DITSCH TRADING

August 2020 Monthly Commentary

What a difference a month can make. A month ago, we were looking at largely beneficial weather across the US corn and soybean production areas. Weather turned in August, becoming one of the driest Augusts in recent history. Further, historic wind damage occurred across a significant portion of Iowa. US crops obviously had the potential for record yields as USDA forecast in their August S&D. However, by the second half of August, it became clear that USDA August yield estimates were too high. By the end of August most had come to the conclusion that corn probably will not even reach trend yields. While soybeans could still exceed trend yields, it is unlikely they will achieve a record.

While the production side has taken a hit, world demand has not slowed down at all. If anything, our record export demand projections for both corn and soybeans are working still higher rather than backing off with the size of the crop. This will tighten both corn and soybean balance sheets in 2020/21. We once thought there was a possibility that corn carryout could approach 3 billion bushels in 20/21. Through a combination of lower than (once) expected acreage, lower than anticipated yields, an ever growing (and now consistent) Chinese appetite for US corn (due to their accumulating year-on-year production vs. usage deficits), and smaller crops in several other areas including Europe – it now looks to me like carryout will actually drop year-on-year and could potentially fall below 2 billion bushels. Granted, 1.9 bln bu carryout is still not tight, but it quite certainly isn't burdensome either. Corn futures look to me to be fairly priced at these new higher levels established and are probably back to being more of a trading market. I have no intelligent comments on the wheat market at this time – only that stronger world wheat markets would further spark world demand for corn as several destinations (such as the EU) will import corn and export wheat rather than feed their wheat crop as that relationship dictates.

Soybeans on the other hand are experiencing a more significant shift. Brazil has already exported or crushed a higher percentage of their crop for this time of year than they ever had before. This was made possible by aggressive farmer selling, but it also means Brazil won't be a major competitor again until their new crop. Argentina still has excess supplies on paper, but the Argentine farmer continues to ramp up hoarding as a hedge against their collapsing currency. Chinese demand is back - and this combination of strong Chinese demand and very limited competition from South America points to record SON and annual US exports. I believe USDA is likely still 1-200 million bushels too low on their US export projection. Combine this with what could be a 2-3 bpa reduction in yield and we are suddenly looking at a tight US carryout. Further, even if South America produces record crops again next spring, world supplies are such that US acreage probably needs to go up at least another 6 million acres in 2021. This is why I think soybean futures will continue to push up towards $10 or potentially higher (depending on ultimate US yield) – and stay there – unless South America produces even more than the record supplies already forecast. Soy fundamentals are shifting - even in the longer-term. Stay tuned.

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