

Soybeans Take another Beating

The August USDA reports were bearish to soybeans, corn, & cotton, and neutral for wheat. The bearish news for all three crops came from the production side, with USDA coming in much higher than trade expectations. The good news for corn & cotton is that record/near-record demand would use the extra production. But not so for soybeans.

USDA is starting out with its first estimate for **soybean** yield at 51.6 bpa, just below the 2016 record. That yield with near-record acres would combine to give us a record production of 4.586 billion bushels. And even with USDA bumping both old & new crop demand, would leave us at the end of next summer with a record US carryout of 785 million bushels! So as we zoom toward harvest, the market's job now is to incent US farmers & commercial elevators to store soybeans. Widening of nearby basis and futures spreads will make that happen.

USDA also projected a record **corn** yield of 178.4 bpa, with production of 14.586 billion bushels. The good news is a record demand estimate of 14.980 billion bushels! The would reduce ending stocks at the end of next summer to 1.684 billion bushels according to USDA. While the production number was higher than expected and caused a round of selling, I still believe downside is limited due to the large demand number. That doesn't mean corn has to rally a lot, but it's not bearish either. USDA's **cotton** report showed some big surprises. They lower harvested acres, which was not a surprise. But then USDA jacked up the yield to 911 lbs, higher than last year. That combination of acres & yield took production up 740,000 bales to 19.24 million. Even an increase to demand wasn't enough to keep next year's carryout from bumping up to 4.60 million bales. We will of course get more accurate yield information in the September & October reports. But for the moment it looks like we've made it through another crop year with plenty of production in the US. We'll also watch production in other parts of the world for potential price support.

Soybean Ending Stocks Based on Possible Scenarios:



USDA 2018-19 Beginning Stocks:	430 million bushels	302 mln bu in 2017-18
Estimated 2018-19 Demand:	4256 million bushels	4251 mln bu in 2017-18

Planted Acres	Percent Harvest	Harvested Acres	Yield per Acre										
			Lanworth	USDA July	2017 Final	Bloomberg	Farm Futures	Informa	DSMG Kaprelian	FC Stone	USDA August	2016 Record	
89.6	0.999	89.5	47.9	48.0	48.5	49.1	49.77	49.8	50.0	50.1	51.5	51.6	52.1
89.6	0.997	89.3	492	500	545	599	659	662	680	677	815	823	867
89.6	0.995	89.2	483	492	537	590	650	653	671	668	806	813	858
89.6	0.993	89.0	474	483	528	581	641	644	662	660	796	804	849
89.6	0.992	88.9	466	475	519	573	632	634	653	656	787	789	839
USDA 6/29/18	0.992	88.9	462	470	517	568	628	629	648	646	782	785	836
89.6	0.989	88.6	449	457	502	555	614	617	635	633	769	777	821
89.6	0.987	88.4	440	449	493	546	605	608	626	624	759	767	811
89.6	0.985	88.3	431	440	484	537	597	599	617	615	750	758	802

Red < below 250 mln Gray 250 - 400 mln Green 400 - 574 mln Dark Green > new record high

Corn Ending Stocks Based on Possible Acreage/Yield Scenarios:



Estimated 2018-19 Beginning Stocks:	2.027 billion bushels	2.293 bln bu est. in 2017-18
Estimated 2018-19 Demand:	14.980 billion bushels	14.910 bln bu est. in 2017-18

Planted Acres	Percent Harvest	Harvested Acres	Yield, Bushels per Acre										
			USDA July	Farm Futures	DSMG Kaprelian	Informa	Bloomberg	2017 Record	FC Stone	USDA August	2016 Record		
89.1	0.924	82.3	173	174.0	174.5	174.5	176.3	176.3	176.6	177	178.1	178.4	180
89.1	0.922	82.2	1.338	1.420	1.461	1.461	1.585	1.609	1.634	1.667	1.758	1.782	1.914
89.1	0.920	82.0	1.307	1.389	1.430	1.430	1.553	1.578	1.603	1.636	1.726	1.751	1.882
89.1	0.919	81.8	1.276	1.358	1.399	1.399	1.522	1.547	1.571	1.604	1.694	1.714	1.850
USDA 6/29/18	0.919	81.8	1.245	1.327	1.368	1.368	1.491	1.515	1.540	1.573	1.662	1.684	1.818
89.1	0.916	81.6	1.214	1.296	1.337	1.337	1.459	1.484	1.508	1.541	1.631	1.655	1.786
89.1	0.914	81.4	1.184	1.265	1.306	1.306	1.428	1.452	1.477	1.509	1.599	1.623	1.754
89.1	0.912	81.3	1.153	1.234	1.275	1.275	1.397	1.421	1.445	1.475	1.567	1.592	1.722
89.1	0.910	81.1	1.122	1.203	1.244	1.244	1.365	1.390	1.414	1.446	1.536	1.560	1.690

