Diversified Crop Insurance Services
Revenue Management Update
Thursday, November 8, 2018

Plenty to Ponder from USDA

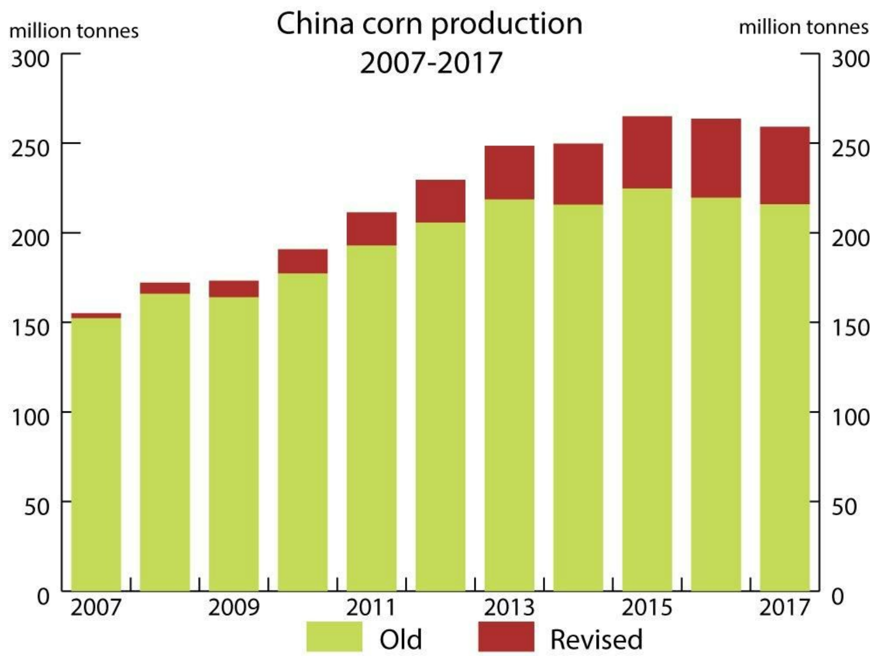
There were many important changes in the November WASDE report, but none came close to matching the **increase in world corn stocks**. USDA increased its 2019 corn stocks estimate from 159.35 mt to 307.51 mt. In fact, USDA increased their stocks numbers for the last 10 years due to adjustments to its Chinese production estimates. This came just a couple of days after the Chinese government also published large increases. The top chart shows USDA's China corn production estimates, with the red parts the increases over last month. Each of the last 3 years more than 30 mt was added, and more than 25 mt the two years before that. The market bulls would point out that China isn't currently exporting corn, so the increases shouldn't matter. The market bears would say that they sure could! The bottom chart shows world ending stocks (orange) and world stocks-usage ratio (blue), with both nearly doubled from last month! That's a big deal – back in October the 2019 stocks-usage ratio was showing the tightest since the early 70's. But look at the chart now! This also explains why the Chinese government is incenting producers to switch corn acres to soybeans next year. This all surely doesn't promote the idea of US corn or DDG's going to China in the near future, and it surely suggests reduced Chinese soybean imports as well.

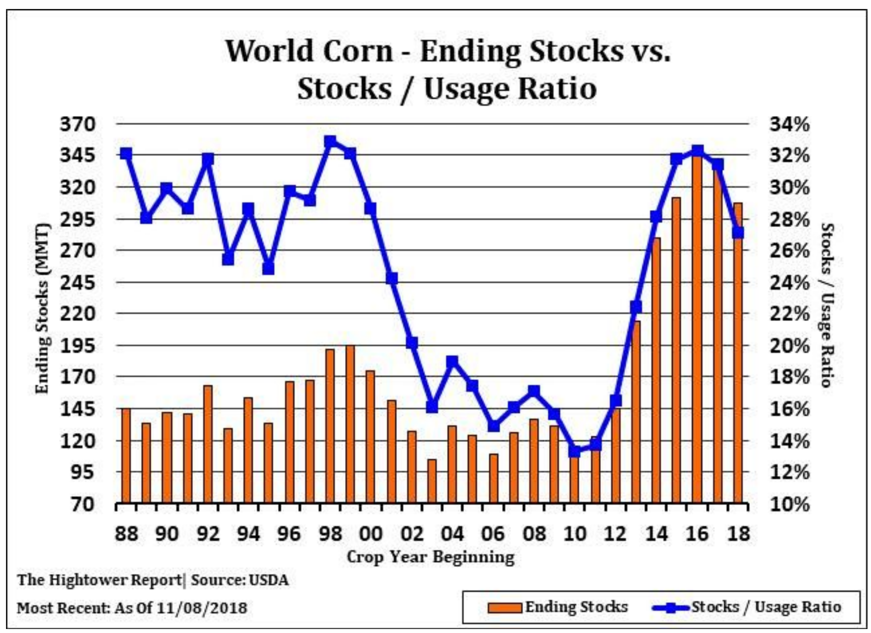
Other **world** numbers were also bearish. USDA increased world wheat stocks more than 6.5 mt, & increased world soybean stocks more than 2.0 mt. Cotton was the lone friendly crop, as USDA lowered world stocks nearly 2 million bales.

Looking at **US** estimates, the corn & cotton reports were a little friendly, wheat was neutral, and soybeans bearish.

