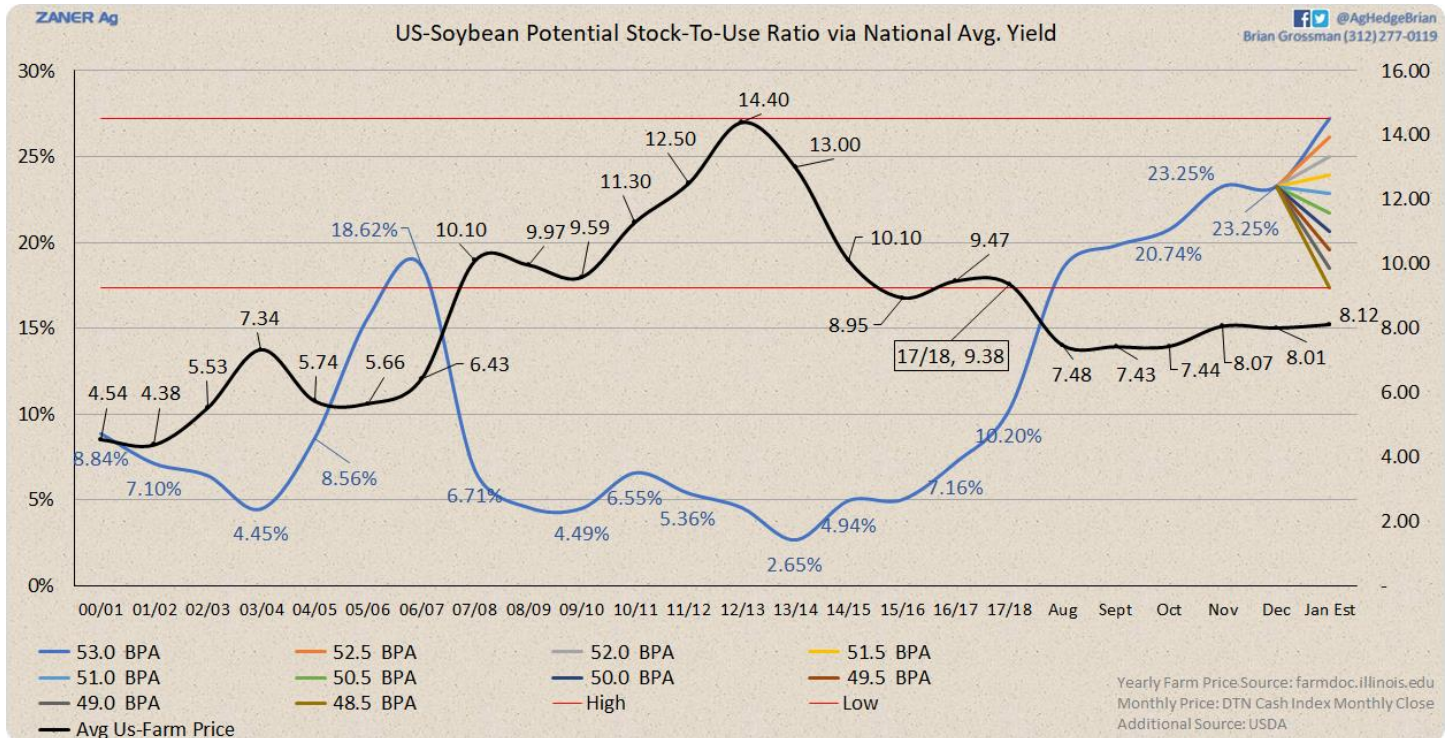


What Do the Soybean Bulls Know?

For several weeks now, I have been saying the most bearish thing for corn is soybeans, and the most bullish thing for soybeans is corn. After all, with soybean stocks projected at nearly 1.0 billion bushels and record stocks to use, how could somebody even get bullish soybeans?



After reviewing the chart above, one almost has to think that soybeans will ultimately go lower. Just look at prices back in the early/mid 2000's. But I listened to one of my favorite analysts over the weekend and he made an interesting comment. To paraphrase, his thoughts were simple. The market does not believe in a legitimate 2018/19 ending stock of nearly 1.0 billion bushels.

