DITSCH TRADING

August 2021 Monthly Commentary

Markets spent most of the month of August performing in the same wide, choppy, but overall generally directionless trade that has defined recent months. There have been enough crosswinds to push markets aggressively in both directions on a general lack of conviction (lack of sellers on rallies, lack of buyers on dips). USDA gave us some temporarily bullish yield numbers in August, but beneficial rainfall tended to offset those numbers as the month progressed. Late in the month, Hurricane Ida barreled in on southern Louisiana with the market trying to figure out what that meant to markets. Tight old crop supplies of corn and beans initially pushed both futures and nearby spreads much higher on fears of damage to the Delta and Mid-South crops from heavy rainfall.

Despite the initial market interpretations, it appears that Hurricane Ida was overall quite bearish. Damage to export terminals combined with lack of power is going to limit gulf export capacity for quite some time. Damage appears to be much worse than from the infamous Hurricane Katrina back in 2005. With export terminals down indefinitely (some likely longer than others, depending upon damage and location along the river), gulf loadings will be very slow in early September and this will continue into later September and in some cases well into October and later. While the gulf was certainly not at capacity for September assuming normal operations, this damage is now going to push September loadings back into the more capacity limited Oct/Nov period. Ocean freight was already sky high with vessels backed up in China, etc inflated by COVID protocols, and vessels now sitting in the gulf is likely to push ocean freight even higher. Barge freight is poised to go much higher as well with barges both unaccounted for in the gulf and now sitting in the gulf with elevators unable to unload in the near to mid-term. Export elevation margins have exploded higher. This combination of factors pushes CNF values to destinations much higher (higher ocean freight, higher FOB offers) and also pushes interior US basis much lower (higher barge freight, lower CIF NOLA values). This will have a bigger impact on soybeans than corn because a much higher percentage of the soybean crop needs to be exported in our short Sept-Jan window before South American new crop becomes available again.

In addition to the above, rains have been beneficial this month – particularly for soybeans. While condition ratings do not look great, late August rains tend to be very beneficial. My soybean yield estimate is now near 51.0 bpa vs. USDA at 50.0 bpa. Further, the above (combined with sluggish crush in China) has pushed my new crop export estimate down to 1900 mln bu vs. USDA at 2055 mln bu. A 25 million bushel higher carryin (due primarily to slow US crush in JJA), combined with 85 mln higher production and 155 mln lower export estimate pushes my carryout projection to an ample 410 mln bushels vs. USDA at a tight 155 mln. I do not think the market fully appreciates all of this yet, but I think it will over time. I look for soybean prices to push down towards $12 as harvest progresses, led by meal (soybean oil still has some value).

Unlike soybeans, I think corn and particularly wheat futures are now at levels that have some value. I think soybeans will drift while corn and wheat chop around, most likely – obviously depending upon final yield. At current prices, I have no major bias for corn and wheat futures.

It should be an interesting fall. For the first time in months, I can say with some confidence that I feel soybean futures are entering a bear market – with ultimate downside determined by final yield and just how low US exports can push.

Regards,

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