DITSCH TRADING

November 2019 Monthly Commentary

November obviously did not go the way I had projected it to. The combination of heavy fund selling (presumably on the lack of trade progress between the US and China), South American farmer hedging (in Argentina ahead of a potential raise in export taxes on December 10, and in Brazil due to currency weakness), and generally thin markets especially towards the end of the month (Thanksgiving holiday in the US) served as a perfect storm to push corn and particularly the soy complex significantly lower. January futures, high to low, broke more than 90 cents despite little change in the underlying fundamentals from last month.

Especially on this recent break, I feel corn and particularly soybean and soybean meal prices are too low. World stocks are declining, world demand is picking up (to record-type levels again), and South America is showing signs of running out of old crop soybeans. The buzz in late November became how big the South American crops can be. I would argue that weather has been decent but not ideal. I do not think production estimates really went up much, the market just seemed disappointed by a lack of a bigger story down there. Chinese soybean demand continues to pick up, with shipments from the big 3 soybean exporters nearly 10.5 MMT on the month. It appears as if China could import 90 MMT of soybeans in this marketing year vs. the USDA projection of only 85 MMT. Granted, South America is expected to fill a higher percentage of this demand than normal due to the US/China trade war, but that should push non-Chinese soybean as well as soybean meal business back to the US in early 2020, and perhaps later this summer as well – depending upon how aggressively China pulls from their stocks early in their marketing campaign.

Cash soybean, corn, and SRW basis remains strong as the US producer remains a reluctant seller. Storage was never really taxed, especially in the east, and it will likely prove to be difficult to keep bushels flowing unless or until futures move higher.

Soybean export sales and shipments have been strong recently, but the market fears a dramatic slowdown in 2020. I suspect exports will indeed slow, but not as much as the market fears – and annual soybean exports are still likely to approach or exceed the current USDA projection. US crush continues to set monthly records and it appears USDA is too low on their crush estimate. Corn export demand should pick up in 2020, and futures will likely have to work harder to move bushels as demand picks up. The farmer is expected to be a very tight holder of corn at current flat price levels.

The bottom line is that I still feel ag prices will appreciate in coming months despite the November freefall. Soybeans probably have more upside than corn, but both have limited downside from these lower levels in my view.

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