USDA surprisingly lowered **corn** yield nearly 2 bu to 178.9 bpa, and cut production 152 mln bu. They also reduced demand 75 mln bu, but ending stocks still fell 75 mln bu to 1.736 bln. USDA raised the midpoint of is average farm price 10 cents to $3.60.

USDA made a significant cut in its **cotton** yield from 901 mln bales to 852 mln, and also reduced harvested acres again this month. Production was reduced 1.35 mln bales to 18.41 mln. Export demand was also cut, likely due to less China business. But ending stocks were cut 700,000 bales to 4.30 mln bales, which is back down to where last year's carryout was. USDA raised its average farm price midpoint a penny to 74 cents.





The **wheat** report was mostly a non-event, with USDA bumping seed demand 7 mln bu and reducing stocks a like amount to 949 mln bu. USDA kept the midpoint of its average farm price at $5.10.

Soybeans have been getting most of the market focus recently, and USDA gave us a little good and more not so good in its report. The positive news was USDA cutting yield by 1.0 bushels to 52.1 bpa, and also reducing production 90 mln bu to 4.600 bln bu. That cut was a little larger than

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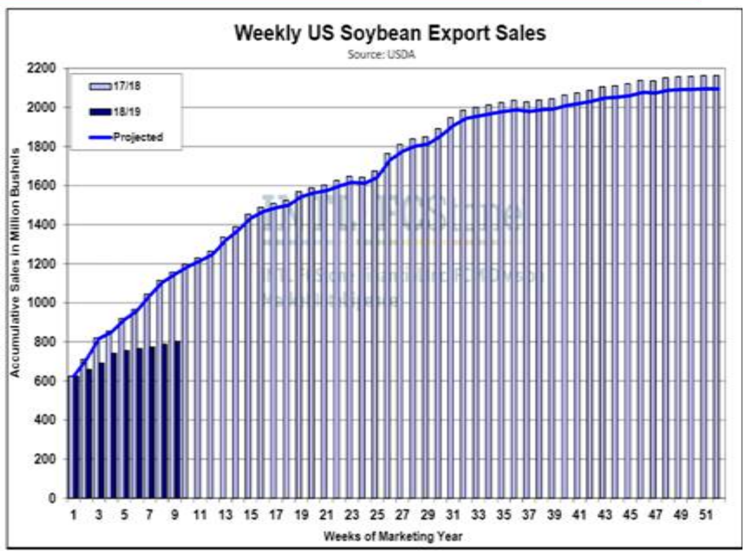
the trade expected. The big negative, however, was reduced demand, with exports down a whopping 160 mln bu to 1.900 bln bu. The top chart at right shows why – export sales continue to sharply lag a year ago and also lag the pace needed to reach USDA's previous estimate. And with the current gap, unless sales pick up in the near future, USDA may reduce exports in the future. This reduced demand more than offset the lower production, thus increasing ending stocks 70 mln bu to a new record 955 mln bu (below right). Some analysts are projecting this number to exceed 1.200 billion before it's all said and done – we'll see. USDA's average farm price midpoint is still $8.60.

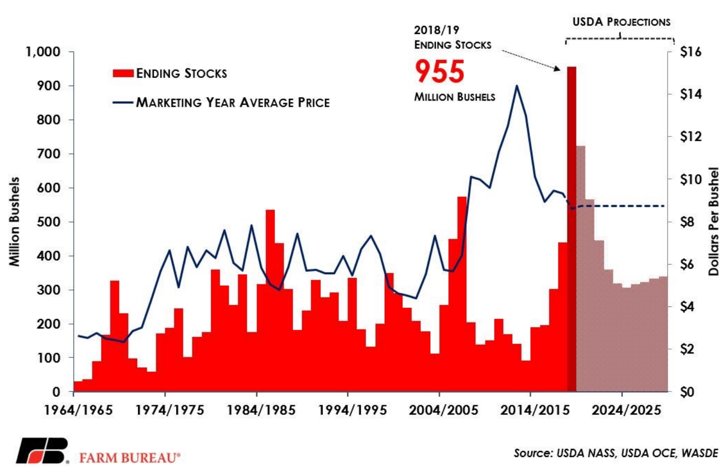


Implications & Expectations for 2019

There's already been plenty of discussion about US acreage for 2019. USDA's baseline projections showed an expected decrease of nearly 7 million soybean acres next year, a slight decline in cotton acres, a couple million acre increase in wheat, and nearly a 3 million acre increase in corn. Most of us believe that a large cut in soybean acres is needed, and that corn & cotton could use some of those acres. Are prices at a level to make that happen? The current November '19 soybean/December '19 corn futures ratio as running 2.33/1, and November '19 soybean futures are $9.36 ½ - is that enough to dissuade soybean plantings?

Looking ahead, one thing I expect is that we've got more potential for price volatility going into 2019 than we've had in a few years. I also believe that producers need a plan in place, both to price unsold 2018 production as well as manage 2019 risk. **DCIS' *Price Select*** program can allow producers to lock in a price early for 2019 revenue insurance. And our **DSMG** marketers can help producers build and execute a plan to market crops using cash, futures, and option-based strategies. Visit with your DCIS agent or give our DSMG marketing representatives a call at (888) 926-0985 to get prepared for 2019.

Figure 2. Actual and Projected Soybean Ending Stocks and Marketing Year Average Price



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