

DITSCH TRADING

SEPTEMBER 2017 MONTHLY COMMENTARY

Harvest is gearing up towards full swing across the US. Early yield reports are clearly better than expected given the spotty weather which was nowhere near last year's near-optimal growing conditions. Trade had been very skeptical of USDA's yield estimates, which were deemed 'too high' by many in both August and September. Early harvest results, however, suggest the crop is indeed there. Many are now coming around to the idea that USDA yield estimates seem like good mid-point estimates heading into October. There has been considerable talk about improved genetics, and it does seem as if corn and soybeans are both able to fight off adverse weather much better than they could in the past.

Much like 2016, these 'better than expected' yield results still find futures trading 'better than expected' given the larger supplies. I've discussed various reasons that markets tend to hold in the past, and these ideas still apply. Most importantly, world demand is growing at a faster rate than expected, and shows no signs of turning back. Contrary to casual observation, world grain and soybean demand growth has been very impressive – it just doesn't always feel that way because world production has been even more impressive over the past 3-5 years. In today's world of strong demand growth, we are only one bad growing cycle away from considerable tightness. This keeps a bid below the market at all times. Secondly, the world farmer has learned to be very patient when selling his crops. This also keeps a bid below the market, as the world consumer has to buy every day, while the world producer has proven able to hold off for better prices – and he is usually rewarded with market bounces.

This does not mean I am bullish soybean and grain futures. I actually believe the market has not yet dialed in either the larger US production or the competition from other origins the US will face throughout the entire marketing year (particularly South America as they lug their record stocks forward). With this being said, I am leaning slightly bearish for the next several months. Supplies just seem like they will overwhelm demand in the near-term – it is almost as if the entire world has learned the rules above, and maybe the pendulum has swung a bit too far in the direction of over-confidence that markets can never break. However, I must point out that I lean only modestly bearish, and still understand we need good growing weather in South America over the next 6 months and then the market will turn again to US growing weather. It is an endless cycle, but we do have more burdensome stocks to play with today than we ever have before.

Regards,



Mark Ditsch

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