Red < 1.5 billion Gray 1.5-2.0 billion Green 2.0-2.293 billion Dark Green > 2017

Cotton Ending Stocks Based on Possible Scenarios:



USDA 2018-19 Beginning Stocks:	4.40 million bales	2.75 mln bales in 2017-18
Estimated 2018-19 Demand:	18.90 million bales	19.10 mln bales in 2017-18

Planted Acres	Percent Harvest	Harvested Acres	Yield per Acre										
			USDA July	2017 USDA	USDA August	2016 Record							
13.52	0.770	10.41	840	845	850	860	870	880	889	900	911	920	930
13.52	0.785	10.34	3.69	3.80	3.91	4.12	4.34	4.56	4.75	4.99	5.23	5.42	5.64
13.52	0.780	10.28	3.57	3.68	3.79	4.00	4.22	4.43	4.63	4.86	5.10	5.29	5.51
13.52	0.755	10.21	3.45	3.56	3.67	3.88	4.09	4.31	4.50	4.74	4.97	5.21	5.38
USDA 6/29/18	0.750	10.14	3.33	3.44	3.55	3.76	3.97	4.18	4.38	4.61	4.84	5.03	5.25
13.52	0.745	10.07	3.22	3.32	3.43	3.64	3.85	4.00	4.25	4.48	4.60	4.79	5.00
13.52	0.740	10.00	3.10	3.20	3.31	3.52	3.73	3.94	4.13	4.36	4.59	4.77	4.98
13.52	0.735	9.94	2.98	3.08	3.19	3.40	3.60	3.81	4.00	4.23	4.46	4.65	4.85
13.52	0.735	9.94	2.86	2.97	3.07	3.28	3.48	3.69	3.88	4.10	4.33	4.52	4.72

Red < below 2 mln bales Gray 2 - 3.2 mln bales Green 3.2 - 5.0 mln bales Dark Green > 5.0 million bales

Revenue Management Update

Managing USDA Price Risk

Everyone in agriculture understands the risk that farmers have with price. Our prices are affected by everything from planted acres to weather to demand to world currencies. We better throw USDA onto that list.

We're all aware of the volatility that comes with USDA reports. Going into the August Crop Report the trade was leaning higher. Soybeans, corn, & wheat had all posted a 3-week recovery from contract lows made in July. Technicals like the RSI & stochastics pointed toward markets being slightly overbought. Therefore, to limit potential price risk, I suggested in the **Grain Market Outlook** email letter the days before the report that producers should consider using put options or long put/short call strategies in case the USDA report was deemed negative – see suggested strategies above right. I felt there was risk of a lower trade, and that lower trade would impact producers' profitability. If producers had bought the November \$9.00 soybean puts on August 8, & sold them back Friday after the report, they would have earned 44 cents per bushel!

For those not familiar, CGB Diversified Services began over 20 years ago to help producers with their marketing. Today, the Diversified Services Marketing Group continues to offer a variety of marketing services – from brokerage services to cash grain programs to market information – to help producers around the country manage price risk. If you or producers you work with would like more information, give us a call at (888) 926-0985 or check out the link on the DCIS website at www.diversifiedcropinsuranceservices.com and click on the "Grain Marketing" tab at the top.

from August 8th Grain Market Outlook:

Option-Based Strategies to Consider Ahead of Friday's USDA Report

With the markets having moved off of lows the last couple weeks, and technical indicators like the RSI showing closer to "overbought" than "oversold", I would suggest using option-based strategies to protect against downside price risk. Here are a few suggestions:

- 1A) **Buy October \$3.70 corn put option on December '18 corn @ 5 cents** (expires 9/21) *just in case* USDA puts out a high yield (contract low so far was \$3.50 ¼).
- 1B) Pay for the put option by **selling October \$4.00 corn call option on December '18 corn @ 5 cents**, accepting a ceiling/willing to sell December corn at \$4.00.
- 2) **Buy September \$9.00 soybean put option on November '18 soybeans @ 12 cents** (expires 9/24) *just in case* USDA puts out a yield over 50 bpa, in case China raises more tariffs, etc.
- 3) **Buy CHI December \$5.80 wheat put option @ 30 cents** to protect either old or new crop bushels; Consider **selling CHI December \$6.20 wheat put option @ 26 cents** to offset a large part of the expense & raise the futures floor by accepting a ceiling.

