

DITSCH TRADING

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A historic drought is taking place in Argentina. Soybean production ideas have been coming down by the week as they experience one of the driest finishes to their crop season in history. Neighboring areas of Uruguay, Paraguay, and southern Brazil will also face reduced production. Brazilian production ideas, which were climbing higher for months, have now stabilized and worked slightly lower due to the issues in the south. Composite South American production could legitimately fall 20 MMT below last year. All of this puts much more pressure on the US to increase acreage and produce a crop this year.

The expected reduction in Argentine soybean production is the biggest story in Argentina—but it's not the only story. Argentina's currency, local inflation, and a declining export tax over time all encourage Argentine farmers to hoard soybean production rather than sell aggressively. I expect this, combined with the expected reduction in production, to reduce Argentina's soy crush by a significant amount over the next several months. This is a time period in which Argentina tends to satisfy a large chunk of world soybean meal demand. Reduced crush in Argentina puts much more pressure on the US and Brazil to satisfy a larger percentage of world soybean meal needs, and really taxes crush capacity. Crush margins and soybean meal prices have exploded in anticipation of this, but it doesn't appear as if crush margins or price have resolved the issue just yet. I still expect more strength in both in coming months.

The drought has the most obvious impact on the soy complex, but South American corn production will be cut significantly as well. Unlike soybeans, corn and other feed grains are grown in many other parts of the world, and US corn supplies are massive at this time. This provides an initial buffer to the corn market, but as the drought continues and worsens, it now appears as if the US will need to grow a large corn crop as well. There could be an acreage battle looming in the US for the first time in several years.

Finally – not to be left out – wheat prices have rallied on poor US weather and other issues around the globe. This probably isn't over either.

Ag prices had gotten very low over the last couple years, and we have been well aware that a weather problem in a major growing area could rally prices significantly from their historic lows. A weather problem now seems to be taking place in South America, so we expect soybean, corn, and wheat prices to continue to trend higher in coming months.

Regards,



Mark Ditsch

March 5, 2018

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