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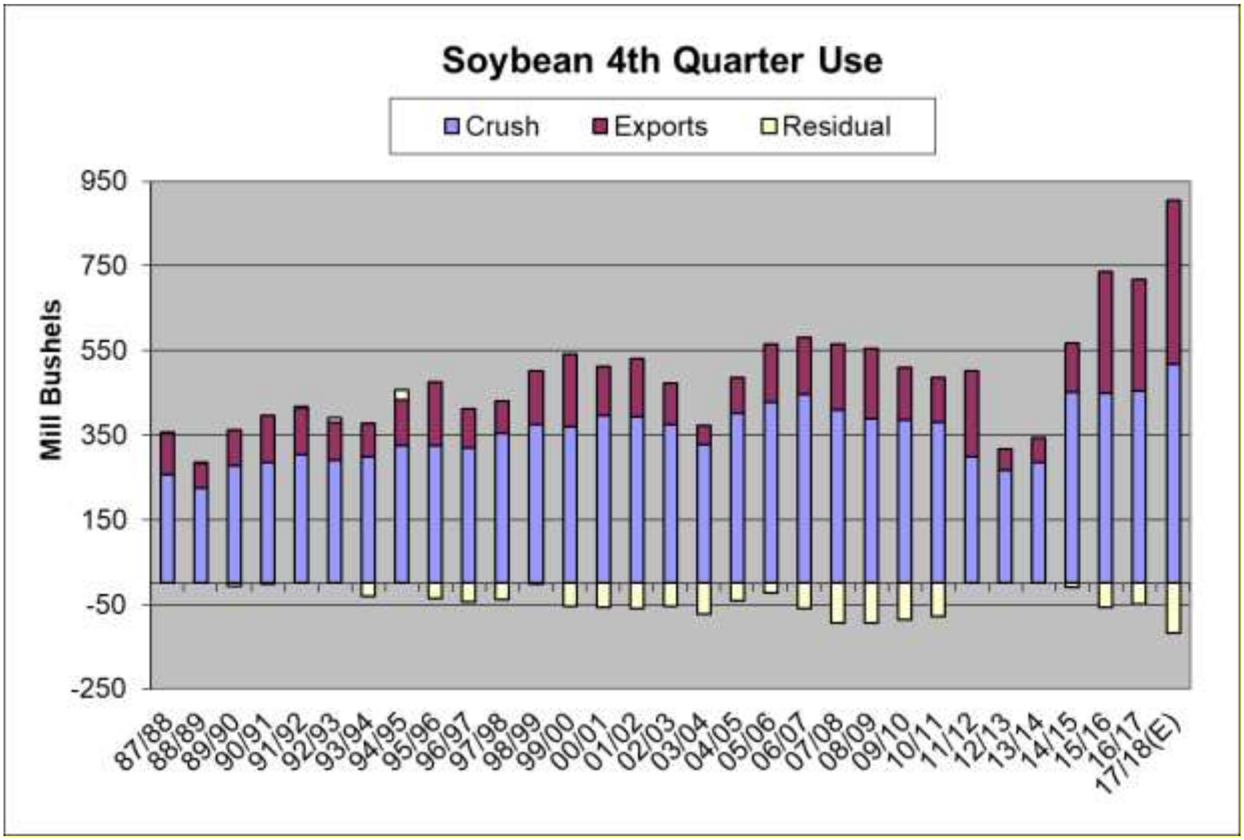
Soybean Techno-Fundamental Forecasts Update **Oct 3, 2018**

It is time to update our Techno-Fundamental assumptions and the associated price range expectations, recognizing the September 28 USDA Grain Stocks increase and revised production from 2017. Consensus is also developing for higher 2018 US average soybean yields. We have incorporated expected changes to both old crop and new crop in our table. Numbers with a yellow or green background are Brugler forecasts. Those with a white background are USDA numbers, and red numbers were changed by USDA in the September WASDE report.

