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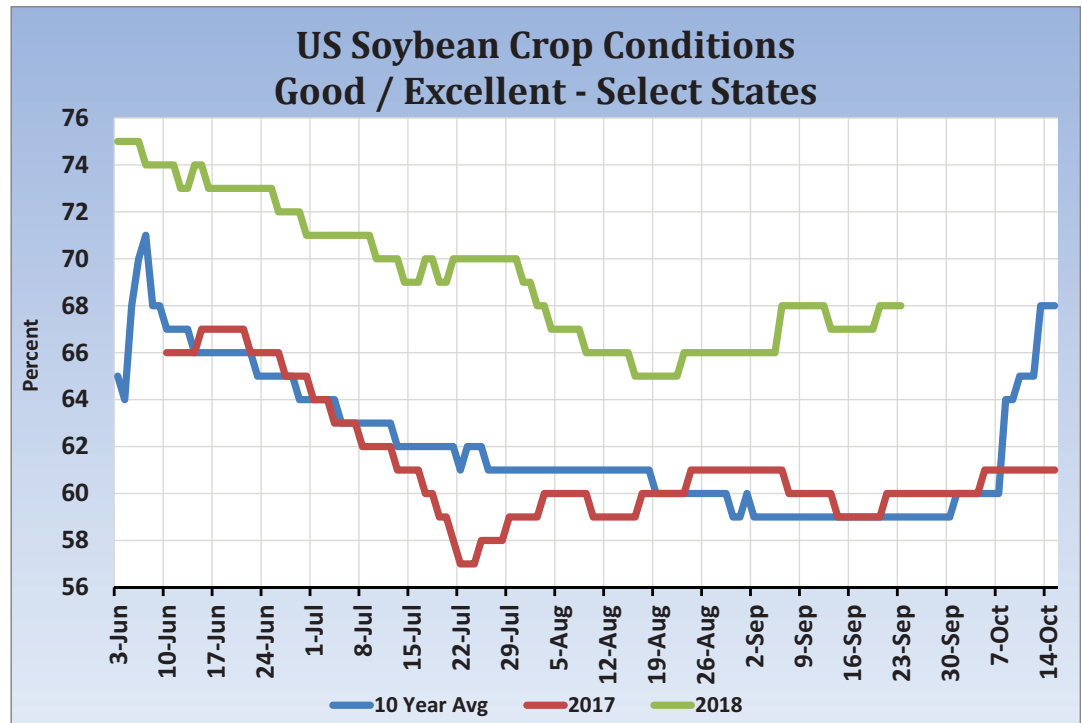
SPECIAL REPORT

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Soybean Outlook for the USDA October Supply/Demand Report

With the September USDA report showing record US and world ending stocks and the China/US trade war deepening, it is difficult to expect the October report to show an improvement in the fundamental setup unless there is a surprise adjustment lower in US yields. But given the improvement in crop conditions since September 1st, a period when they normally decline, many traders are likely expecting a higher yield for this report, which would just add to the ending stock totals.



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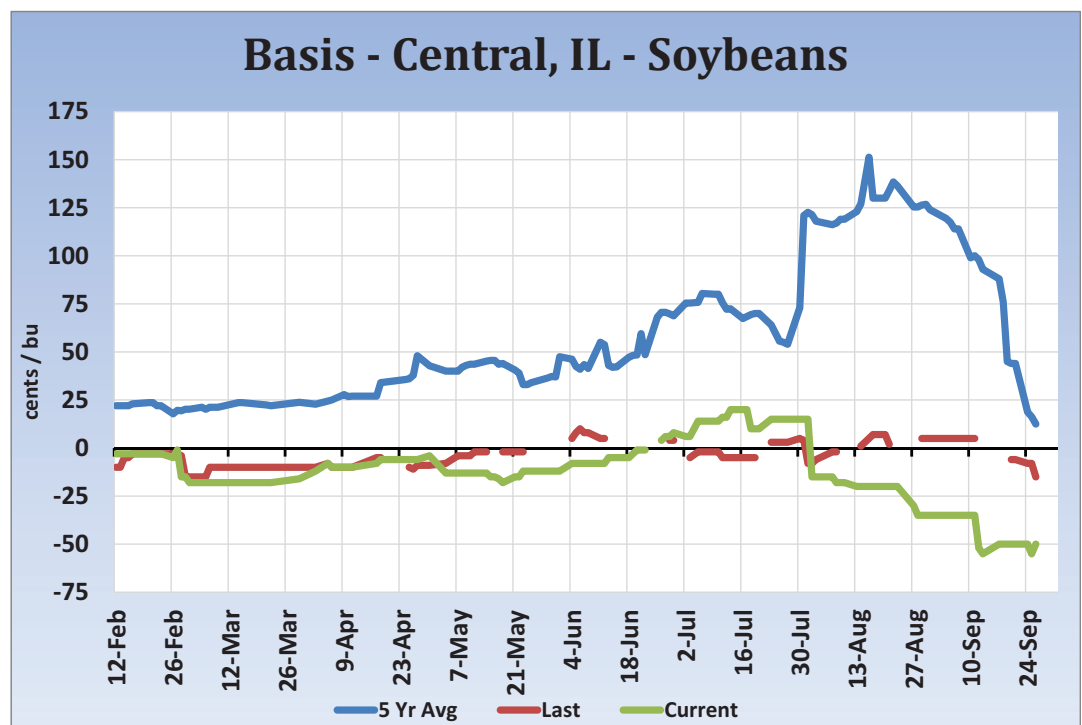
It is also possible that the USDA will lower their export forecast, as the current export sales pace is running behind normal. As of September 20th, cumulative soybean sales had reached 33.5% of the USDA forecast for 2018/19 marketing year versus a 5 year average of 47.4% for this point in the marketing year.

