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SPECIAL REPORT

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Soybean Outlook for the USDA September Supply/Demand Report

With both US and world ending stocks expected to be revised higher from last month (and to new all-time highs), it is difficult to determine just how cheap soybean prices will need to go in order to clear the supply. The trade war with China has yet to be resolved, which just adds to the bearish tone for the market going into the September USDA Crop Production and Supply/Demand reports that are to be released on September 12th. November Soybeans have fallen as much as 78 cents over the past nine trading sessions (-8.6%) as traders have been pricing-in an even larger yield and sluggish demand from the China/US tariff war.

Oversupply concerns persist in the wake of the Pro Farmer Crop Tour from late August, which pegged the US soybean yield at 53 bushels per acre. If we assume that the USDA will keep the same usage estimates from last month, then a yield of 53 (which is up 2.7% from the USDA's August report) would push ending stocks up to 908 million bushels. This would be 334 million bushels from the previous record from the 2006/07 season, and it would also result in a record stocks/usage ratio of 21.3%. Assuming no further changes to other nations' output and usage figures, this would also push world ending stocks to a new record high at 109.25 million tonnes and would be 13% higher than the previous record.



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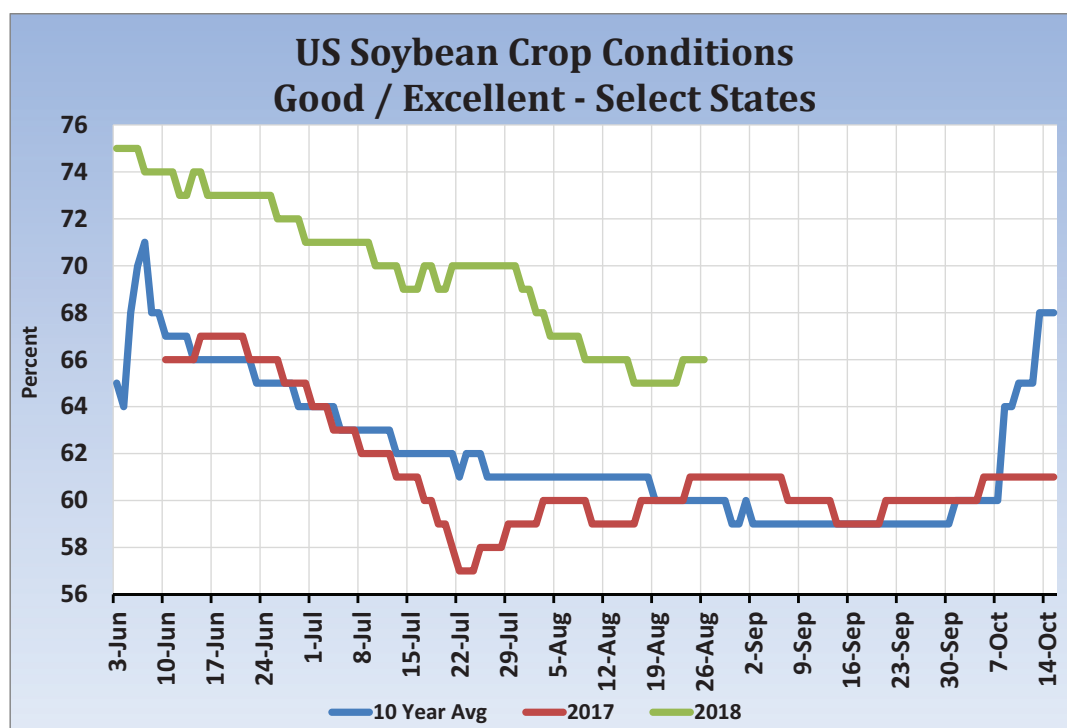
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USDA SUPPLY/DEMAND									2018/19 Possibilities		
US SOYBEANS									Crop Yield	Crop Yield	Crop Yield
	11-12	12-13	13-14	14-15	15-16	Aug USDA 16-17	Aug USDA 17-18	Aug USDA 18-19	Tour -1	Tour	Tour +1
Planted Area (M Acres)	75.0	77.2	76.8	83.3	82.7	83.4	90.1	89.6	89.6	89.6	89.6
Harvested Area (Acres)	73.8	76.1	76.3	82.6	81.7	82.7	89.5	88.9	88.9	88.9	88.9
Yield (Bu/Acre)	42.0	40.0	44.0	47.6	48.0	52.0	49.1	51.6	52.0	53.0	54.0
Beginning Stocks (M Bu)	215	169	141	92	191	197	302	430	430	430	430
Production	3,097	3,042	3,358	3,927	3,926	4,296	4,392	4,586	4,620	4,709	4,798
Imports	16	41	72	33	24	22	22	25	25	25	25
Supply, Total	3,328	3,252	3,570	4,052	4,141	4,515	4,715	5,040	5,075	5,164	5,253
Crushings	1,703	1,689	1,734	1,873	1,886	1,901	2,040	2,060	2,060	2,060	2,060
Exports	1,366	1,328	1,639	1,842	1,943	2,166	2,110	2,060	2,060	2,060	2,060
Seed	90	89	97	96	97	105	104	103	103	103	103
Residual	-2	16	10	50	18	41	32	33	33	33	33
Use, Total	3,159	3,111	3,478	3,862	3,944	4,214	4,286	4,256	4,256	4,256	4,256
Ending Stocks	169	141	92	191	197	302	430	785	819	908	997
Stocks/Use Ratio	5.4%	4.5%	2.6%	4.9%	5.0%	7.2%	10.0%	18.4%	19.2%	21.3%	23.4%