As a numbers guy, this comment made me pause. How could the USDA be so far off? In past years, they have been notorious for underestimating demand that has ultimately led to much lower US ending stocks versus the initial estimate that comes out in May.

2018/19 (MY) May 2018 initial estimate: 415 million bushels
 2018/19 (MY) Dec 2018 current estimate: 955 million bushels

2017/18 (MY) May 2017 initial estimate: 480 million bushels
 2017/18 (MY) Dec 2018 current estimate: 438 million bushels

2016/17 (MY) May 2016 initial estimate: 305 million bushels
 2016/17 (MY) Final Figure: 302 million bushels

2015/16 (MY) May 2015 initial estimate: 500 million bushels
 2015/16 (MY) Final Figure: 196 million bushels

Trading futures or options on futures involves substantial risk of loss and is not suitable for all investors.

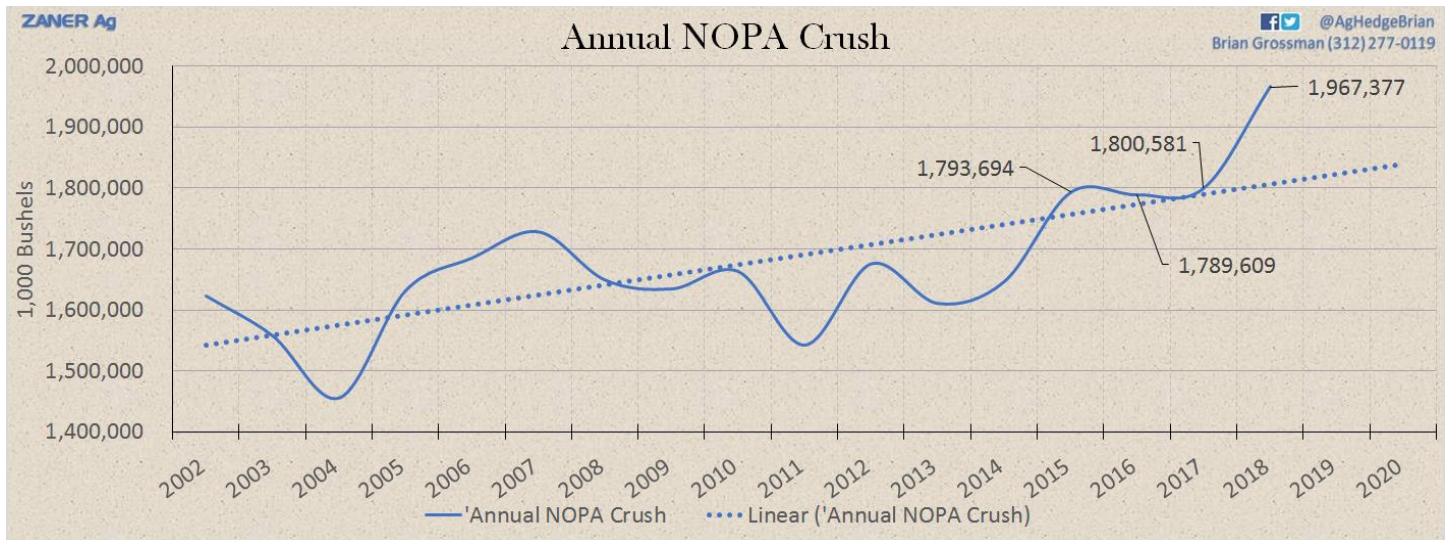
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2014/15 (MY) May 2014 initial estimate: 330 million bushels
2014/15 (MY) Final Figure: 190 million bushels

2013/14 (MY) May 2013 initial estimate: 265 million bushels
2013/14 (MY) Final Figure: 92 million bushels

