DITSCH TRADING

November 2018 Monthly Commentary

November was another frustrating month for fundamental traders, as ag futures darted up and down based on the latest headline and/or President Trump tweet while completely ignoring fundamental inputs. The market was singularly focused on the Nov 30-Dec 1 Trump / Xi meeting at the G20 in Argentina and what impact that meeting would have on trade tariffs in place between the US and China.

Soybean futures rallied 7% in November, wheat was up 3%, and corn and soybean meal were each up less than 1% while soybean oil was down 1%. Soybean fundamentals continue to look the most bearish on the board, and actually look more bearish as we begin December than they did a month ago. In South America, the Brazilian soy crop is off to a phenomenal start. It is too early to say much about Argentina, but rains have the soil in good shape. It looks like another record crop in South America, even if there are a few weather problems along the way. Additionally, Brazilian old crop soybean supplies have lasted much longer than anybody thought they would, and Argentina seems to have imported too many beans in an attempt to offset last year's sub-par harvest. All of this, along with the ongoing US/China tariff dispute, suggests South America will be supplying a much higher percentage of the world's soybean and product needs than previously anticipated. US soybean stocks, already projected to end up record large, could be extremely burdensome by next summer.

While the US and Chinese versions of the meeting in Argentina differ, it does appear as if China is ready to make some minor concessions to appease the US and reduce the massive trade deficit. Most likely, China will agree to buy 5-6 MMT of US soybeans and perhaps some corn and wheat. However, even if this happens, it appears as if it would be a one-time deal as no longer-term agreements have been made. In the meantime, South American basis levels continue to go lower, suggesting the US is going to lose a like amount (or maybe even more) business to the rest of the world. In a world in which headlines move price in the short-term, the market has surged on this Chinese 'news', but over time I still feel trade will realize there are bigger fundamental problems with bigger supply and lower world demand that need to be dealt with.

Corn and wheat futures have really just been stuck in a range, in wait-and-see mode. Just as they have sat while soybean futures rallied – I'd expect they may also sit within the range even if soybean futures set back as I anticipate they should in December through February.

If all goes as expected, especially with expanding South American soybean production, 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,

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