February 2025 Market Commentary

The month of February started strong, as corn and soybean prices moved higher before turning lower into the end of the month. While soybeans were down modestly, corn prices dropped sharply. The combination of tariffs, retaliatory tariffs, risk on/off, and USDA Outlook Forum acreage made trading a bit more precarious than normal. Despite the mainly political obstacles, the longer-term themes are still prevalent and should win out over time.

The soybean balance sheet remains in surplus for the world with strong production out of South America. Harvest data from Brazil and recent weather both indicate that USDA is too small on their production estimate. With record yields in N Brazil and good rainfall recently in the South, USDA looks to be ~5 million metric tonnes (mmt) too small. Recent rainfall in Argentina has also helped that crop during its critical growing phase and should at least support USDA's current estimate at 49mmt. Combined production in South America should be a record and will have a long tail of exports well into the US new crop starting in September. For old crop US soybeans at $10, the downside becomes more limited with the planting season upcoming. USDA trimmed their outlook for planted area by 3 million acres at their Spring Outlook Forum matching my expectations. When combined with the surplus in South America, the world should have an ample supply of soybeans well into next Spring assuming a normal weather pattern during the summer. While short positions have been pared modestly in the short term, rallies will be used as selling opportunities.

On the flip side of beans, the world corn balance sheet continues to tighten. While it doesn't appear that US supplies will be at rationing levels, they are tight and should get tighter as we move into the summer. The combination of tariffs and expansion in new crop planted area as estimated by USDA has led the sizeable speculative long position to head for the exit. That liquidation has pushed corn down ~12% from the high in mid-February. With a tightening US balance sheet and the risk of growing conditions in Brazil for their second crop corn (safrinha), the futures market looks underpriced. Fundamental analysis supports old crop pricing closer to $5 based on current balance sheet estimates. For these reasons, a modest long position has been initiated in the corn market. USDA estimated an increase of 4mm acres to planted area for this spring in the US. That increase in area and a trend yield should allow the US ending stocks to move closer to ample. While those projected ample stocks should keep some pressure on new crop December corn futures, the unknowns of Brazil safrinha production and US growing weather risk premium should keep prices from moving rapidly to the downside. Both US and Brazil production will be watched closely as weather can move prices in either direction.

A low-risk cattle short has been in the program for the past couple of months. Cash prices have been moving down over the past several weeks and should begin to bottom later this month. With the cattle market still structurally tightening, I will be looking for an advantageous time to move from lower cash/futures to more structurally bullish position in the deferred contracts.

Sincerely,

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