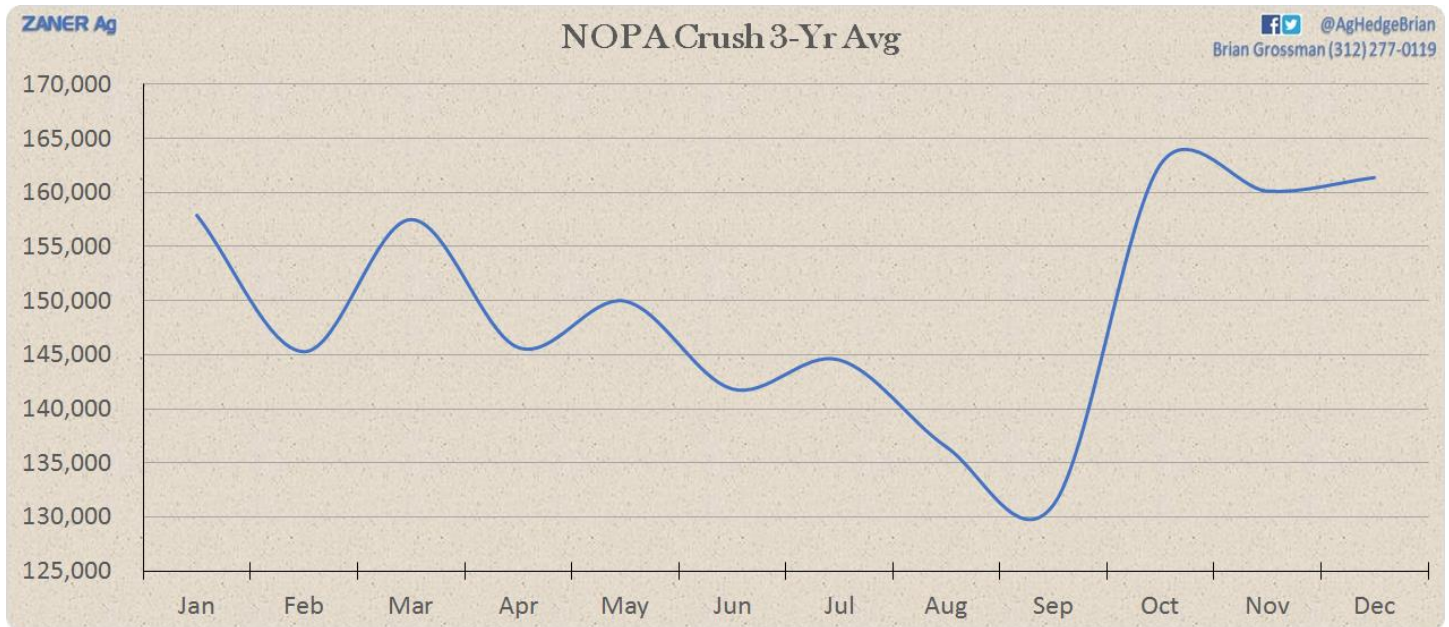
2012/13 (MY) May 2012 initial estimate: 145 million bushels
2012/13 (MY) Final Figure: 140 million bushels

Will the pattern of overestimated stocks hold through into this year? Will the Trade War throw that pattern into chaos? If not the Trade War, could it be the USDA? How could the “official” estimate be so far off?

