

DITSCH TRADING

JUNE 2017 MONTHLY COMMENTARY

There were some interesting developments in June. Most areas of the US experienced favorable growing weather for most of the month. However, the notable exception has been the Northern Plains, an area that produces most of the spring wheat in the US. This ultimately led to an explosion in the illiquid Spring Wheat Futures. Nearby spring wheat futures rallied \$2 on the month. Other wheat futures somewhat followed with a lot of help from less than favorable weather in places such as Australia and the EU, finishing about 80-90 cents higher. Corn and soybean futures had pushed to recent lows mid to late-month on favorable Corn Belt weather, but both rallied in the last few days to finish back within the recent range.

Part of the late month rally in winter wheat, corn, and soybean futures was psychological. It's hard to press these futures lower when Spring Wheat futures surge to new highs on a daily basis. However, the market also seemed to realize later in the month that the Northern Plains has become an increasingly major corn and soybean producing area over the past several years. North Dakota soybean acreage has nearly tripled in the past 15 years, moving up from 11th to 4th in terms of soybean acreage by state. North Dakota now accounts for 8% of national soybean acreage (vs. 4% in 2002 and 5% in 2007), and MN/SD/ND combined now account for 23% of national soybean acreage vs. 19% in 2002 and 20% in 2007.

More importantly, weather forecasts across the Corn Belt are no longer looking as ideal, with some now fearing too much cool weather in the near-term could be followed by hot and dry into mid-July in many areas. There is just a lot of growing season left, and condition ratings are not reflecting a stellar crop at this point anyway.

USDA released the quarterly reports on June 30th. These reports were friendly soybeans and wheat, with both reflecting lower acreage than anticipated. Much of this acreage ended up in corn, with corn acreage well above expectations. June 1 stocks were lower than expected for soybeans but higher than expected for wheat and corn. Wheat continued to rally on weather (with help from the acreage), soybeans finished the month very strong due to stocks, acreage, and weather, and the rally in soybeans and wheat could not leave corn behind despite the somewhat bearish corn report, particularly given the critical July weather coming up.

So where do we go from here? I think prices generally just got too cheap. The weather in the Northern Plains is a real concern, particularly for spring wheat, but also for corn and soybeans. Other wheat futures have reacted higher, corn is back towards the mid-point of the recent range, but soybeans remain at levels I would call 'cheap' despite the late month rally. The world soybean balance sheet can still tighten relatively easily due primarily to strong and growing world demand led by China. Dependent upon weather, I feel soybean futures would be more 'balanced' up towards \$10 given the lower than expected acreage and the lower than expected June 1 stocks. The corn balance sheet is tougher to tighten, and I think soybeans should gain relative to corn in the medium-term.

Regards,



Mark Ditsch

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