DITSCH TRADING

December 2020 Monthly Commentary

Ag markets were sharply higher in December, pushing well above the ranges we have grown accustomed to over the past several years. What began as a demand-led bull market saw dryness in South America add fuel to the fire, while demand continues to be better than expected (and too big to sustain). I believe we are looking at a new paradigm, and while markets can get choppier at these higher levels, I believe in the medium to longer-term we are looking at a multi-year bull market in ag commodities.

The soybean complex moved consistently higher throughout the month. The reasons given focused on South American dryness and a crusher strike in Argentina, and while both were clearly important – they only added to existing issues. Argentina appears to be in the worst shape, and production estimates there have slipped from low 50s down to mid to upper 40s MMT. Brazil is in relatively better shape, but the market seems to be accepting that early projections of 130+ MMT were probably overly optimistic and estimates are now mostly in the upper 120s MMT. There is still a lot of growing season left in most of South America, but it looks like the range on yields is now somewhere between poor and good – when the market really needed great. Chinese demand remains better than expected, driven by a faster recovery in hog numbers than previously expected and extremely high priced corn in China due to import restrictions – which increases the amount of meal used in their rations. Further, world veg oil prices are moving sharply higher, supporting world soybean oil use. It is becoming nearly impossible to balance not only the US 20/21 balance sheet, but also the world and 3-country primary exporters 20/21 and 21/22 balance sheets. US acreage will need to go up sharply, and current prices and price relationships probably won't allow that to happen. At some point, both the US and the world will have to ration soybean use as well as buy more acreage in the US this spring and South America this fall. That will require higher prices. This is why I believe we are in the beginning of a multi-year bull market.

Corn is also very interesting. Export demand continues at a record pace. While early marketing year export shipments have focused primarily on soybeans, corn export sales continue at record levels. Corn export shipments are poised to increase monthly in 2021, both due to more capacity as world soybean business switches to South America and due to much larger Chinese demand and a lack of export competition from the rest of the world. Further, if/when new crop soybean futures appreciate, corn will have to keep up to a certain degree to maintain acreage. It really is the first 'acreage war' we have seen in the US in several years – but it may continue for some time until prices can push high enough to increase the world acreage pie and ration use. The old crop balance sheet is not as powerful as soybeans, so I believe corn will lag soybeans on rallies and lead soybeans on breaks. For this reason, I like owning old crop soybeans both outright and against old crop corn. Wheat is a follower – but it won't likely sit still if soybeans (first) and new crop soybeans and corn (second) push higher. It looks like we will have some good markets to trade for the foreseeable future.

Regards,

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