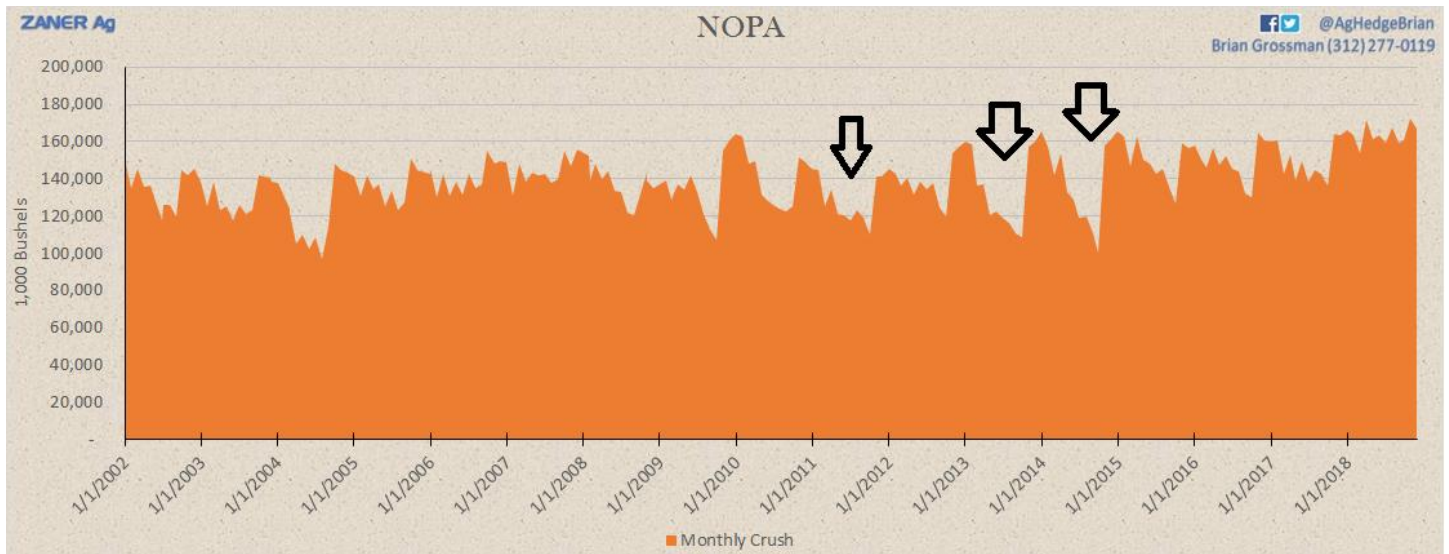


The key demand line items for soybeans are domestic crush and exports. Minor line items of Seed and Residual, but these two combined only accounts for a very small percentage of overall demand. Domestic crush demand has been a shining star. The USDA currently has crush forecasted for 2018/19 to be at 2.080 billion bushels. Once the NOPA crush data for December is released next week Tuesday, we will have a much more complete look at crushing demand for Quarter 1 of the 2018/19 marketing year (MY).

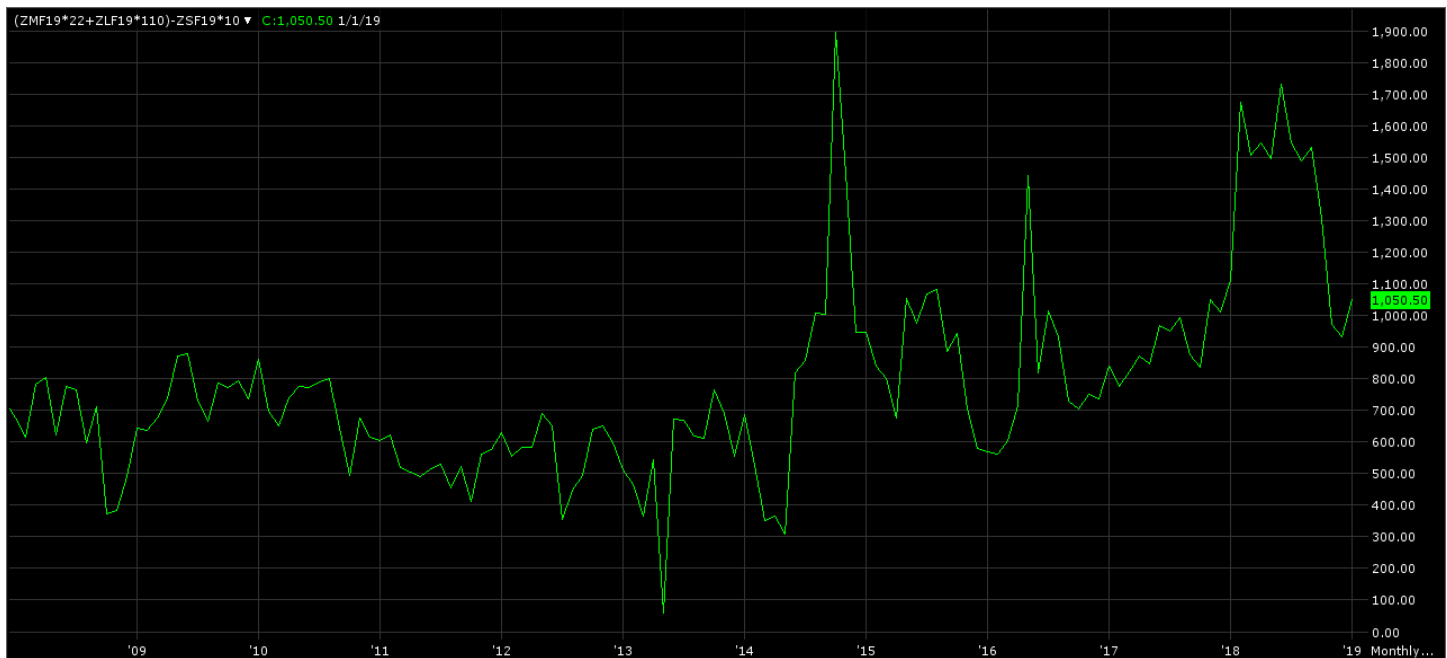
In either case, soybean crush, just like soybean exports, is a reported event. Monthly crush reports from NOPA and the USDA fill in that data, but crush demand changes with the markets and has very well-defined seasonal patterns.



