DITSCH TRADING

October 2018 Monthly Commentary

Early October was historically wet across US growing areas, which led to pre-harvest/early harvest jitters on prices. Futures finally set back as harvest picked up later in the month, but did not fall to the September lows despite demand for US ag commodities looking increasingly bleak as the month went on.

The soybean market seems to be focused on 'hope' – hoping for a US/China trade deal, with the two leaders expected to meet up later in November. The 'trade deal risk premium' has a floating value, but it does seemingly set the market up for extreme failure should the two sides not be able to come to any sort of agreement. While the 'hope' gains the headlines, the reality of extremely slow demand for US soybeans seems to be forgotten. It will be interesting to see whether another several weeks of extremely slow demand can impact the market or not. It should, but the 'hope' is overpowering for the time being.

Assuming there is no deal, I fully expect soybean futures to push to new lows again prior to the end of the year and continue the move lower in early 2019. The massive crop and poor demand will eventually be felt. My December 1 stocks projection (one-fourth of the way through the marketing year) remains over 4.0 billion bushels, nearly 900 million above the record stock level set last year. My 2018/19 carryout estimate remains near 1.3 billion bushels, 450 million higher than the last USDA projection. Even if a trade deal happens, it is not going to happen in time to provide the US a long window to export. Instead, it would happen, at the earliest, just prior to another record South American crop. Even with a trade deal, my carryout projection would only drop to about 1 billion bushels.

If all goes as expected, especially with expanding South American soybean acreage, the function of the soybean market will eventually 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 or wheat markets at this time.

Regards,

Mark Ditsch

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9047 Poplar Avenue, Suite 101
Germantown, TN 38138
newaccounts@ditschtrading.com
ditschtrading.com
T: 901-766-4446
F: 901-766-4406