What Comes Next?
Surviving and Thriving after the Commodity Boom

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What do we need to know for 2017 and Beyond?

- Global Grains & Oilseed Stocks are ample.
- Corn prices have been stronger than expected.
- Soybean demand, domestic and foreign, has been impressive.
- Wheat is a dumpster fire.
- No real crop threats at this time.
- Acreage shifts will be primary drivers in ’17
World Grain Stocks

Production
Use

Stocks/Use (%)

Stocks

27 29 31 33 32 30 28
23 19 21 20 17 18 21 22 21 20 20 22 24 25 25


Year

allgrains-w1-stocksuse, Source: USDA PSD
World Wheat Stocks

Production vs. Use

Bn Bushels

Year


Stocks/Use (%)

Stocks

1995: 32
2000: 38
2005: 36
2010: 35
2015: 34

wheat-w1-stocksuse, Source: USDA PSD
US Wheat Exports

Million Bushels

Year


1790 1600 1260 1330 1020 955

us-wheat-exports, Source: USDA PSD
US Wheat Feed Use

us-wheat-feed, Source: USDA PSD
US Wheat Feed Use

Million Bushels

Year


697 767 1030 1040 1040 1020

us-wheat-fsi, Source: USDA PSD
US Wheat Stocks

[Graph showing production, use, and stocks of wheat from 1995 to 2015. The graph includes bars for stocks and lines for production and use, with numerical values labeled on the bars and lines.]
Wheat doesn’t have a story...

- There has been no consistent demand growth in wheat use in the past 20 years.
- The major jumps in feed use have been driven by short corn supplies, not wheat affinity.
- However, while prices are weak, carries are strong, so wheat supplies continue to build up.
  - which further depresses wheat price and delays adjustment.
- There are no major supply worries right now, either.
- There is no good answer for WN17 marketing... 4.60 covered call selling, with cash selling at 4.50?
World Corn Stocks

Production
Use

Bn Bushels

Year


26 31 35 32 29 24 20 16 19 17 15 16 18 17 14 15 15 19 22 21 22

Stocks/Use (%)

Stocks

corn-w1-stocksuse, Source: USDA PSD
US Corn Feed Use

corn-us-feed, Source: USDA PSD
US Corn FSI Use

corn-us-fsi, Source: USDA PSD
US Corn Exports

corn-us-exports, Source: USDA PSD
US Corn Stocks

Production

Use

Bn Bushels

Year


Stocks/Use (%)

Stocks

com-us-stocksuse, Source: USDA PSD
Corn Market Summary

- Corn remains better supported than wheat, at least.
- Inventory situation is improving.
  - With 15bn bushel harvest, stocks didn’t grow as much as feared
  - Exports are picking up
  - Feed use is solid
- In the long term, where will demand growth come from?
  - Yields are growing faster than consumption in the US
  - Have not seen long-term increase in export demand
  - Either need new demand source or declining supply to keep competitive with soy.
Corn Marketing Observations

- July futures remain stuck in 3.60-3.80 range. Continue pricing above 3.70.
- Storage: carries remain wide, driven by strong storage demand. ECB basis remains relatively strong compared to past few years.
  - Zulauf’s plan: compare 3 year avg basis in July vs. current cash price... is this worth it? If so, then store.
  - Keep at least some price protection... lots of uncertainty in next 90 days. (Trump, Brazil, USD)
- For 2017: How many acres does corn lose? Current estimates are 3-5m, which is ~680m bushels.
  - Without weather in the US or somewhere prices will stay in the mid 3s.
World Soybean Stocks

Production
Use

Bn Bushels

Year

1995 1997 1999 2001 2003 2005 2007 2009 2011 2013 2015

15 12 20 20 19 19 19 22 20 24 25 28 23 25 28 20 21 22 26 24 25

soybean-w1-stocksuse, Source: USDA PSD
US Soybean Crushings

soybean-us-crush, Source: USDA PSD
US Soybean Oil Domestic Demand...

Biodiesel... the other ‘bio’ fuel.

Source: USDA PSD
US Soybean Meal Exports

Domestic Meal Demand is the driving force.
US Soybean Stocks

Production
Use

Bn Bushels

Year

Stocks/Use (%)

Stocks

soybean-us-stocksuse. Source: USDA PSD
Soybean Outlook

- Soybean exports remain solid, likely to move higher throughout marketing year.
  - Fake/Made Up/Thin Air prediction: by 70m bushels (to 2,120)
- Soyoil continues to benefit from RFS advanced biofuel mandate.
- Soymeal demand from domestic livestock is also strong.
- Price outlook for soy, long-term, is most positive of 3.
Old Crop:

- I’m worried about SAm harvest, as always. Be careful storing past March 1.
- Current run-up is definite pricing opportunity for old crop. Maybe not everything, but...
- If exports do materialize, may be some price improvement, but there will still be lots of bushels.
Soy Marketing

- **New Crop (ZSX17)**
  - At 10.26 vs. 3.87, with lender pressure, etc., I think that beans gain 3m+ acres in 2017.
  - I'm not convinced that there is that much extra demand for beans.
  - Some selling low 10s is reasonable, I think we'll see $8.99 before $10.99.
  - Downside protection using 'Short-dated New Crop Puts' May 9.40 at 10c