From early onset of harvest, crushing peaks and then begins to taper off as we move through winter, spring, and summer until eventually finding a seasonal low around August/September - right before the new wave of harvested grain.



Not only is domestic crush capacity increases over the years, the time spent under repair or in “idol” has been drastically reduced. This has recently raised a question that the average trade has been unable to fully answer. That question is, “What is the national crush capacity?”



(Monthly Continuous Crushing Margin)

Market Year 2017/18 saw national crush rise over 2.0 billion bushels fueled by excellent crush margins for much of the marketing year. Granted, trouble has brewed in the later part of summer as margins collapsed but domestic crush still posted at or near monthly records.

Less downtime in at facilities can increase over all demand. Where else could some of these bushels have “gone”? Exports definitely vary from year to year, season to season and can be very hard to predict. However, this year is very different from recent years. A slow down in Chinese demand, a near collapse in Chinese demand from the US soybean market and growing global production. All key factors that might make this the year the USDA didn't overestimate stocks.

But back to the fact that soybeans are trading where they are....

What (potential) combination of changes could alter the balance sheet enough to reduce the stocks-to-use ratio down to match the prior US record of 18.62%?

The first big one that I look to is crush. US crush margins have performed extremely well, and processors have taken advantage of it. However, as I mentioned before, it is speculated that the national crush capacity is somewhere around 2.100 billion bushels.

Soybean	USDA						
	Dec	(1)	(2)	(3)	(4)	(5)	(6)
Area Planted	89.10	89.10	89.10	89.10	89.10	89.10	89.10
Area Harvested	88.35	88.35	88.35	88.35	88.35	88.35	88.35
Yield	52.1	52.1	52.1	52.1	52.1	52.1	52.1
Beginning Stocks	438	438	438	438	438	438	438
Production	4,600	4,603	4,603	4,603	4,603	4,603	4,603
Imports	25	25	25	25	25	25	25
Supply, Total	5,063	5,063	5,063	5,063	5,063	5,063	5,063
Crushings	2,080	2,105	2,105	2,105	2,105	2,105	2,105
Exports	1,900	1,900	1,900	1,900	1,900	1,900	1,900
Seed	96	96	96	96	96	96	96
Residual	32	32	32	32	32	32	32
Use, Total	4,108	4,133	4,133	4,133	4,133	4,133	4,133
Ending Stocks	955	930	930	930	930	930	930
Stocks/Use	23.25%	22.50%	22.50%	22.50%	22.50%	22.50%	22.50%

Knowing that since calendar year 2010, NOPA members annual crush has increased by roughly 37 million bushels. NOPA members account for roughly 95% of the domestic crush so I am giving a “potential” capacity (demand) increase of 50 million bushels over market year 2017/18.

Obviously a 50-million-bushel increase year over year is marginal in the big picture of the soybean balance sheet. Ultimately, the one that may change these numbers the most is production. Without a final Crop Production report from the USDA, the market is left to trade its own yield estimate. Averaging analyst estimates, we come to a yield of 51.8 bushels/acre.

