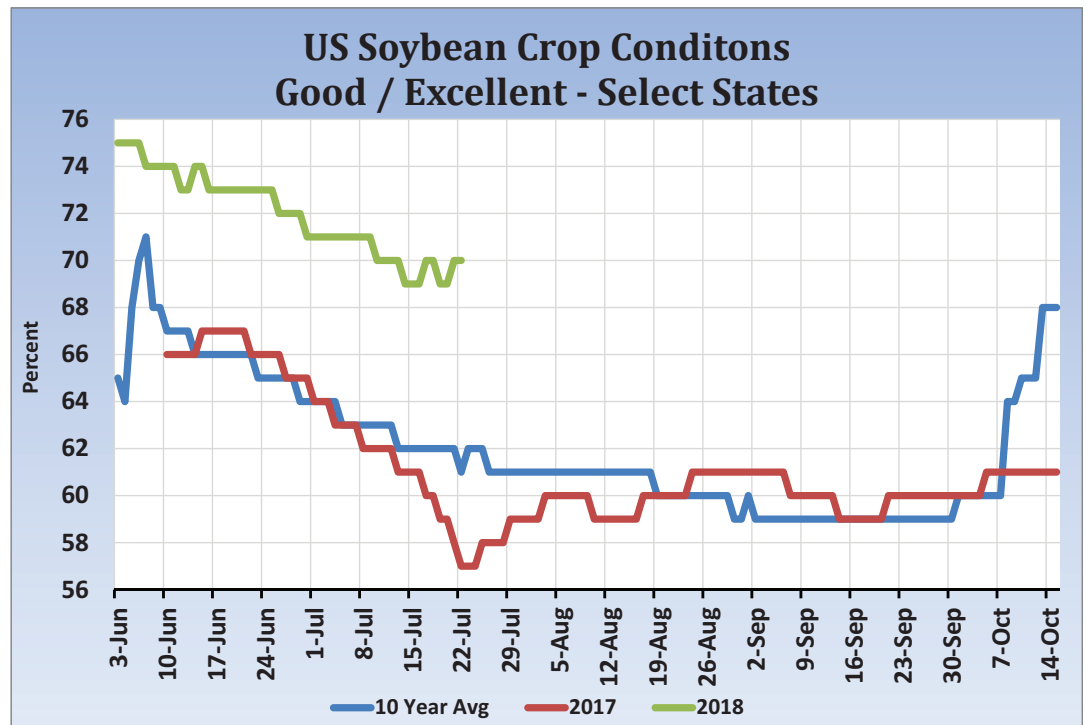


July 25, 2018

## Soybean Outlook for the USDA August Supply/Demand Report

Given the weather forecast into early August, the expectation for an extended trade war with China, and the current condition of the US crop, it appears likely that the USDA supply/demand update on August 10th will carry a bearish tilt. News of \$12 billion in aid for US farmers due to US/China trade issues and escalating tariffs leaves the grain trade anticipating a long and drawn out trade dispute, and this opens the door for another adjustment lower in US soybean exports. There is a good chance that the USDA will lower its US export forecast by another 2% to 2.0 billion bushels for 2018/19.



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The US soybean crop is currently rated at 70% good/excellent versus a rating of 57% last year at this time. Last year's soybean yield was 49.1 bushels per acre, while the USDA's current forecast for this year is 48.5. Given the strong condition of the crop, the current yield forecast (and even last year's number) appears too low. A yield of 50.5 bushels per acre, which would still be nearly 3% below the record, could put ending stocks up at to 797 million bushels. The previous record was 574 million bushels back in 2006/07. (See table below.)

In 2016, the crop was rated 71% good/excellent, just slightly ahead of the current 70%. The yield that year was a record 52 bushels per acre. The key reproductive period for the crop is the last week of July and the first ten days of August, and the weather forecast looks nearly ideal. If this year's yield hits 52.8 bushels per acre, then ending stocks could surge to 1 billion bushels and result in a stocks/

usage ratio of 24%. This is a dramatic change from the most recent five years, which have seen ratios of 10.9%, 7.2%, 5.0%, 4.9% and 2.6%.

For the upcoming report, the USDA is likely to raise their yield forecast somewhat but stop short of a record. A conservative guess would be 49.7, which would leave ending stocks at 726 million bushels.

We should also point out that in 2016 when the crop was showing similar conditions, the USDA increased their yield estimate from 46.7 to 48.9 bushels per acre in the August supply/demand report. That was an increase of 2.2 bushels per acre and a new record yield. If we increase yield by 2.2 bushels per acre this year, it would result in a yield of 50.7, which could leave ending stocks at 815 million bushels.

