DITSCH TRADING

October 2017 Monthly Commentary

October was a month of harvest in the US, and while soybean harvest is now entering the final stretch, corn harvest remains well behind at just over half complete vs. nearly three-quarters complete on average. The slow harvest was basically needed by the system to digest another massive crop on top of very large carry-in stocks. Harvest will make additional progress over the next several weeks but won't create quite the space crunch once feared.

Ag futures have traded in a very tight range over the past several months. October featured soybean yields that fell somewhat below the latest USDA estimate per my analysis. However, US exports are also failing to reach expectations, due in large part to the large stocks in South America and their domestic currency weakness that has prompted increased farmer movement. The smaller supply and smaller demand arguments have been thoroughly discussed, and the market seems to be interpreting the bottom-line as a net-zero change. If USDA is 50-75 million bushels too high on both US supply (lower production) and US demand (lower exports), it might just be a wash. This could certainly swing in either direction, with the next major influence coming from South American weather developments. Stay tuned.

Despite somewhat lower yields, reports from the country still suggested 'higher than expected' yields in many cases given the uneven weather experienced this summer. There is considerable talk about how improved seed genetics allowed for better tolerance to challenging summer weather conditions. This has enabled world production to keep up with and even exceed world demand. However, ongoing world demand growth is likely to overtake production growth over the next 12 months, suggesting ag futures may be in the process of forming some kind of a bottom – unless of course world production continues to exceed expectations. We are only one bad growing cycle away from considerable tightness.

I still believe the next 'bigger' move is more likely to be up than down. Prices are close enough to the cost of production in many areas, and it just seems difficult to press considerably lower, particularly given what should be a gradual stock tightening environment over the next several years. With that being said, near-term rallies will be capped by high and even burdensome world stock levels nearby. I still view the current market as a trading market rather than a trending market.

I will be traveling through China for ten days in early November. I will be visiting with several key contacts and studying the Chinese soybean situation. It is important to maintain these relationships, and I will work hard to source any information that may help to better understand the timing of the next potential market move.

Regards,

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