Soybean	USDA						
	Dec	(1)	(2)	(3)	(4)	(5)	(6)
Yield	52.1	51.8	51.8	51.8	51.8	51.8	51.8
Production	4,600	4,572	4,572	4,572	4,572	4,572	4,572
Supply, Total	5,063	5,032	5,032	5,032	5,032	5,032	5,032
Ending Stocks	955	899	899	899	899	899	899
Stocks/Use	23.25%	21.76%	21.76%	21.76%	21.76%	21.76%	21.76%

Getting closer yet, but still far from 18.62% stocks-to-use ratio. Next, lets tinker some with exports. Currently forecasted at 1.900 billion bushels, personally I believe this number is optimistic given the current trade situation, export status, and timing of the year. Let’s entertain it anyways.

Soybean	USDA						
	Dec	(1)	(2)	(3)	(4)	(5)	(6)
Yield	52.1	48.0	48.0	48.0	48.0	48.0	48.0
Beginning Stocks	438	438	438	438	438	438	438
Production	4,600	4,241	4,241	4,241	4,241	4,241	4,241
Supply, Total	5,063	4,701	4,701	4,701	4,701	4,701	4,701
Crushings	2,080	2,105	2,105	2,105	2,105	2,105	2,105
Exports	1,900	1,900	1,950	2,000	2,050	2,100	2,150
Seed	96	96	96	96	96	96	96
Residual	32	32	32	32	32	32	32
Use, Total	4,108	4,133	4,183	4,233	4,283	4,333	4,383
Ending Stocks	955	568	518	468	418	368	318
Stocks/Use	23.25%	13.74%	12.38%	11.05%	9.75%	8.49%	7.25%

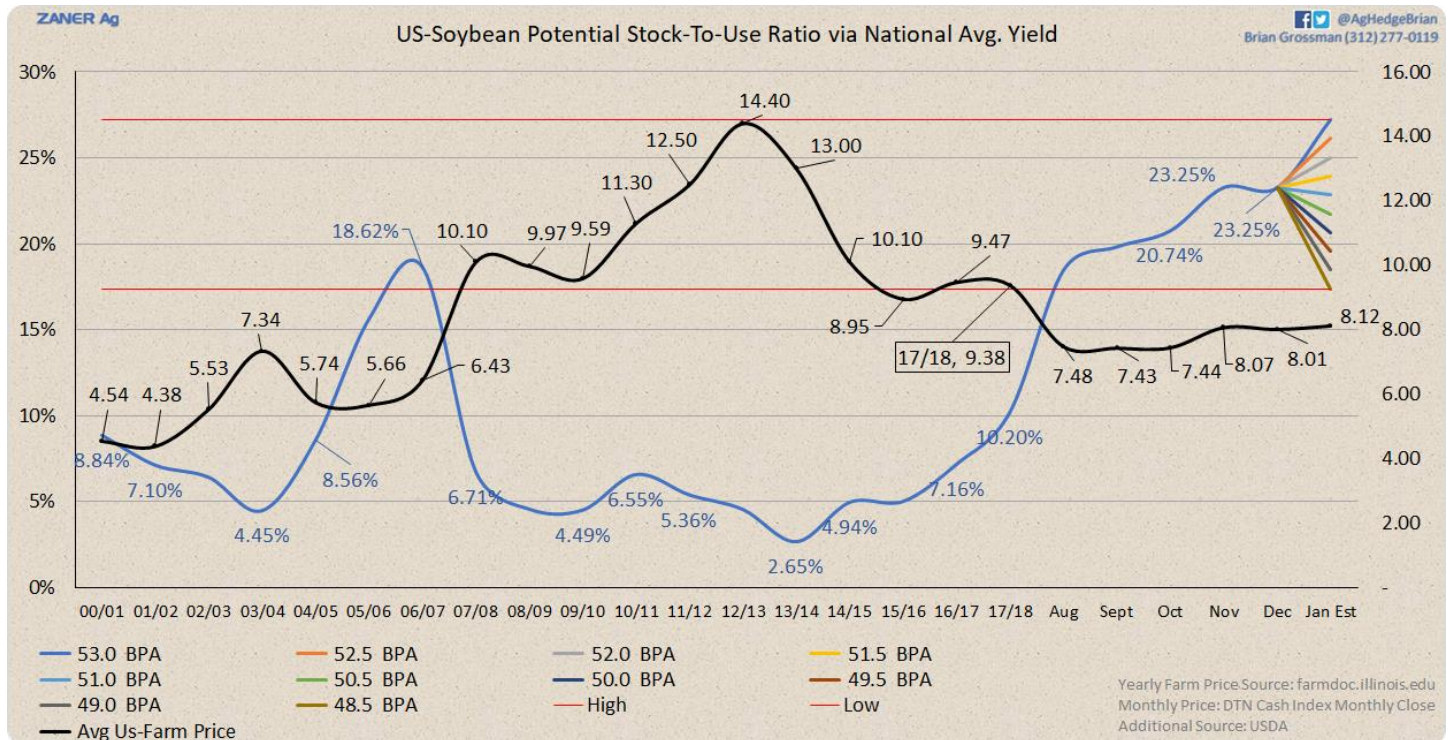
The current export record stands at 2.166 billion bushels from market year 2016/17 so the above export outlook is about as optimistic as possible. However, scenario (5) does achieve the objective of reaching the prior record stock-to-use ratio. Only problem is, is it realistic? Not likely at this point. Looking at the current rate of sales and shipments, final exports look to be somewhere closer to 1.7-1.9 billion bushels.

