Grain Market Situation

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Introduction

As we near the end of March, the markets remain searching for direction, confused by the mixture of large stocks in soy, average stocks in corn, the ongoing trade dispute with China, widespread flooding in the Upper Midwest, and price behavior that doesn't seem to match the fundamentals. This creates a difficult environment in which to forecase profitability, and emphasizes the need for farmers to have risk management plans based on profitability and not their own moment-by-moment judgement.

Corn

Examining corn and soybean projected ending inventories might give one the impression that the state of the market should be obvious. Based on March WASDE statistics, the corn stocks-to-use ratio is 11.7%. This is below average for the past 20 years, and about what the ratio stood at during 2002, 2006, 2014, and 2015. So it's not extremely low, but neither is it sitting at bumper-crop levels. In bushel terms, we are approximately 250m bushels above the important 10% stocks/use level. These stocks levels reduce the margin for error in either 2019 production in the US or globally. However, while 250m bushels is less that 3bu/acre, an increase of 1.5m acres planted this spring is also equal to about 250m bushels–and this is a reasonable estimate of current market expectations. So while the corn market right now is slightly on the tight side of average, fears of a significant increase in corn plantings in 2019 continue to depress prices.

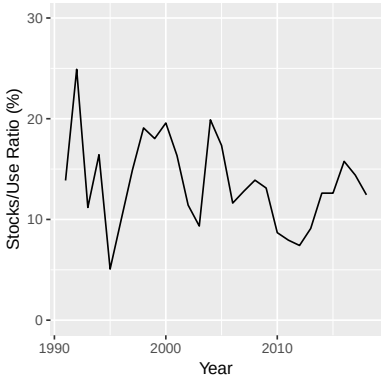

Figure 1: Corn stocks-use

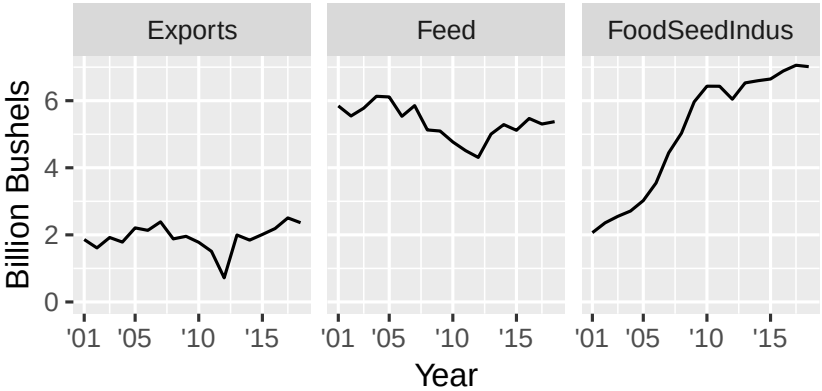

Figure 2: The Three-legged Stool of Corn Demand

Corn demand remains solid, but growth continues to be weak. Over time, feed demand has been increasing at approximately 75m bushels per year, exports have been flat to 25m bushel increase, and ethanol is flat to 25m increase, for a total of approximately 100-125m bushels per year of demand growth for corn. At 90m acres, this is about 1.3bu/acre growth in demand each year. Unfortunately, trendline yield growth has averaged 1.75bu/acre for the past decade, meaning that demand is not keeping up with supply.

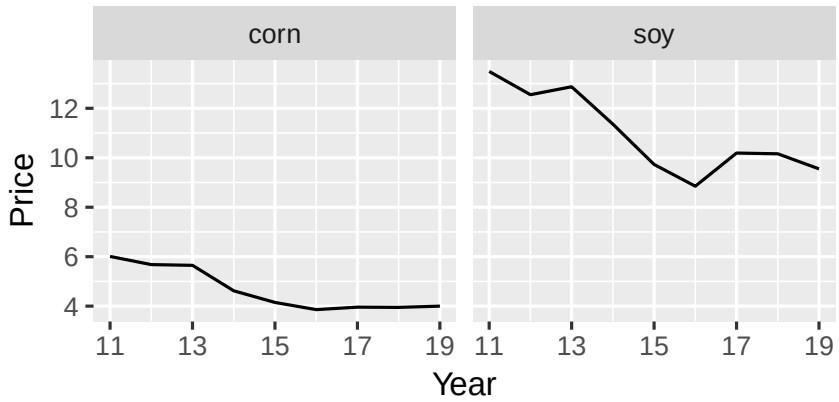

Figure 3: Corn and Soy Spring Insurance Prices

This diverging trend had been masked by the growth in soybean exports to China and the developing world, where demand growth was outstripping supply growth. For this reason, many analysts had expected to see a secular shift away from corn planting toward soybeans in the coming years.