USDA SUPPLY/DEMAND									2018/19 Possibilities		
US SOYBEANS											
						Jul	Jul	Jul			
						USDA	USDA	USDA	High	Higher	Record
	11-12	12-13	13-14	14-15	15-16	16-17	17-18	18-19	Yield	Yield	Yield
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	48.5	49.7	50.7	52.8
Beginning Stocks (M Bu)	215	169	141	92	191	197	302	465	465	465	465
Production	3,097	3,042	3,358	3,927	3,926	4,296	4,392	4,310	4,416	4,505	4,691
Imports	16	41	72	33	24	22	25	25	25	25	25
Supply, Total	3,328	3,252	3,570	4,052	4,140	4,515	4,715	4,800	4,906	4,995	5,181
Crushings	1,703	1,689	1,734	1,873	1,886	1,901	2,030	2,045	2,045	2,045	2,045
Exports	1,366	1,328	1,639	1,842	1,942	2,166	2,085	2,040	2,000	2,000	2,000
Seed	90	89	97	96	97	105	104	103	103	103	103
Residual	-2	16	10	50	18	41	32	32	32	32	32
Use, Total	3,159	3,111	3,478	3,862	3,944	4,214	4,251	4,220	4,180	4,180	4,180
Ending Stocks	169	141	92	191	197	302	465	580	726	815	1,001
Stocks/Use Ratio	5.4%	4.5%	2.6%	4.9%	5.0%	7.2%	10.9%	13.7%	17.4%	19.5%	24.0%

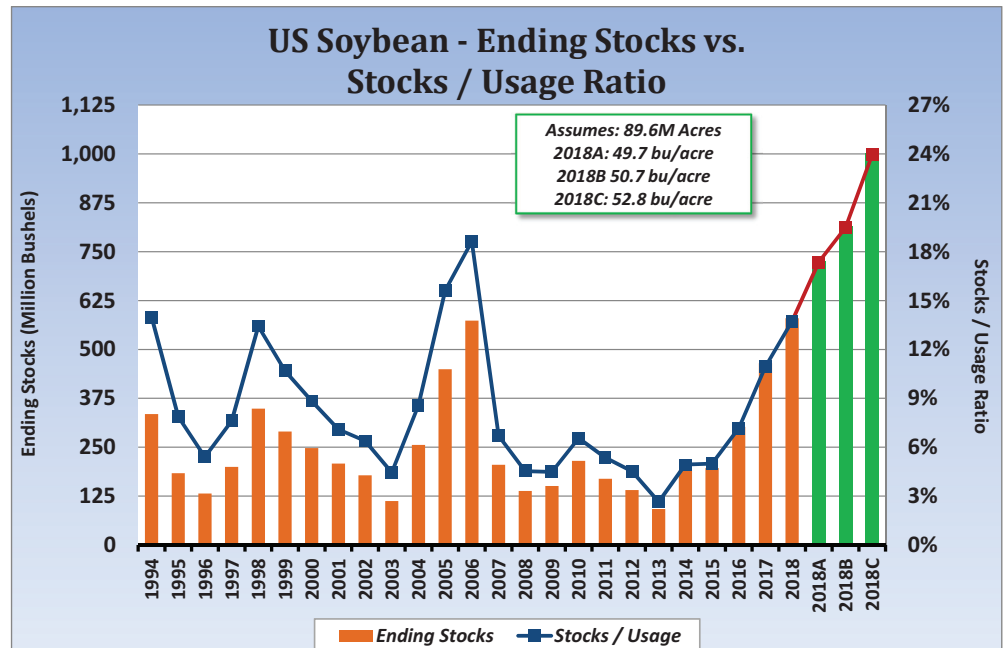
The rally off of the July 16th lows has helped correct the market's oversold technical condition, and a continued advance into the August USDA supply/demand report on August 10th would look to be a selling opportunity. Close-in resistance for November Soybeans comes in at \$8.84 ½, with \$8.10 and \$8.04 as the next downside targets.

### Suggested Trading Strategies

1) **BUY** an October Soybean \$8.40 put at 9 cents with an objective of 42 cents. Risk a total of 6 cents from entry.

2) **SELL** the July19/November19 Soybean spread at +10 cents with an objective of -15 cents. Risk a total of 7 ½ cents from entry.

3) **SELL** December Soybean Meal at \$332.20 with an objective of \$314.80. Risk a total of \$5.30 from entry.



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