June was another month of chop with the markets starting lower, rallying mid-month, and then breaking again late. With all of the geopolitical angst (wars, tariffs, etc.), I am actually a bit surprised that the gyrations weren't even more extreme simply on fear. Overall, the long-term plan is intact with the core positioning still the correct one to have.

Regarding corn specifically, the overall outlook remains bearish. USDA issued two reports on June 30: Stocks in all positions and updated acreage estimates. The stocks number was larger than expected which helps to bolster the old crop ending stocks. This indicates that either the crop was understated or feed/residual use has been smaller this year. With NASS not inclined to increase production, WASDE will sweep the larger ending stocks into a smaller feed/residual use. Either way, it loosens up the old crop balance sheet a bit. Regarding the acreage report, it was just a small change from the estimate in March and has very little bearing on overall prices. As we look into new crop, weather in the US continues to promote the idea of above trend yields. With the current 15 day forecast getting most of the crop through the critical pollination period, temperatures look mostly normal with normal to above normal precipitation. When looking at weather around the globe, the only problem spot currently is in the EU. They have been hot and dry which should trim some of their production of corn leading to larger imports. On the flip side, Brazil's weather has been great. USDA is currently estimating their total corn production at 130 million metric tonnes (mmt) while private entities mostly range from 140-150mmt. My balance sheets are taking the middle of the private estimates at 145mmt. The extra 15mmt in production will allow for substantially larger exports than USDA is projecting which should weigh on US exports. This allows me to lower US exports and puts estimated new crop ending stocks over the psychological 2 billion bushel (bb) threshold. If yields do come in over trend as the forecast currently suggests, it will simply add onto the ending stocks. Using my stocks/use ratio, prices should migrate down toward $3.75 for a fall low.

The soybean market is facing similar headwinds as well. USDA's stocks estimate was larger than expected and will help to bolster ending stocks for old crop. In addition, the acreage report saw little change. With a slightly larger old crop ending stocks and slight drop to planted area, the reports caused minor changes to the new crop balance sheet. This brings us full circle to the all-important summer weather in the US. While the forecast currently looks great, the critical month for development of soybeans is August. With that in mind, there is no reason to deviate from trend yield. As for demand, competing supplies in South America are larger than year ago which will bleed into new crop exports. More importantly, China continues to show little interest in importing US soybeans during the trade dispute. With the increased supplies in Brazil, China should be able to take only Brazilian beans through the entire year. The rest of the world will come to the US, but China is the heavyweight. Put simply, there are too many soybeans in the world right now. Competition remains fierce. With the US being the residual supplier, ending stocks for new crop appear to be burdensome. Without an abrupt change in the forecast, the longer term trend is still for lower prices.

While not a market that is mentioned often here, soybean oil is getting a lot of attention with good reason. Without getting too deep into the minutiae, the EPA's initial mandate for biodiesel/renewable diesel would cause demand rationing of bean oil. There is a comment period from July 8-9 that can alter the proposal. As it currently sits, only USMCA oils would be viable for any credit. In addition imported oils/biofuels would be more expensive as they don't qualify for as many RINs. The last wrinkle is the Small Refiner Exemption (SRE). In previous years, EPA has granted a

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hardship waiver to small refiners meaning they don't have to comply. In some years, EPA has simply wiped those needed RINs off the balance sheet. In others, they have shifted the burden to large refiners. What the government does here is the crux. If they grant the SRE and don't shift the burden, soybean oil is overpriced. If they don't grant the SRE (or do but shift the burden to large refiners) soybean oil is underpriced. The bottom line is that there are still some big pieces of the puzzle needed. If soybean oil prices rally sharply, soybeans can be held to a higher price than fundamentals suggest (at least initially). If bean oil breaks, it is simply more negative to soybean prices. I will be paying close attention to further developments.

Sincerely,

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