Market Report

Monday, 11 October 2021

Weekly Overview

Price changes over two weeks.

	Price	Change	Change%	30 Day Low	30 Day High
Soybeans	1243	-42.00	-3.27%	1235.75	1296.00
Soybean Oil	61.51	3.64	6.29%	54.87	62.06
Soybean Meal	318.7	-20.30	-5.99%	318.7	345.2
CBOT Wheat	734	10.25	1.42%	687.00	756.50
Corn	530.5	3.75	0.71%	510.00	541.50
Kansas Wheat	737.5	17.75	2.47%	682.50	759.50
Crude Oil	78.76	5.15	7.00%	67.61	78.76

Over the last two weeks, grains were rangebound to higher, while soybean prices declined on larger than expected Sep 1 stocks reported in the Sep 30 stocks report. Soybeans carryout expectations are increasing on the back of lower than anticipated export demand the higher potential carry over stocks.

Harvest has started in corn and soybean crops, typically harvest pressure results in a seasonal bottom in prices. Our view largely remains supportive of prices, given there has been no significant change to oilseed balance sheets.

Anecdotal reports from harvest progress suggest yields in corn are lower than estimates, and soybean yields are at the upper end of estimates. Oct WASDE report due next week will likely update these numbers.

Focus in the coming months will move towards the demand pace and planting intentions for the southern hemisphere crops.

Net managed money positions increased in corn and soybean oil. Soybean oil could be due to strength in the energy complex, where crude prices have continued to rally in recent weeks. Market reports have mentioned that a lack of investment in the energy sector for over a decade, with demand outpacing now, will result in a persistent price rally.

Most of the supply-led carry-out tightness is usually solved by one or two crop cycles, i.e., higher prices' function is to induce higher production. This makes the agricultural commodity price mean reverting, i.e., eventually after a rally, when the next good/large crop comes in, one should see a similar significant decline in prices. Initial estimates on the Brazilian crop stand around 140 mmts. If the final crop number is anywhere close to that estimate, it would be safe to say the bullish story in beans is over.

COT Report Managed Money Positions as of 05 October 2021

	Position	Change	Max Long	Max Short	Average
Corn	251	36	429	(322)	90
Soybean Meal	(32)	(14)	134	(77)	27
Soybean Oil	75	36	127	(110)	19
Soybeans	49	(0)	254	(169)	67
Wheat	5	11	67	(162)	(34)

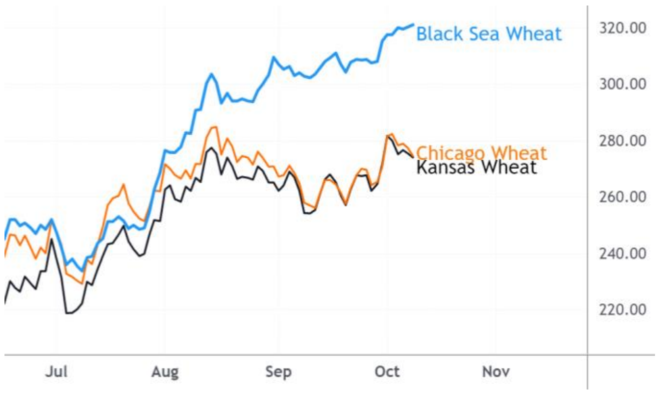
Breakdown of change in Managed Money Positions 05 October 2021

	Net	Change	Long	Change	Short	Change
Corn	251	36	285	30	35	(7)
Soybean Meal	(32)	(14)	40	(0)	72	13
Soybean Oil	75	36	87	18	12	(18)
Soybeans	49	(0)	82	3	33	3
Wheat	5	11	72	11	67	0

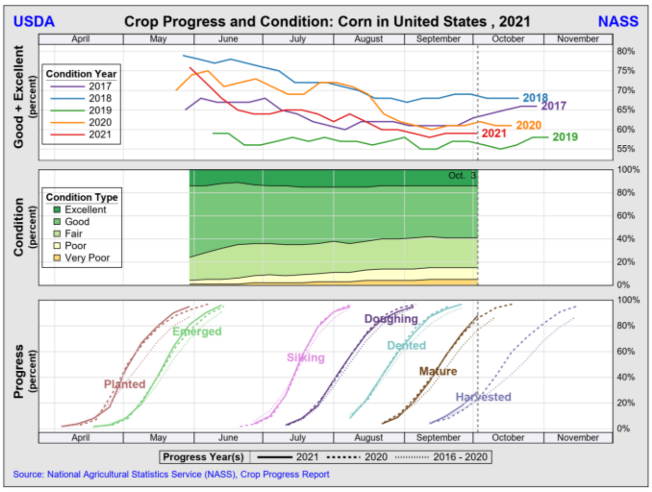
Grains

Wheat prices traded higher over the two weeks on the back of importer buying and lack of supply pressure from the black sea. Minneapolis wheat has continued to rally due to the tighter balance sheet of high protein wheat. Russian export taxes continue to discourage the pace of export out the Black sea. Domestic inflation holds priority for any administration over the total exports, which would mean the Russian export taxes may even increase if the pace of exports pushes domestic prices higher.