Soybean	USDA						
	Dec	(1)	(2)	(3)	(4)	(5)	(6)
Yield	52.1	48.0	48.0	48.0	48.0	48.0	48.0
Beginning Stocks	438	438	438	438	438	438	438
Production	4,600	4,241	4,241	4,241	4,241	4,241	4,241
Supply, Total	5,063	4,701	4,701	4,701	4,701	4,701	4,701
Crushings	2,080	2,105	2,105	2,105	2,105	2,105	2,105
Exports	1,900	1,700	1,750	1,800	1,850	1,900	1,950
Seed	96	96	96	96	96	96	96
Residual	32	32	32	32	32	32	32
Use, Total	4,108	3,933	3,983	4,033	4,083	4,133	4,183
Ending Stocks	955	768	718	668	618	568	518
Stocks/Use	23.25%	19.52%	18.02%	16.56%	15.13%	13.74%	12.38%

With crush likely at full capacity and an export outlook somewhere of 1.7-1.9 billion bushels, it will still be nearly impossible to get near a 18.6% stocks-to-use ratio.

To speed this article up some, I am going to jump to the conclusion. Based on what we “know” for data from the USDA and what we “know” the market is doing, I have to agree that we are probably not looking at a 1.0 billion bushel ending stock or at least the market doesn’t believe it at this time. With different, yet possible, adjustments to demand, it paints a clear picture that stocks are still going to be very high.

Now, how to balance what we “know” from the USDA and what we see the market doing? And what does it all mean? First, my “official” soybean final yield estimate is 51.6 bushels per acre with production at 4.545 billion bushels and ending stocks at 973 million bushels. A far cry from what I just argued above. However, the market is where it is regardless of what my excel spreadsheet says. Either the market is wrong, or I am wrong, and the market is never wrong.



This leads me to believe that once the final crop production numbers come out... we will see 1 of 2 things happen. 1) Yield comes in wildly below trade expectations - market fails to react. 2) Yield comes in high, stocks are confirmed, and all eyes return to Brazil and China. Or maybe something completely different.

Maybe it is lack of supply, maybe extra demand. Or maybe it is producers holding tight no matter what. Cash prices are ever so slowly on the rise. Surprises may be coming for the soybean market. However, are these surprises already factored in? We will find out!

--- Brian Grossman

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Abbreviations & Conversions:

MT	= Metric Ton
TMT	= Thousand Metric Ton
MMT	= Million Metric Ton
1 MT of Wheat/Soybean	= 36.74 bushels
1 MT of Corn	= 39.36 bushels
WASDE	= World Agricultural Supply & Demand Estimate

Jan - “F” | Feb - “G” | Mar - “H” | April - “J” | May “K” | June - “M”

July - “N” | Aug - “Q” | Sept - “U” | Oct “V” | Nov “X” | Dec - “Z”

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