

DITSCH TRADING

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Soybean futures have found very solid support every time they have dipped towards or slightly below \$10. It is becoming increasingly clear that the market has decided that \$10 is 'cheap' and any type of risk premium has to be placed above \$10 per bushel. While the 2016/17 soybean balance sheet looks bearish (and increasingly so as export business slows and South American export prospects shift earlier), world demand is growing at a rate that requires both South and North America to produce a larger crop every year just to keep up.

On the other hand, world grain stocks continue to swell. This has, for the most part, prevented corn and wheat futures from gaining any ground even as soybeans and soy products have rallied. Unlike soybeans, corn and wheat acreage can decline in several areas around the world and both can also endure less than ideal weather but world grain stocks look to remain burdensome for at least another 6-12 months, at a minimum.

So what is all of this telling us? Current price ratios already suggest that US farmers should plant more soybeans at the expense of corn and wheat. However, given the fact that soybeans realistically probably 'need' 90+ million US acres while massive world wheat inventories suggest wheat needs dramatically fewer US acres, it seems the market wants more confidence that this switch will truly happen. Cheap wheat prices will clearly reduce US wheat acreage (a guaranteed loser on most farms at current prices), but it looks like this may lead to a major shift into dryland corn across the Plains. This type of shift, combined with normal weather, suggests corn carryout could approach a massive 3 billion bushels for 2017/18. Soybeans are the only major crop that can be easily exported (and Chinese demand grows at a similar rate annually), so the market wants more soybean acreage and less corn acreage next year. Given all of this, I would not be surprised to see the SX17/CZ17 ratio trade up towards 2.8-3.0 next spring as we head into planting (currently trading near 2.6). Whether that is via cheaper corn futures or higher soybean futures remains less clear at this time, but my bias would be that corn prices should drift gradually lower throughout 2017 if all goes as planned. Soybeans may chop around more without going anywhere, assuming South American and North American weather remains near normal.

The bottom line is that world stocks of grains and soybeans are heavy to burdensome. Soybean stocks as a percentage of use, however, are showing signs that they may peak over the next 6-12 months, while corn and wheat stocks just look to remain burdensome unless or until there is a major weather or acreage problem somewhere.

Regards,


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