DITSCH TRADING

July 2016 Monthly Commentary

July weather caused a dramatic turn of events for US grain markets. With many in the trade already leaning towards the hot and dry summer that various weather gurus have been forecasting for months. The wetter than normal precipitation in July, combined with non-threatening temperatures, pushed soybean, corn, and wheat futures significantly lower in July.

The set-up heading into July was very interesting. Significant production losses in South American corn and soybeans put the pressure on the US to produce. Anything less than trend yields would lead to very tight world stocks. June weather had clearly been less than favorable, so we just did not believe that July weather would be so fantastic that the market would be putting an above trend crop into the bin prior to the ever important month of August. However, nearly ideal (and uniform across most of the major production areas) weather was the theme for July and this is now forecast until at least the middle of August.

World supply and demand analysis has indicated to me that anything less than trend yields was bullish while only record-type yields were bearish due to strong world demand driven in large part by production losses in South America. However, favorable weather has the market ready to accept record yields much earlier than anticipated.

A month ago, national soybean yield ideas were mostly in the 46-47 bpa range, with a few higher and a few lower. USDA has been using a 'trend' yield projection of 46.7 bpa. Until July, that seemed on the aggressive side. However, yield the past two years was 47.5-48.0 bpa with worse weather than this year. Talk is now shifting to 47-50 bpa yield, with most in the 47.5-49 bpa range. At this point in time, I'm forecasting US yield near 48.7 bpa for national production of 4.05 billion bushels. This would be 121 mln bushels above last year and 170 mln higher than the July USDA projection. Favorable weather could push yields even towards 50 bpa, but a dry late August could push yields back towards 47.5-48 bpa. Therefore I view 48.7 as a good mid-point for the time being.

World demand remains very strong. China has attempted to auction off some old reserve soybean stocks, but lower world prices are making that venture a bust. If anything, it has delayed Chinese purchases a bit, pushing more demand from August/Sept into Oct/Nov. However, South American shipments are drying up even faster than expected. With that being said, it is still apparent that we must first define the supply side before trading the demand side. This year has some obvious similarities to 2014: a year in which USDA yield increased gradually into the fall and demand was increased into the winter. Futures broke to $9, bottoming in late Sept/early Oct, then rallied $1.50 in Oct/Nov as market focus shifted to demand. Can that pattern repeat itself? We'll see.

9047 Poplar Avenue, Suite 101
Germantown, TN 38138

newaccounts@ditschtrading.com
ditschtrading.com

T: 901-766-4446
F: 901-766-4406

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Corn production ideas are also increasing significantly. World corn demand is very strong, but US corn yield may be 8 bpa above USDA's preliminary estimates (as weather may suggest). That adds 700 mln bushels to US corn production. Strong export demand can likely add a max of 200-300 mln bushels of demand (and that would tax the export system tremendously).

Thus, we are looking at a probable corn carryout near 2.5 billion bushels. Quite simply, it is going to take more than a year to export this surplus away. This does, however, suggest that the US should be *the* market for corn for the next 12-18 months at least, especially given supply issues in other origins.

The bottom line is that the US is going to produce some very big crops this fall. This means futures probably have more downside, but strong world demand could shift the focus for soybeans and soybean products well before it can do so for corn.

Regards,
Mark Ditsch
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9047 Poplar Avenue, Suite 101
Germantown, TN 38138
newaccounts@ditschtrading.com
ditschtrading.com
T: 901-766-4446
F: 901-766-4406