

# DITSCH TRADING

## JANUARY 2018 MONTHLY COMMENTARY

My fundamental thinking remains unchanged: I still see an environment of gradually increasing ag commodity prices over the next several months. I anticipate macro influences to push potential commodity inflation and strong world demand growth to provide support. However, I still believe this could be a slow-moving train, with weather and production likely to determine how quickly futures can bottom and potentially move higher.

World soybean demand growth remains strong. Amazingly, world production has been able to more than keep up over the past several years. There are some potential supply flags to monitor around the globe at this time though, most notably the dryness in Argentina and southern Brazil. While some rains are now forecast for early February, it has been much too dry for the past couple of months. This is crunch time – better than expected rains can probably save the crop, but if the rain doesn't fall we can't rule out significantly below-trend yields. Further, many are now lowering Argentina acreage estimates, suggesting that dryness reduced total acreage, maybe by a significant 5% amount. I feel the market may be overstating Argentine soybean production, and we should learn more throughout the month. On the other hand, Brazil production ideas are generally increasing. It does not seem to me that increases in Brazil will be enough to offset decreases in Argentina, but again time will tell.

South American corn production could also take a hit due to weather. Dryness in Argentina could reduce corn yields even more than soybeans yields. Further, there is some concern that the wet harvest weather in Northern Brazil could reduce their 2<sup>nd</sup> crop corn acreage. US corn exports are picking up, which is obviously necessary given the glut across the Midwest. However, US corn is quite competitive in the world market, suggesting some progress will be made to clear some of the excess supplies. Corn futures have rallied modestly in response, with the undersold US farmer taking advantage of the rally to get caught up on the marketing side. I believe there could be more upside in coming months as the US farmer does indeed get caught up, providing less resistance on future rallies.

Wheat had a considerable upward move in January. Wheat had been the most battered over the last year though, so this recovery seemed overdue. US wheat production prospects could be hurt by dry weather, making this correction from historically very low prices make perfect sense. With that being said, world wheat stocks remain excessive and I don't see any convincing reason to buy the higher prices.

I feel soybean and corn futures have the most (initial) upside potential, with South American weather likely determining how quickly futures could move higher.

Regards,



Mark Ditsch

February 6, 2018

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