DITSCH TRADING

July 2020 Monthly Commentary

I believe USDA and market participants are probably underestimating both supply and demand for the 20/21 US marketing year. Weather has turned quite favorable across the majority of US growing areas. At the same time, competing origin export country supplies are running very thin, and China has shown a big appetite on the price break. How does the market respond as ideas of supply and demand both grow larger in coming months? That is the question we need to be asking ourselves.

Based on weather to-date and the most recent forecasts, I expect record US corn and soybean yields this fall. Weather just hasn't been much of a problem, and crops reportedly are in great shape. Let's start with corn. USDA has been projecting national corn yields at 178.5 bpa. I believe they could end up in the 180-185 range. If we take a mid-point 182.5 bpa, supplies would grow by about 335 million bushels. Demand is a mixed bag – but I believe exports could exceed the latest USDA estimate by about the same amount as the production growth. On the other hand, domestic use may end up 200-300 million bushels below the USDA estimate of combined old and new crop. This scenario would suggest a carryout at about 250 million bushels above the latest USDA estimate, near 2.9 billion bushels – which is a burdensome amount. The first function of the market will be to determine crop size – but it does appear as if corn carryout is growing despite very strong export demand.

Soybeans are a bit of a different story due to stronger export and domestic demand, but also higher yield prospects relative to USDA. At this time, I would argue that current conditions and the latest forecasts would argue for a US soybean yield in the 52-53 bpa range. If we take the mid-point of 52.5 bpa (vs. USDA 49.8 bpa), soybean production would grow by about 225 million bushels. On the other hand, near-record tightness in Brazil and strong demand from both China and the rest of the world (low prices seem to be buying demand) – I believe USDA is probably underestimating exports by about 200 million bushels. Further, while I think USDA is too high on corn domestic demand – it appears as if they are probably about 25-50 million bushels too low on soybean crush. The bottom line appears to be nearly offsetting, with carryout declining year-on-year to somewhere just north of a 400 million bushels carryout, similar to the latest USDA projection and down about 200 million bushels from the old crop carryout. Thus, it is more difficult to be bearish soybeans – but much like corn, we need to better define the soybean yield first.

The bottom line is that current weather probably trumps the demand in the near-term – but demand should provide support from some level once crop size ideas begin to stabilize. Corn price upside is beginning to look extremely limited, while soybeans can go either way – but likely trade the supply side first. It is frustrating to be proven correct on the demand side but facing the headwinds of favorable weather, but it is time to adjust and trade accordingly.

Regards,

Mark Ditsch
August 3, 2020

9047 Poplar Avenue, Suite 101
Germantown, TN 38138

newaccounts@ditschtrading.com
ditschtrading.com

T: 901-766-4446
F: 901-766-4406