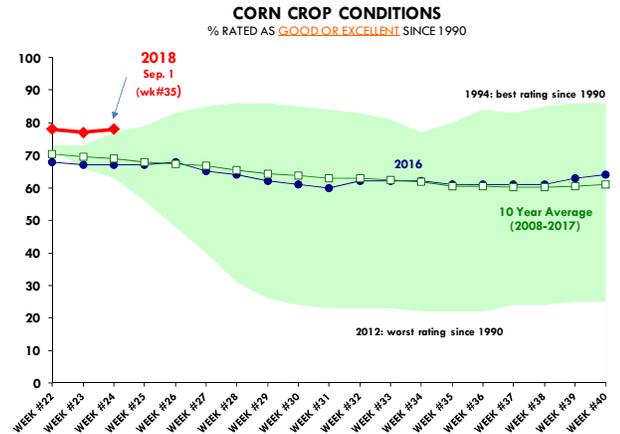
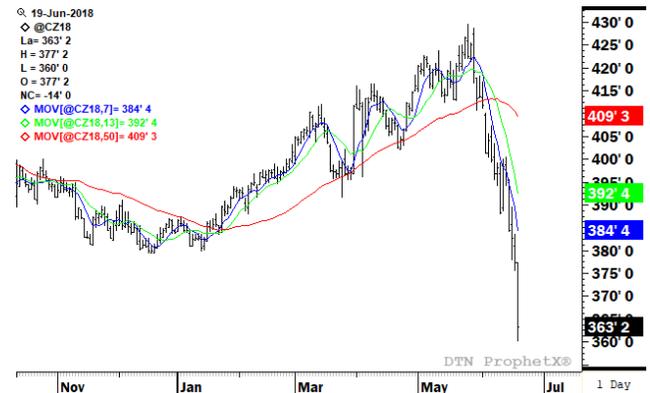


The US corn and soybean crops are off to an excellent start. Add to this the large carryover stocks from 2017-18, risks of escalating trade wars with China and NAFTA countries, and ongoing transportation issues in Brazil - the result is a sharp slide in futures. Yesterday USDA updated its weekly crop rating numbers, showing improvements for all major crops. For the week ending June 17 USDA rated 78% of the corn crop in good or excellent condition. This compares to last year when 67% of the crop was rated good/excellent. And last year corn yields ended up above trend. After three years of corn yields coming above trend there was some speculation that maybe yields were about to revert back to the mean and possibly underperform. Increasing dry conditions in the Southern Plains further highlighted the risk from lack of moisture even as the Corn Belt was spared. All of that speculation appears to be out the window...at least for now. Corn crop conditions have not been this good in at least thirty years of USDA tracking the numbers. One needs to remember that this rating tends to be subjective and that often different people are rating corn now than were rating corn in the 1990s. But the broader point is still valid. This year's corn crop so far appears to be in great shape and some of the risk premiums that participants added back in May have been quickly erased. About 98% of the planted corn crop has emerged and the outlook is for ample moisture in the Corn Belt in the short term. This all points to good crop condition ratings through the end of June. We are not out of the woods yet and plenty of damage can be done to the crop in July and early August. But we'll cross that bridge when we get there, for now one needs to recognize the potential for another year of above trend yields.

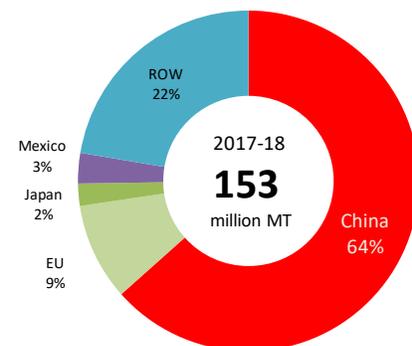
The prospects of escalating trade wars with China and Mexico have further added to the bearish sentiment in the grain markets. Traders are looking to quantify the potential impact that higher tariffs will have on demand for US products as these two countries are the biggest buyers of US corn and soybeans, respectively. In 2017 Mexico purchased 14.7 million MT of corn (about 579 million bushels), making it the biggest buyer (by volume). The second largest buyer was Japan at 12.4 million MT followed by Colombia (4.8 MMT) and S. Korea (4 MMT). No announcement has been made about Mexico tariffs on US corn but information was conveniently passed on to Reuters that Mexico is studying additional tariffs if the trade war escalates. The fact that US officials have doubled down in their trade war with China does not bode well for our negotiations with Mexico on NAFTA, heightening the tariff risk. As for soybeans, China is by far the largest soybean buyer in the world. Depending on the time of year Chinese buyers are either sourcing North American or South American beans. According to USDA, during the marketing year 2017-18 China soybean purchases accounted about 2/3 of all the soybeans traded in the world market. A Chinese tariff on US soybeans would create significant distortions in the global soybean trade. Brazil already is having significant issues with transportation as truckers demand government subsidize diesel prices. The threat of a slowdown in exports to China comes as the US soybean crop is also off to a strong start. As of June 17, USDA rated 73% of the soybean crop in good to excellent condition and the yield potential is better than it was last year.



December 2018 CME Corn Futures Contract



Main Global Soybean Importers during 2017-18 Marketing Year
Data source: USDA-WASDE



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