DITSCH TRADING

March 2021 Monthly Commentary

March was a choppy month leading into the always important end-of-month stocks and acreage reports. I have learned over time to keep positions into that report limited and protected (because USDA can and always does seem to print some major surprises). This month seemed to be one of the few exceptions where I wish I had a little more exposure, because my biases were proven correct in the reports.

USDA surprised the market with a low corn plus soybean combined acreage pie. Soybean acreage was forecast at only 87.6 million acres (2.5 mln below trade estimates), while corn acreage was projected at a mere 91.1 million acres (2 mln below estimates). The combined overestimate of 4.5 million acres pushed futures limit higher on the last trading day of March. Stocks estimates were overshadowed, but it is important to note that soybean stocks came in nearly 40 mln bushels above the average estimate while corn was reported nearly 70 mln bushels below trade estimates. This - combined with soybean crush and exports slowing down while corn exports and ethanol use are ramping up – suggests old crop bean carryout is getting larger while corn carryout is getting lower. Soybeans will still be tight, but not as tight as earlier feared. I could easily see a soybean carryout closer to 170 million bushels. This is not at all loose, and still suggests markets will need to stay inverted to supply domestic crush (and the limited spring/summer export demand), but it has led to some justifiable softening of the old/new inverse. Corn, on the other hand, could easily see carryout eventually slip below 1 billion bushels, which should continue to support that inverse.

The focus in the market is shifting to ultimate US acreage and planting/growing weather. So far it looks like planting conditions will be good over the majority of the US. This suggests some increase in the total corn plus soybean acreage pie. I believe this weather will lead to the majority of the increase coming into corn. At this time I am projecting corn acreage 1 mln acres higher than the March projection and soybean acreage 0.5 mln above the March estimate. Given demand increases, this does not appear to be enough for either crop, assuming normal yields. The market has a job to do in the new crop – particularly in soybeans, and I expect dips to be well bid and the market to eventually push over $13.

Softening the impact of low US acreage somewhat are improvements in the Brazilian crop. Many estimates are now pushing towards 137-138 MMT, 3-4 MMT higher than USDAs last estimate. On the other hand, Argentina is likely to fall below the 47.5 MMT USDA estimate. Overall, the world has been gobbling up Brazilian supplies early (March exports were record high and April and May should both be higher than March), and their basis – while weaker, has not collapsed. This suggests markets still have higher prices in the future.

Soybean products should be interesting over the next several months. Soybean oil seems to need US crush to remain high throughout the summer, while the meal market may have difficulty getting rid of excess meal should crush not fall very dramatically. Lower spring/summer soybean exports and higher March 1 stocks suggest the meal market could remain oversupplied through the summer, particularly with South America now supplying the majority of the export meal market. Fundamentally, I think oil will gain on meal for the next several months.

Regards,

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