DITSCH TRADING

February 2021 Monthly Commentary

Ag futures have been in a justified, sustained bull market for several months. Most of February saw further gains, but I am of the opinion that higher prices have achieved some of the needed shifts in demand (not so much rationing as pulling demand away from the US, which has clearly been a needed step). Thus, while I am not sure the bull market is over, I do think that there are enough issues with both the bear and the bull argument to turn into a more two-sided, trading market for awhile until we can learn more.

Soybean futures chopped to slowly achieve new highs by the end of February. US soybean exports were record high in both December and January aided by both the lower Brazilian stocks and the slow Brazilian harvest. However, US exports were slowing significantly in February, and while Feb exports should be about 'average' compared to past years, I think March exports could hit multi-year lows. Brazilian harvest has been very slow, and February exports were reflective of that. However, production estimates continue to work higher, and I expect them to crank out record volumes beginning sometime in March and extending through the summer as they finally get ramped up. Further, both Argentina and Brazil have elevated crush above expectations in Jan/Feb, and that will hurt US meal exports. I think USDA may be 1 mmt or slightly more too high on their US export meal projection. The needed slowdown in US soybean and meal exports (which will ultimately by definition slow US crush) has made significant progress towards 'solving' the old crop US soybean balance sheet. While it is unclear if it has fully been solved or not (it will still be at the very least very tight, but maybe not unworkable), it does seem as if we have at least created some breathing room. Further upside from these levels will be much more difficult.

Corn export shipments, on the other hand, are just beginning to ramp up and should achieve record levels in March through August. However, that is already in the grid and I would argue priced in.

While I believe old crop futures are likely to be more two-sided trading markets going forward, I still fundamentally think that the US will have a hard time achieving the 90+ mln acres of soybeans needed to satisfy the 21/22 balance sheet. I think current prices point to more corn acreage and less soybean acreage. Thus, I like new crop soybean length, either outright or against new crop corn futures. Spring and summer weather will be very important, as will the critical March 31 prospective planting update from USDA. It looks like we will still have nice trading markets going forward.

Regards,

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