Soy

Until 2018, all forces seemed to favor soybeans. Demand was growing globally–not just China, but in a world that is becoming ever wealthier, consumers everywhere want higher-protein diets, and soy is ideally situated to provide that. While prices had fallen since the end of the commodity super cycle in 2013, per-acre profitability stayed very competitive with corn, and the lower input costs and lighter labor demand increased the attractiveness of soy, particularly in the Dakotas, with their access to the PNW by rail.

But the trade war of 2018 changed that. The imposition of tariffs has cratered US soy exports–we are on pace for 2018 exports of 1.5bn bushels rather than the 1.875 currently projected. Domestic soy demand has remained robust, as until quite recently profits in most species have been strong enough to maintain or grow herd size. But once again, domestic demand growth is not sufficient to keep pace with supply growth; that role has been filled by exports.

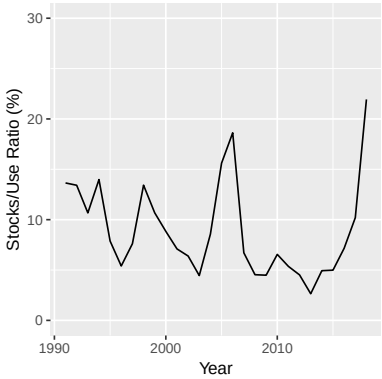

Figure 4: Soybean stocks/use

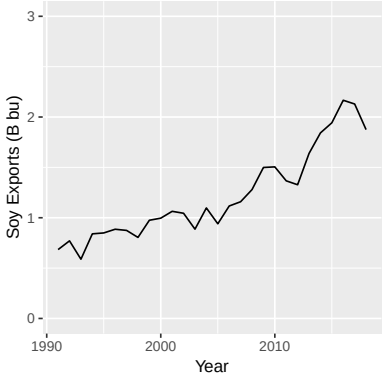

Figure 5: Soybean Exports

Wheat

Wheat prices fell sharply through February, as expectations about the new crop, and about global crop conditions have sapped price strength based on weak planted acres and poor crop conditions coming out of the fall. Wheat exports have remained weaker than is required to maintain current USDA exports, but continuing uncertainty about Russia's ability and commitment to export have largely offset that factor. As we have moved through March, prices have recovered approximately 1/3 of those losses on worries about conditions after the 'Bomb Cyclone.'

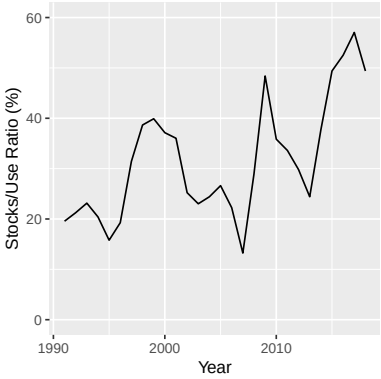

Figure 6: Wheat stocks/use

The lower acreage planted this fall is supporting prices, though it isn't obvious, and it makes the crop much more sensitive to any weather issues as we move through the Spring. I believe prices right now are weaker than they will be at harvest. The market has made a habit of being particularly bearish regarding wheat. That attitude has typically been proven correct, though I'm less sure it will be in 2019.

Prices

Crop insurance spring discovery prices are $4.00 for corn and $9.55 for soybeans, up 5c and down 61c, respectively from last year. Obviously, this weakens the incentive to shift acres from corn to soy, and the higher corn acres in 2019, barring weather, will act to reduce the surplus inventories in soy but build them in corn–sharing the pain. In spite of all the negative headlines, though, prices have remained remarkably firm. If you had polled Ag Economists in early 2018 what would happen if China imposed a 25% tariff on US soybeans, cutting exports to that country by 75%, exactly 0% of those economists would've predicted that we would be trading CME Soy at over $9, with a new-crop price of $9.50. There is incredible maybe inexplicable strength in soy prices right now.

Right now, the biggest question is what effect will the flooding have? The market seems to be placing some, but only some, weight on it, with prices rising in these past two weeks on late/prevent planting. With the yield performance of the past few years, in spite of some adverse conditions, I think that that market will be very leery of pricing too much damage and/or planting effect until we are in late May. If we continue to see adverse effects at this point, the stocks/use ratio of corn will permit some upside.

Conclusion

For crop producers, 2019 will look like 2018. Producers with strong yields will hold their balance sheets steady, or strengthen them.

Those that suffer from localized crop losses will see further erosion. The outlook for the entire crop sector will depend on whether (a) the trade dispute with China is resolved and (b) extreme weather events. Either of these situations will radically shift the tone in prices, as though US inventories are large, Chinese demand will likely return US soy inventories to more normal levels quite quickly. Widespread planting delays or poor growing weather will also be able to rapidly decrease stocks, resulting in a price response, especially in corn.

Take-aways

This is another good time to remind farmers that the key to marketing success in *not* trying to time the market, but instead to have profitable sales orders identified and placed in the market. 2018 production had profitable prices available. 2019 wheat has, too. But how many farmers had a plan to take advantage of it?