

DITSCH TRADING

DECEMBER 2015 MONTHLY COMMENTARY

Grain futures challenged new lows in December, while soybean futures remained within the well-established range. A weather scare in Brazil provided temporary support to soybean futures, but by the end of the month, a somewhat improved forecast allowed futures to press back towards the lows. Corn futures made new lows, and wheat challenged previous lows.

Looking forward, I expect ag markets to grind lower. World stocks of feed grains, food grains, and oilseeds are at burdensome levels. Supplies will only grow further if weather remains normal. The function of the market should be to seek price levels that better balance supply and demand and ultimately force world stock levels to stabilize. Despite increasing world stocks, the supply side has been and should continue to be impacted by reluctant farmer selling around the world. While overall supplies are heavy, available supplies in commercial hands remain relatively tight. Current prices are at or near the farmer's perceived cost of production, limiting sales. This should continue to support calendar spreads while flat price levels grind lower. Because of this, I expect calendar spreads to trade stronger than overall S&D levels would suggest in coming months.

Weather always plays a major role in our markets; however, burdensome world stocks should buffer markets from significant weather-scare rallies. It will likely take a serious weather threat to spark any significant rallies.

From a macro perspective, we remain in a deflationary environment. This should aid the general downward pressure on ag commodity values. Not only does it limit the demand from an energy perspective, it should also weigh further on input costs such as fertilizer, diesel, etc. going forward. If input costs move lower in coming months, farmers will be more willing to sell their output at lower prices. Thus, any decrease in input costs will prove to be additionally bearish.

Looking forward, I expect trading opportunities to be focused primarily on short flat price strategies and, secondarily, on long spread strategies.

Best Regards,
Mark Ditsch
1/07/2016

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