Ditsch Trading

May 2018 Monthly Commentary

There have been several monkey wrenches thrown into the declining world stock and large demand stories that we have been monitoring. First, the impending trade war between the US and China (and to a lesser extent the EU, Mexico, and Canada) has altered grain flows and reduced demand for US soybeans in the near-term. Second, the US dollar has been very firm relative to emerging market currencies, enticing farmer selling around the world and providing upside resistance to ag commodities prices in dollar terms. Third, US weather really turned in May. Cold and wet weather in April delayed an early start but May weather turned very warm with enough rainfall to push early corn and soybean conditions near record high levels. This combination weighed on ag prices considerably in late May and into early June.

These markets have more upside than downside potential in my view due to declining world stocks and consistently growing world demand. However, the factors above have created enough cross-winds to push futures into more of an erratic chop pattern than any type of higher trend. The supportive longer-term fundamentals are being offset by these above factors in the short-term.

For the next several months, US weather and US / Chinese trade negotiations will drive price direction. US weather remains mostly favorable for the time being, but these crops will need consistent moisture throughout the growing season. There have also been some hints of improved trade discussions between the US and China. Both will need to be watched closely.

There are several supportive items coming from South America. Most recently, Brazilian trucking fees from the interior to the ports have gone up significantly following their trucker strikes. Brazil had been supplying the lion's share of world soybean demand for the past several months, along with a considerable amount of meal and corn. This shift should make Brazil less competitive in world markets. Further, Brazil's corn crop is getting smaller and Argentina's soybean crop was reduced significantly both in terms of size and quality.

All of this suggests a much larger US export program late this summer and particularly this fall. Combined corn, soybean, meal and wheat exports should be a record by a significant margin this fall, taxing export capacities. The US should have huge carry-in supplies, so this combined with trend or better yields would lead to a big supply/big demand situation. This strong demand means there is not much cushion in either the corn or the soybean balance sheets for weather issues.

Regards,

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