Source: USDA-OCE WASDE							
Brugler Estimates							
Brugler Marketing		Sept	Best	Sept	A	A	A
Soybean S&D	USDA	USDA	Est	USDA	Prelim	Best	Prelim
10/2/2018	2016/17	2017/18	2017/18	2018/19	2018/19	2018/19	2018/19
Planted Acres	83.4	90.1	90.1	89.6	89.6	89.6	90.2
Harvested Acres	82.7	89.5	89.5	88.9	88.6	88.9	89.0
Yield	52	49.1	49.3	52.8	52.0	53.0	54.0
Carryin	197	302	302	395	438	438	438
Production	4296	4392	4411	4693	4609	4710	4806
Total Supply(w/Imp)	4515	4715	4734	5113	5073	5148	5269
Crush	1899	2055	2055	2070	2060	2070	2080
Seed,Residual	141	136	111	137	135	140	145
Domestic Use	2040	2191	2166	2207	2195	2210	2225
Exports	2174	2130	2130	2060	2020	2040	2060
Total Use	4213	4321	4296	4268	4215	4250	4285
Carryout	302	395	438	845	858	898	984
Stocks/Use	7.2%	9.1%	10.2%	19.8%	20.3%	21.1%	23.0%
Ave Cash Price	$9.47	$9.35	$9.32	$8.60	$8.60	$8.45	$8.30
Avg.Fut.High ($2.86)		$ 11.26	$ 11.23	$ 10.51	$ 10.50	$ 10.35	$ 10.20
Avg. Fut. Low ($2.86)		$ 8.40	$ 8.37	$ 7.65	$ 7.64	$ 7.49	$ 7.34
Yrs >10% S/U% Since '98 (HI)	$ 11.16	$ 10.45	$ 10.42	$ 9.70	$ 10.05	$ 9.90	$ 9.75
Yrs >10% S/U% Since '98 (LO)	$ 8.85	$ 8.75	$ 8.72	$ 8.00	$ 7.72	$ 7.57	$ 7.42
Recent Futures				$8.62	$8.62	$8.62	$8.62
High for Mkt Year To Date	10.8	10.71	10.71	8.7025	8.7025	8.7025	8.7025
Low for Mkt Year to Date	9.2975	8.26	8.26	8.1225	8.1225	8.1225	8.1225
Range	$ 1.50	$ 2.45	$ 2.45	$ 0.58	$ 0.58	$ 0.58	$ 0.58
Curr$Percent of Range				35.9%	38.2%	44.7%	51.1%
Curr$Percent Volatile Range				33.8%	34.1%	39.4%	44.6%

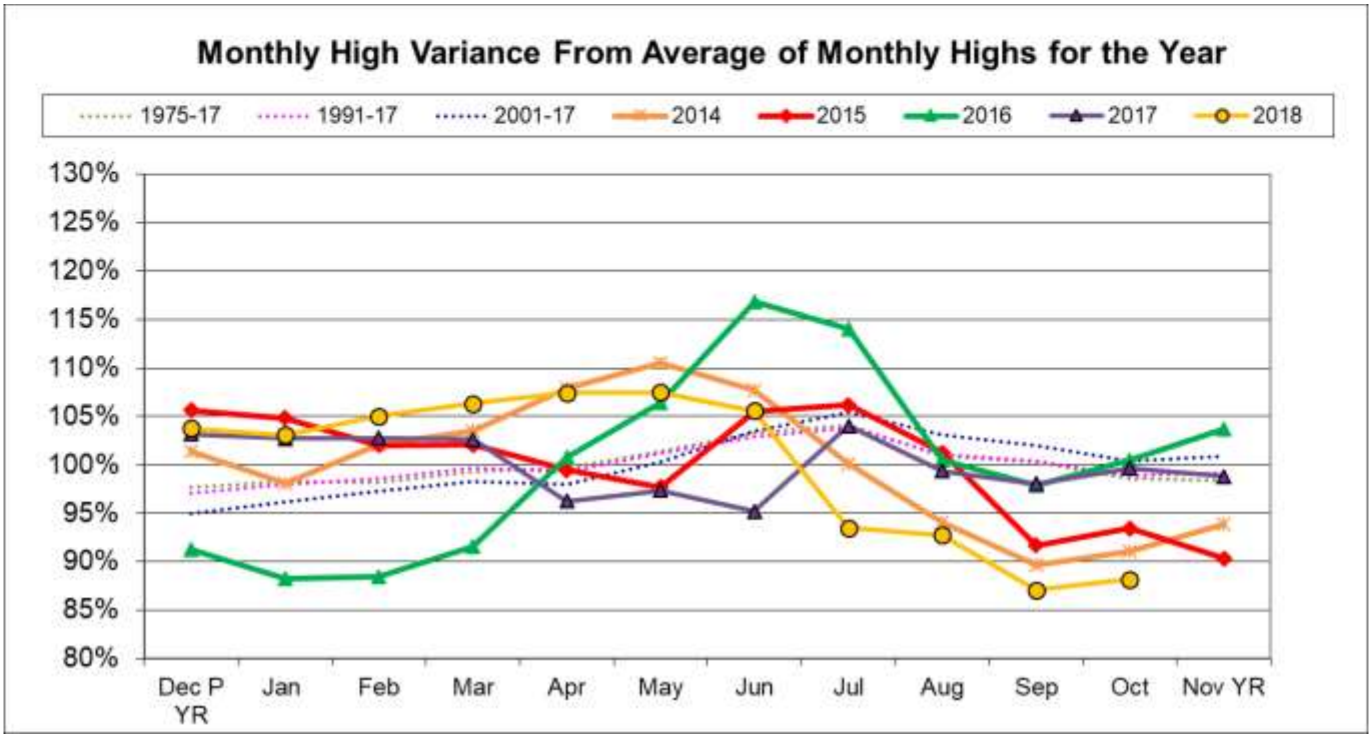
Let's look at old crop first. USDA confirmed on the 28th that soybean ending stocks were 438 million bushels. This is the official number and the supply and demand table is adjusted to fit in the October WASDE report. One briefing revealed that full year residual use was trimmed from 32 million to 8 million, dropping combined S&R to 111 million. Because of the large negative 4Q residual ("finding back" 117 mbu before the production adjustment), USDA raised last year's yield 0.2 bpa and bumped up production 19 million. These changes are all incorporated in the yellow Best estimate column.