In the long term, wheat prices would only trade lower after the new crop size is established in the northern hemisphere, as Australian crop size is primarily factored into current prices.



Implied volatility in wheat is now closer to 23%, a decline of 2% over the last two weeks; we expect implied vols to decline further, given there are no large price shocks from the supply-side expected in the short term.



Corn prices continue to trade in a small range. Average trade estimate on corn at 1.115 billion bu, vs. the actual reported number at 1.236 billion bu.

If anecdotal reports are any indication, the WASDE report next week should see a lower yield revision. World prices have stayed at elevated levels, as the impact of lower Brazilian crops is yet to be seen in the prices.

The harvest pressure from the US crop has kept the prices in check; however, later in the crop year, the supply deficit may become more apparent.

However, as China remains the main demand driver, the recent decline in domestic corn prices indicates the local supply is sufficient to push prices lower. As a result, most of the analysts have reduced the demand estimates from China.

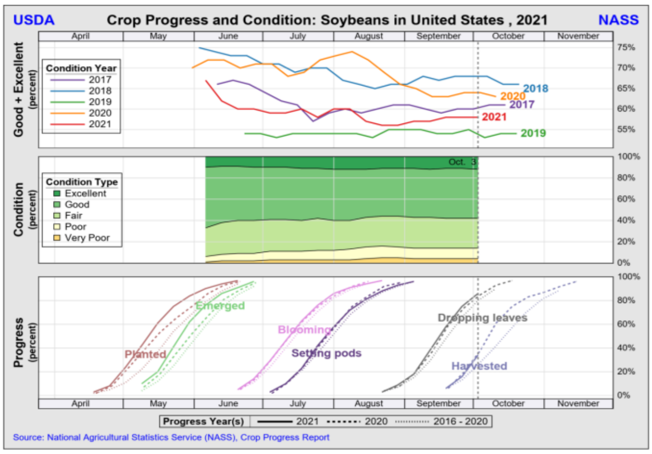
Corn prices continue to trade above the critical support of $5, we are still bullish the corn prices in the US, as the US corn is the most competitive corn, and given the smaller crop size in South America, US corn should see an increased demand in the coming months.

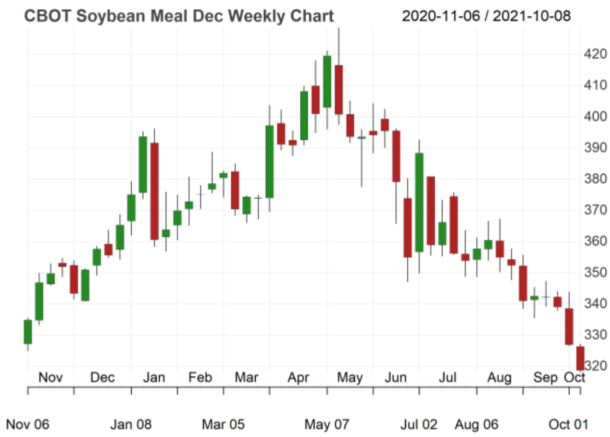
Ethanol margins continue to hold at an elevated level given the rally in energy prices. We remain bullish on corn price and expect corn carry out by the end of the marketing year may be closer to 1billion bu. However, demand needs to be watched closely, as from here on, price rally will function on export demand size and pace.

Oilseed complex

Soybeans traded lower after the Sep 30 crop report showed a more significant than expected stock number on Sep 1. Trade estimated stock of 174 million bu vs. the reported number at 256 million bu.

Soybeans have traded lower in the last couple of weeks. However, soybean oil had found support due to strength in energy prices. As a result, the crush margin remains positive, and the domestic demand is expected to stay strong.





China's demand is essential to keep the bullish story alive. If there is no ramp-up of buying from China in the coming weeks, and the weather remains ideal, we could be looking at a carry-out number higher than 200 million. A carryout higher than 200 would push beans prices closer to $1200, so traders need to monitor the demand pace in addition to the weather forecasts.

