


The month of November was a choppy affair for both corn and soybeans with both closing near unchanged. Despite good demand for both, the total supplies in the US remain large as the new crop harvest was only finalized in late October.

Regarding corn, the long-term outlook for this crop year is mainly unchanged ending stocks due to a slightly smaller crop, and larger exports and ethanol use. With new crop supply basically matching demand, the prices should remain in a choppy range. Sharply lower prices are not likely over the next several months. At the same time, with the US farmer relatively undersold, price rallies should be capped by farmer engagement. With corn futures currently near the middle of the recent range of \$4.00-4.40, there isn't a burning desire to engage in a meaningful way.

The soybean market is now entering the final weeks of large US export demand as the Brazilian crop harvest will start in January. Demand so far this year has been solid out of the US for both exports and crush. Even so, the window for exports is closing rapidly as Brazil should be the dominant supplier for February through the end of the crop year in August. Current growing conditions in South America are excellent. If this weather pattern continues through January, there is sharp upside potential to Brazil especially. Currently, USDA is projecting their crop at 169mmt, but there is certainly upside potential on the order of 5+mmt. To be fair, whether Brazil is 169 or 175mmt doesn't really matter much to the old crop balance sheet. Supplies of that size will keep the US out of the export market (ex-captive destinations) through the next new crop cycle. Where it truly matters will be next fall as the US will have to compete with Brazil through the peak exporting months of October-December. Barring a marked shift in weather in South America, the price of soybeans is poised to drop substantially as the new crop South American crop is realized and demand swings out of the US.

The remaining positioning of note is in the soybean products of meal and oil. The meal market is well-supplied with basis levels slipping due to the record large ongoing crush. As demand for biofuels continues to grow, the soybean meal supply keeps growing. At this pace, meal will need to eventually compete with corn to buy its way into the feed ration. In order to compete with corn as an energy source, prices will need to decline to the \$250/ton area. As for soybean oil, both export and biofuel demand stay strong. Despite record soybean crushing, the estimated stocks of oil have not been growing. The biggest risk to the soybean oil market is policy. With the upcoming Trump administration (which is seen as pushing back on biofuel mandates), there is large policy risk. For that reason, positioning is small. In the low 40 cent area, risk to the downside is limited through Jan. 20.

Sincerely,



Stephen Davis

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