Another reason to suspect the USDA will raise its production forecast in the September report is the strong condition of the crop as reported in the weekly Crop Progress updates. The most recent report showed 66% of the US soybean crop rated good/excellent as of August 26th, up 1% from the previous week. This was up 5% from last year and from the 10 year average.

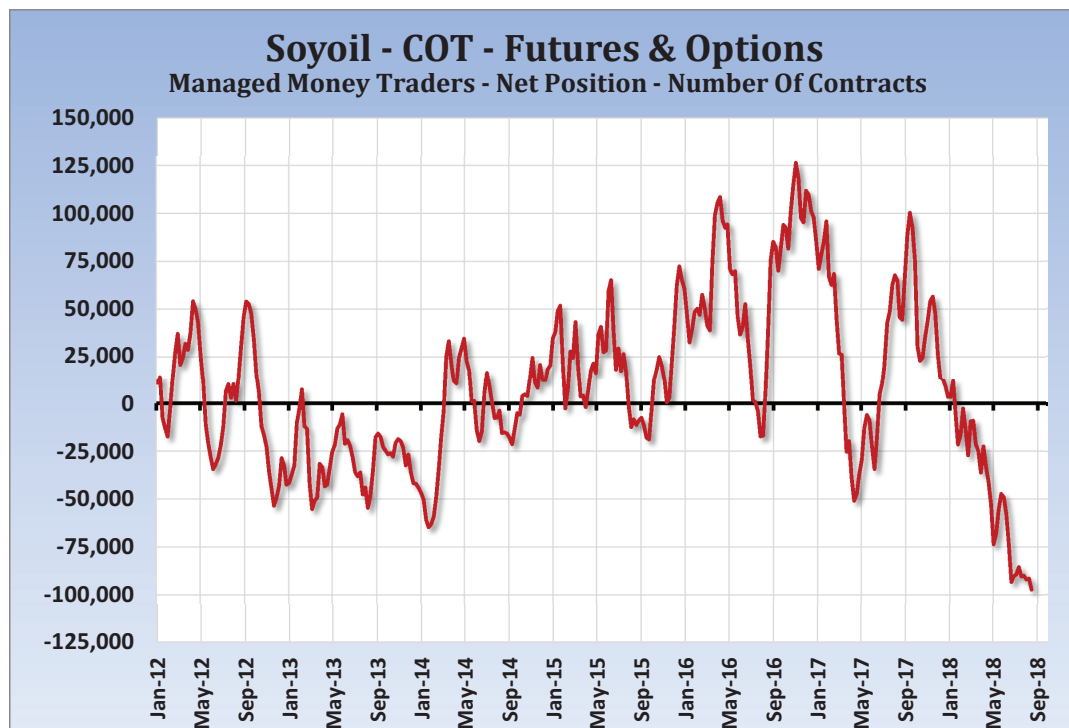
While the market is technically oversold, November Soybeans are still trading above the July 16th lows of \$8.26 ¼. A move below support would leave \$7.89 ½ as next downside target. Selling resistance is at the \$8.62 ¾ - \$8.74 ¼ zone.



Soybean Oil – Poised for a Short-Covering Rally?

While meal and soybeans appear to have more downside potential, December Soybean Oil seems to have found decent support near 28.00. With fund traders holding a record net short position, minor supportive news could spark a major recovery bounce. Furthermore, the turn lower in open interest might be signaling that a short-covering trend has begun. The market has not posted a new low since July 13th.

Vegetable oil markets in general are historically cheap, and they may find better support than meals and grains, due to the energy component of demand. In addition, a potential El Niño event this year could threaten Southeast Asia palm oil production. These factors suggest that the supply and demand fundamentals could begin to improve for soybean oil before the meal and soybean markets bottom. Close-in support for December Soybean Oil is at 28.21, and a close over 28.96 might be enough to spark significant short-covering. Initial key resistance is at 29.81, with additional resistance at 30.38.



Suggested Trading Strategies

- 1) **SELL** November Soybeans at \$8.62 with an objective of \$7.81. Risk the trade to \$8.86.
- 2) **BUY** December Soybean Oil at 28.25 with an objective of 31.94. Risk the trade to 27.35.

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