DITSCH TRADING

May 2021 Monthly Commentary

May was an extremely frustrating and humbling experience. Markets went into a wide, choppy, volatile range without a lot of rhyme or reason to the daily swings. Normally I am able to catch moves within a range, but the extreme volatility whipsawed me around, and I was unable to capture the moves. Too often, on the extreme moves I decided at the wrong time that I didn't understand what was moving the market, exiting at the wrong time, only to see markets later reverse to a position that would have worked had I held on. This happened on both long and short positions. I was reminded that bear markets can rally limit up on any given day just as bull markets can break down limit on any given day.

I do not think markets are trending much of anywhere for the time being. There are a lot of crosswinds out there, and markets seem to go from moving significantly higher on a lack of sellers to dramatically lower on a lack of buyers, only to repeat the ups and downs within a wide choppy range.

On the bullish side, both corn and soybean balance sheets remain extremely tight for the end of this marketing year, but the market seems to have accepted that and is trading accordingly. On the negative side, US weather has been very good for planting and early development. However, the tight carry-in supplies along with strong demand (especially for corn) seemingly has the new crop markets willing to trade with above normal risk premium for any potential weather difficulties. Forecasts have turned hotter and drier, and markets have pushed higher in recent days accordingly. I feel that current values are closer to the upper end of the ranges, so the bias is to sell rallies until we repeat the above trend and move back towards the lower end. It is also a time to keep positions small so we can remain nimble. While weather has caught some attention, it does not look to be overly threatening either. Early condition ratings are actually quite high.

While we won't know for sure until the end of June, our research and interior contacts indicate that the combined corn plus soybean acreage pie should increase by about 3-5 million acres from the USDA Prospective Planting numbers released in March. Corn held a significant revenue advantage for farmers throughout most of the planting season, so we expect corn to gain most of this increase. Further, corn probably stole some acres away from beans - most likely offsetting any new acreage soybeans may have attracted - given the revenue differential. Overall, I'd expect corn acreage to be up by about 4 million acres and soybean acreage about unchanged from March. This would help the corn balance sheet to offset increased export demand to China both in the old and new crop. At this time, my 21/22 corn carryout projection is 1.5-1.6 billion bushels (assuming trend yields), at or just above the latest USDA estimate, with higher acreage mostly offset by higher exports. For soybeans, I think USDA estimates are reasonable at this time. Slowing demand from China will push South American Sept/Oct stocks higher and reduce US exports somewhat in the first quarter of the 21/22 marketing year, as USDA suggests.

The bottom line is we seem to be in a 'wait and see' mode before determining what the next move should be. Balance sheets are tight, but markets are already carrying above normal risk premium and US weather is pretty good. June will be a good month to keep positions small and reasonable while watching weather developments and awaiting the all-important USDA stocks and acreage numbers at the end of the month.

Regards,

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