Ditsch Trading

February 2017 Monthly Commentary

An interesting battle is transpiring.

On one hand, the macro situation is friendly to commodity prices. Currencies are generally supportive. Most notably, strong Brazilian currency has their farmers reluctant to sell. Brazilian farmer marketing is running about 10-15% behind last year. Additionally, the market seems to be betting on 'reflation' fueled by a weak dollar and Trump's protectionist policies. As I've written in past updates, these macro influences have the market viewing $10 soybeans, $3.60 corn, and $4.20 wheat as 'cheap', with limited downside and potentially significant upside over time. Funds are willing to buy ag commodities and even expand length at current prices.

On the other hand, soybean-specific inputs have swayed more bearish over the past month. The most significant change involves favorable growing weather in South America—especially Brazil. Production ranges there seem to be shifting from 102-106 MMT last month up to 105-109 MMT this month, with some ideas even higher. Even in Argentina, production ranges are moving up from 52-55 MMT last month up to 54-57 MMT this month. The mid-point of those ranges adds 5 MMT to South American production, and we are likely to see some gains from Paraguay and Uruguay as well. World production now looks to outpace world demand by approximately 10 MMT in the 2016/17 marketing year. US acreage is expected to expand by 4-7 million acres at the expense of wheat and corn. The farm insurance price for soybeans (based on February prices) increased by more than $1 per bushel from last year versus a very minor change for corn, so there are some that expect even larger soybean acreage.

It's a battle of funds vs. fundamentals. Supportive macro influences against bearish S&D developments. I have always believed that longer-term changes in world stocks drive futures markets, so my lean is that futures move lower in coming months as markets feel the South American supply and US acreage. The increases in supply just seem to be enough to overwhelm macro developments in the medium-term. With that being said, I remain very cautious and look for downside to be limited by macro influences. Stay tuned.

While my lean is mildly bearish on soybeans, I have no conviction on corn and/or wheat prices at this time. Corn futures seem to have found a level at which the burdensome nearby supplies are balanced with the threat for lower acreage in 2017. Wheat futures remain at historically low levels, and should bounce at some point, but it does not seem that they are over the hump or ready for a rally just yet. In February, for example, a 50-cent wheat rally was followed by a 40-cent break. Supplies are simply quite burdensome at this time.

Regards,

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