Ditsch Trading

September 2018 Monthly Commentary

Harvest has started, and early yield reports suggest even the record USDA soybean yield projection is too low, perhaps by a moderate amount. The US trade war with China continues with no end in sight – the US has likely lost its biggest soybean customer for the entirety of the fall and winter season in which the US typically dominates world trade. Cash basis levels traded down to historical lows before harvest really even began. Put this all together and one would assume soybean futures traded to new lows, extending those lows into month-end, especially as we head into the largest harvest on record with Sep-Nov export demand likely to be the smallest since 2011/12, right? Well, futures did in fact trade to new lows, with SX hitting a multi-year low of $8.1225 on September 18. Then, quite surprisingly from a fundamental perspective, they have rallied nearly 60 cents since.

Why? There are multiple reasons. First, early harvest quality has been quite poor with significant damage in many areas. Second, while harvest is off to a fairly normal start (not fast, not slow – harvest through the end of September was 23% complete vs. 20 % average), upcoming harvest weather looks horrible with extremely heavy and consistent rainfall expected over much of the Corn Belt from Oct 5-15. Third, the farmer has not been selling much of the early harvest. We expected this to occur, with more selling as the bins fill up in the latter part of harvest. Fourth, there is some optimism that the US and China will settle their differences in the near-term. Fifth, the futures market leaned too short a little too early, and nervous shorts (for all of the above reasons, but mainly because the short wasn't working) contributed to the bounce.

With all of that said, I still expect soybean futures to push to new lows again in October and continue the move lower into the end of the year. The massive crop will eventually be harvested. My December 1 stocks projection (one-fourth of the way through the marketing year) is over 4.0 billion bushels. To put this into perspective, prior to 2016 the US had never produced an ENTIRE CROP over 4.0 billion bushels. I do not expect a near-term resolution to the US/China trade war. This combined with the larger crop put my 2018/19 carryout estimate at nearly 1.3 billion bushels, 450 million higher than the last USDA projection. To put this into perspective, the highest carryout on record was less than 600 million bushels in 2006/07 – so my ending stocks estimate is more than double the all-time high. Harvest delays and quality problems are tightening up the nearby market, but we must remember that we still have over 3 billion bushels to harvest, quality problems are never bullish (they will weigh on export totals). I expect the bear move to resume, perhaps as harvest kicks back in in the last half of October.

I've spent a lot of time talking about soybeans this month because that is the market that I feel carries the most opportunity. If all goes as expected, especially with expanding South American soybean acreage, the function of the soybean market will be to 'run away' from soybean acreage in the US in 2019. Deferred corn futures should firm relative to deferred soybean futures, but that can be via corn sitting still as beans go down. Higher corn acreage in 2019/2020 would suggest the corn balance sheet goes from reasonably snug this year to plentiful next year (assuming of course normal weather). I see no big opportunities in the corn market at this time. World wheat stocks look to tighten over time, but I see that market as more of a buy the dips market, at least until the US starts to participate in more business.

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The bottom line is that I expect soybean futures to work lower in coming months. I expect corn and wheat futures to lag any breaks and lead any rallies as the world wheat balance sheet tightens. However, despite a solid demand outlook, corn and other grains may struggle to maintain rallies as long as soybean futures keep working lower. Even if 18/19 corn carryout gets a bit snug, the market knows corn acreage is likely to expand significantly next year.

Regards,

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