by how much depends on planting date and other factors). The numbers highlighted in red are those areas that will pass that date this upcoming week. All combined, more than 23 million acres or 28% of the 18-state projected total would need to be planted past the insurance date. This clearly argues for a significant reduction in corn planted area vs. the USDA's original estimate. Unfortunately we'll be debating how much for many more months to come.

			6/2/2019			6/9/2019		
Corn		2019 Intentions	% Complete	Acres Planted	**Acreage Remaining**	% Complete	Acres Planted	**Acreage Remaining**
	CO	1,430	78%	1,115	**315**	85%	1,216	215
	IL	11,200	45%	5,040	**6,160**	65%	7,280	3,920
	IN	5,500	31%	1,705	**3,795**	50%	2,750	2,750
	IA	13,600	80%	10,880	**2,720**	88%	11,968	1,632
	KS	5,700	79%	4,503	**1,197**	89%	5,073	627
	KY	1,430	87%	1,244	**186**	91%	1,301	129
	MI	2,350	42%	987	**1,363**	60%	1,410	940
	MN	8,000	76%	6,080	**1,920**	85%	6,800	1,200
	MO	3,500	69%	2,415	**1,085**	75%	2,625	875
	NE	9,700	88%	8,536	**1,164**	92%	8,924	776
	NC	970	97%	941	**29**	100%	970	0
	ND	4,050	81%	3,281	**770**	99%	4,010	41
	OH	3,500	33%	1,155	**2,345**	50%	1,750	1,750
	PA	1,370	74%	1,014	**356**	85%	1,165	206
	SD	6,000	44%	2,640	**3,360**	85%	5,100	900
	TN	850	95%	808	**43**	98%	833	17
	TX	2,150	96%	2,064	**86**	98%	2,107	43
	WI	4,050	58%	2,349	**1,701**	75%	3,038	1,013
	US	85,350		56,756	**28,594**		68,318	**17,032**

Past PP?
14,102
9,566
23,668
28%

Though we won't know right away with certainty how many acres of corn will be lost this spring, the level of planted area will almost uncertainly be *the* deciding factor on price action for corn this year. Though large South American crops were expected to weigh on US demand this upcoming year, it is certainly possible that the lost acreage (and lost production) could result in a situation where corn needs to *ration* demand further through higher prices. And of course this doesn't

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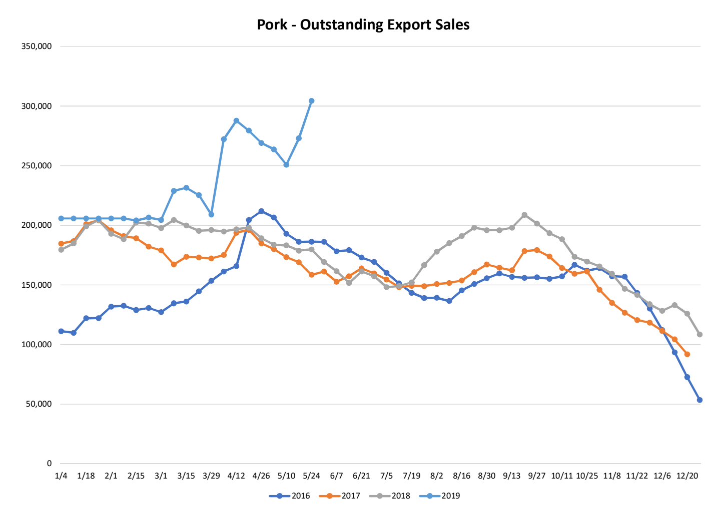
even consider 2019 yield prospects yet. USDA's own yield model would suggest that the late planting progress "should" shave US corn yield potential by more than 10 bpa on a national basis even assuming "normal" weather going forward. I would argue such an early cut to yield prospects is extreme, but the point remains it is definitely possible the poor spring weather is leading to irreversible yield deterioration as well. Simply put, corn supplies are being cut and potentially by a <u>very significant</u> amount.

Of course unfortunately that doesn't make a long-corn position an "easy" trade. We still have those big competing supplies outside the US. In addition, the Trump administration remains focused on trade disputes with major US ag importers. His newest target, Mexico, is the top destination for US corn exports. Still, for now, it seems price action continues to favor additional upside in corn.

Though the wet spring has impacted soybean planting as well, I don't view massive soybean acreage losses likely for now. The same look at insurance dates in soybeans (as shown above in corn) doesn't start to factor in until late June. In addition, while corn supplies before production losses were ample, soybean supplies are massively ample. It would take an extreme situation in soybean production to shift the tide in terms of supplies. There is no resolution forthcoming in the China trade dispute, and contacts within China continue to relate that purchases of US soybean purchases will simply not happen in this environment.

With that in mind, I favor a long corn position alongside a short soybean position.

The other market on my radar right now is hogs. Hog prices have been beat up a bit as the trade dispute with both China and Mexico weigh on sentiment. However, you can see to the right that export demand is record large. We also hear of more and more hog culls every day from Southeast Asia, where most of the world's hogs are raised. I have a hard time believing this won't result in a very big increase in demand for US product. Export sales to China are very large in spite of the ongoing trade dispute. Commercial contacts imply more is on the way, and I think this leads to potential explosive upside in the hog market.



Thank you,
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