

DITSCH TRADING

MAY 2017 MONTHLY COMMENTARY

The month of May began with a head fake, as ag prices rallied to recent highs in the first week of the month on some pretty wild weather developments. Heavy snow and freezing temps spooked the wheat market while cold, dreary, wet weather supported corn and soybeans on planting concerns. The balance of the month, however, was highlighted by lower prices, multi-month lows in soybeans, and a return to range-bound trade in wheat and corn. While there were certainly planting problems in areas across the Midwest and Mid-South, planting progress was never as delayed as initially feared. Further, we head into June with generally non-threatening weather and plenty of soil moisture.

Trade is very complacent with US production prospects. Massive world production in the past several growing cycles has built up a plentiful buffer, and weather just isn't much of an issue at this time. Further, ag products (and in a broader sense, commodities in general) are simply not attractive to investors. Speculative funds have increased their short positions accordingly.

There are some developing signs, however, that the 'short ags' trade is gradually running its course. With normal weather, I project world stocks of corn, soybeans, and wheat should decline in the 17/18 marketing year and then again in the 18/19 marketing year. Obviously, much will still depend on weather and US yields, but my bias is that ag prices are low and are likely to trade flat to higher over the next 12 months (unless yields are significantly above trend). Despite this neutral to moderately bullish bias, I do not see these markets as runaway bullish by any means. There isn't much more to say in terms of corn or wheat – world stocks are ample and we await US crop development and production to determine if prices could be bottoming.....or not.

Lower prices may be leading to an interesting development in soybeans though. South American farmers are dealing with political, economic, and currency uncertainty. In this environment, they have sold a historically low amount of soybeans. I look for this to continue. This is pushing export business flow back to the US. I believe the US could export 150 million bushels more than the USDA projects in old crop and then again in new crop. This has some interesting ramifications for the US soybean balance sheet and suggests that soybean futures as well as spreads are getting low enough and could push gradually higher as the market better understands the tightening US balance sheet. Granted, this will likely take some time.

The bottom line is that I think soybean prices are probably low enough, with some potential upside if the weather turns anything less than ideal. I am also reasonably friendly to wheat futures as I expect US production to be challenged by both harvested acreage and some yield problems. Corn looks more bearish to me, but again much will depend on weather developments. Let the summer begin.

Regards,



Mark Ditsch

June 2, 2017

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