Traders should continue to hold long positions in the new crop; on an average yield, carry estimates remain tight. The recent positive crush margins in china should only help with the demand pace, further supporting the prices. however, if there is a break in key technical levels around $12.40, we recommend stopping out of the long positions.

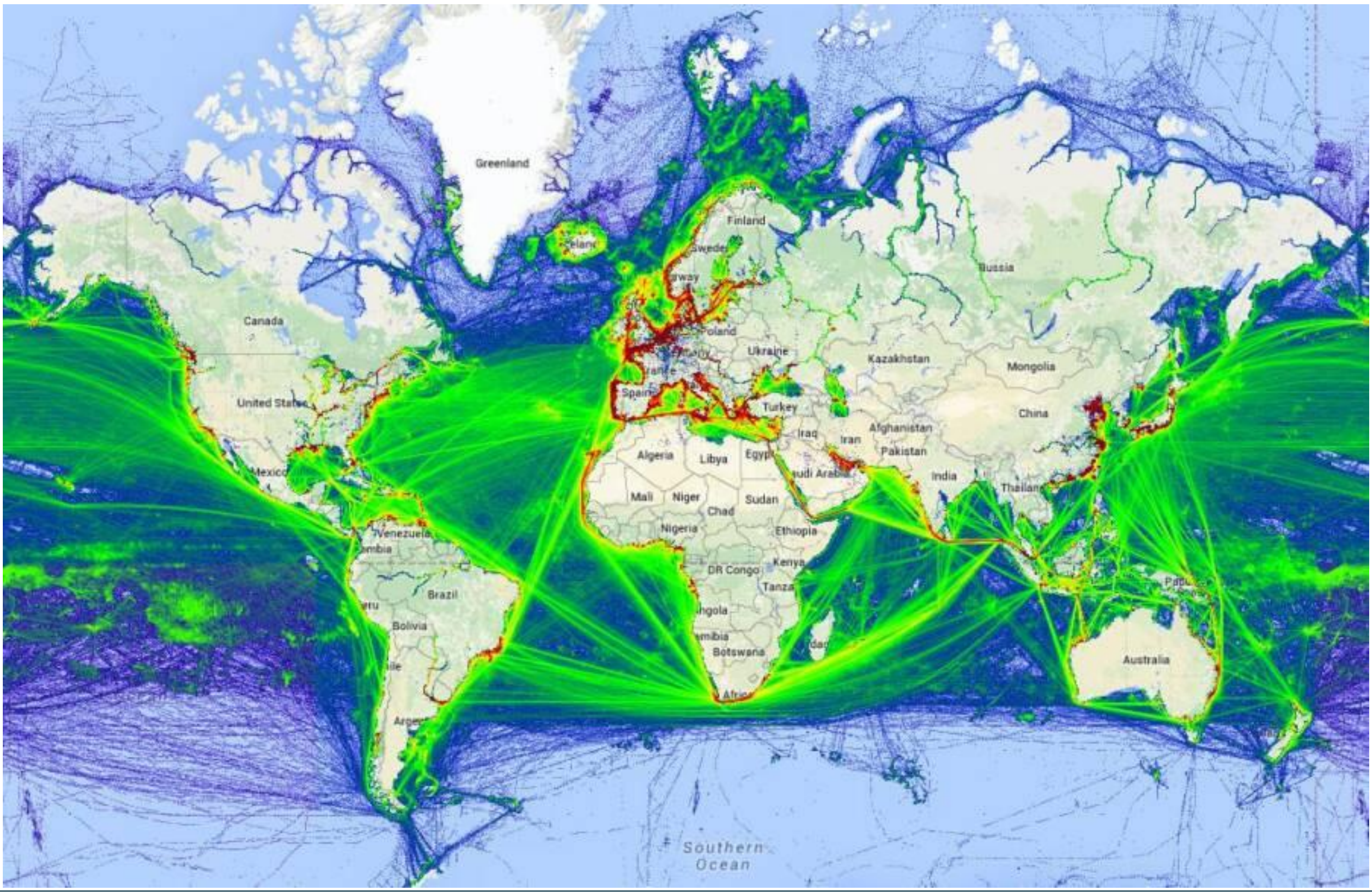
Trade-Ideas:

Soybeans: Continue to hold long in SX. With stop-loss at 12.40 lack of demand is concerning.

Corn: continue to hold longs on CZ

Wheat: Continue to hold long call spreads, stay long Blacksea and Russian physical

Food for Thought: World shipping, where does it go? More than 90% of the world's trade is carries across the ocoans by only some 90,000 ships. This map shows the routes they take around the world, and how large of a portion of the worlds oceans is used for this!



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