We looked for record large 4Q disappearance, with fat Board Crush margins already locked in and adequate beans to feed the plants. The Export Inspections weekly report was also showing the best exports in 10 years for many weeks this summer. That was the case, as shown here:



The right hand white column in the first table has the most recent USDA estimates for 2018/19. The forest of red numbers shows that USDA was adjusting their assumptions about just about everything in September. They raised the expected yield to 52.8 bpa, bumping up production to 4.693 billion bushels. Total supply went over 5 billion bushels for the first time and will be even larger next week due to the 43 million bushel larger beginning stocks. USDA bumped up final crush in September, based on known 11-month crush, good margins and solid export potential given the shrunken Argentine soybean crop. Exports were left alone as they have been underperforming the typical commitments pace. USDA's cash price midpoint of $8.60 for the year would imply an average futures range of $8.00 to $9.70 if we look only at years with more than 10% stocks/use ratio. However, stocks/use pushing 20% is rare and might require the bigger annual range like we saw last year. That would be $7.65 to $10.51. How do you get to $10.51 from here? Go to $7.65 first. Low prices cure low prices and at the level Chinese buyers could afford to pay the 25% tariff and still bring the beans in below Brazilian sourced beans. Whether their government would inspect them and allow them to land and be used is an open question. Or, China cuts a deal with the US in December and rushes to fill depleted pipelines. South American weather problems would be very helpful in "encouraging" Chinese action on trade. There is no such weather issue at the moment, but El Nino is still only in the 60% probability range at this point.

The three green columns to the right of the table show different US final yield scenarios running from a small drop tied to lousy harvest weather on up to 54 bpa. At the highest yield, the market just can't move the beans and stocks build toward the billion bushel mark. The cash average price drops toward $8.30 and spot prices could be below $7.00 on the lows for periods of time. At the $8.30 cash midpoint, the expected September 2018 to August 2019 futures range would be $7.42 to $9.75. Current November futures are in the middle of that range. Expected crush and exports rise with that extra supply, but most of the response is in the first half of the year unless South America gets in production trouble.



The graphic above shows our seasonal model for the monthly highs in November futures. The dotted lines show that most highs for November beans fall between May and August, with anything over 100% beating the 12 month average of highs. You will note that this year is tracking 2014, another record yield year, closely but with larger carryover stocks and thus lower average prices. The pattern is instructive, as Nov rallied into the expiration month in 2014 despite the known record yields. October has shown a higher high for Nov futures than September in each of the last five years, including this year. In two of the previous four we got a higher high in November.

If you have been following the Ag Marketing Professional recommendations, you should be 30-35% cash forward contracted for fall delivery at Nov futures prices above $10. Hedgers have long puts vs. 70% of production, rolled down from the 1040 strike but still in place. We have sold some Nov 800 puts as covered writes to offset time decay but will have to move them if the crop size gets any bigger. The information above suggests that prices are in the lower half of the expected 12 month price range after 1 month of trading, but not at a solid bottom unless yields drop from the 52.8 bpa estimate or exports improve. Conservative upside targets are $9.75-$10.00 for the full year, using front month futures.

We have to remind you once again that the price targets are based on AVERAGE moves and as a general rule you should begin to sell when we get above 80% of the range and roll down or lift hedges if we venture into the bottom 20%. Last year we got to sub-zero percentages because we had a larger than average range.

Re-ownership strategies are advised only in our one-on-one consulting, so call the office if you think those might be appropriate in your individual risk situation.

Alan Brugler