

DITSCH TRADING

JULY 2017 MONTHLY COMMENTARY

The top story as the calendar turns to August is a shift towards more favorable US weather. Forecasts call for very cool and mostly favorably wet weather now through the middle of August. August is obviously a very critical month of weather for all crops, but most significantly for soybeans. August tends to be a make or break month for soybeans. Crop condition ratings are running somewhat below normal to begin the month, but these weather forecasts suggest conditions should improve in coming weeks. In July, I was leaning towards sub-trend national corn and soybean yields. These improved forecasts now have me believing the mid-point of yield possibilities will likely gravitate back up towards a trend crop. Put another way, yield ideas were down towards 46-47 bpa in July but are now back up towards 48 bpa.

The market has already reacted to the improved weather, with November soybean futures nearly 80 cents below July highs and December corn nearly 40 cents below July highs. So what next? There are still some supportive medium to longer-term factors for soybeans. First, world soybean demand growth continues to exceed production levels at 'trend' levels. The issue, of course, has been that both the US and South America have strung together several years of huge production recently, allowing world stocks to bulge despite this strong demand. From a longer-term perspective, though, we must respect that world demand is very solid and continues to expand rapidly. Second, the macro influence seems to be supportive of commodities once again. While this is important, it is my belief that the market will trade August weather and production prospects first and probably won't zone in on the supportive macro influence until the US weather market has ended. At this time, favorable US weather should weigh on futures for the next several weeks.

Grains face similar issues, although corn obviously is not likely to be helped as much by August weather as soybeans are. At the same time, world demand growth for grains is not as strong as soybeans, so while there may be less near-term pressure, the longer-term supportive influence is not as strong either.

The bottom line is that I expect soybean, corn, and wheat futures (with the exception of spring wheat) to focus on August weather. If the forecast pans out, I look for lower levels through the month of August before macro influence may potentially determine that we've moved cheap enough. What level is cheap enough cannot really be answered until crop size can be better determined.

Regards,



Mark Ditsch

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