Market Thoughts Ahead of the May Report

USDA will release its May crop production and supply and demand estimates on Friday this week. In May, the final yield/production numbers for the previous crop year are released. Also, the May reports will contain the first forecasts of production and supply and demand for the new crop year.

New crop Dec19 futures have fallen to the low 70’s—threatening to move to match or exceed the previous lows. This is certainly not good news—especially if you took no pricing action to protect at least some portion of the crop when prices were in the 77 cent area. Dec has dropped 5 cents since roughly mid-April. If prices stay in the low 70’s or lower, you may look back and question your planting decisions—but probably not, depending on how other crops compared for your operation. Either way, the bigger question is—will prices eventually rebound and give us better additional pricing opportunities?

One of the biggest factors leading to further price decline this week has been the frustration and apparent lack of progress in the US-China trade talks and President Trump threatening to increase tariffs on Chinese imports. Look, a part of the reason for the improvement in prices in March and early April was optimism that the talks would eventually be worked out to the US’s favor. Now the market has given back those gains—in part because of this new heightened uncertainty.

Where do we go from here? Several factors come in to play.

- Planting is on normal pace—on average. But, the Mid-South is mostly well behind normal. Georgia and the Southeast is mostly normal to ahead of normal. Texas is on a normal pace.
- Soil moisture conditions, overall, are currently good. Although there are some dry areas, most areas are above normal. The outlook (for the June-July-August period) is for above normal precipitation.
- Friday this week will bring the first USDA projection of 2019 crop production. This number is not yet based on farmer survey but is based on the March Prospective Plantings number and historical average abandonment and yield. Most observers expect this year’s crop to be 22 to 23 million bales or even higher. The number this week could be lower than what the crop will eventually be.
- The larger the crop, the more available export supply, and the higher exports need to be. Everyone knows this and this is why the US-China tariff situation is such a concern. A big crop means we’ll need to ramp up exports to China or somebody…or everybody.
- Export sales were weak in the latest report (for the 7-day period ending April 25th). As of April 25, sales total 14.9 million bales and actual shipments total 9.2 million bales. The current USDA projection is for 15 million bales (shipments) for the marketing year ending July 31. If my calculations are correct, we’ll need to average roughly 414,000 bales shipped per week—which might be a tall order.
- To achieve higher prices, aside from supply shocks, World demand must grow.

Can prices recover? Yes. Could prices move even lower? Yes. But assuming this tariff mess eventually gets resolved successfully (and the sooner, the better), I favor a recovery to some degree.