Aside from the trade war, an expected recovery in Argentina's crop should mean increased competition for the US. The Buenos Aires Grains Exchange estimated Argentina's 2018/19 soybean production at 53 million tonnes, up from their drought-affected 35.1 million tonnes in 2017/18. With expanded interest from China, Argentina's exports may soar to 15.4 million tonnes in 2018/19 from 3.5 million in 2017/18, while their crush pace may increase by just 3.1% to 36.6 million tonnes.

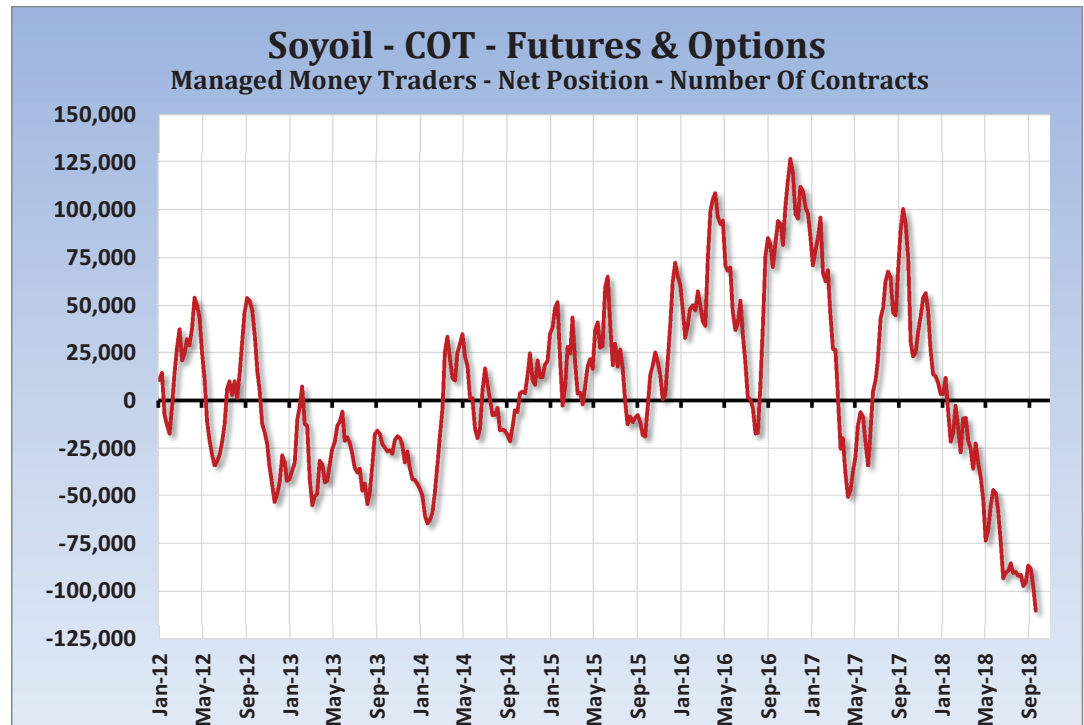
China continues to hunt for new sources of soybeans after shunning US supplies. Argentina has already lined up several shipments to China, which is a rarity for this time of year. As China looks to source soybeans from other countries, including Brazil, Argentina and Canada, other importers, such as Mexico, are stepping up to buy the cheaper US soybeans. Argentina and India both hope to sell more soy meal to China in the coming season. But an increase in US exports to other buyers is unlikely to offset the loss of demand from China. However, even if the US exports are revised lower, exports from other nations will be higher, and the net impact on world supply is likely to be negligible.

If there is a 30 million-bushel decline in US exports and a 0.5 bushel per acre increase in yield in the October USDA report, US ending stocks could be adjusted higher by 74 million bushels to an all-time high of 919 million.

While November Soybeans have seen a strong corrective rally off of the September 18th low, the cash market tone going into the main part of the harvest has been very weak, with many locations indicating that their basis levels have never been so wide. Thus, the cash market remains weak in spite of the bounce in the futures. With the Illinois crop only 17% harvested, central Illinois soybeans are trading 50 cents under the futures. The 5-year average basis is 12 ½ cents over the futures at this time of the year. With the supply and demand news so bearish, any rally in soybeans or soybean meal ahead of the USDA report could be a selling opportunity.



The soybean oil market follows a different set of fundamentals than soybean meal, and it is extremely oversold from a technical standpoint. Short-covering alone could be a powerful force in that market. The recent Commitments of Traders report showed managed money traders holding a record net short position of 109,950 contracts as of September 18th. Open interest hit a record high on the 19th, and the March contract experienced a daily key reversal from a contract low that same day. That reversal was confirmed with a weekly key reversal, which is a strong technical indicator that the market has put in a major low.



Suggested Trading Strategies

- 1) **SELL** November Soybeans at \$8.67 with an objective of \$7.90. Risk the trade to \$8.82.
- 2) **BUY** March Soybean Oil at 28.78 with an objective of 31.20. Risk 80 points from entry.

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