DITSCH TRADING

October 2021 Monthly Commentary

In the month of October, US corn and soybean production ideas continued to move higher, export ideas continued to push lower, and prices initially shifted lower in response. However, futures rebounded with a fury late in the month on macro/inflationary buying and a slow end to the harvest that reduced farmer selling and gave some farmers and traders a hope for an extended post-harvest rally.

It is frustrating to be right about these fundamentals and getting some confirmation from USDA, only to have prices shake those fundamentals off and move higher. I fully understand the macro/inflationary inputs, but I have found over the years these inputs tend to simply raise or lower the ultimate levels of support or resistance and ag fundamentals matter more in the end. Take this year for example. Despite all the press about ag/food inflation – at current prices (even with higher input prices) US farmers have incentive to increase supplies not only this year but again into next year. At the same time, export demand is being curtailed at these prices.

US corn and soybean exports have slowed significantly over the past few weeks and I look for that to continue. I think USDA is 2-300 million bushels too high on their soybean export projection and ~100 million too high on their corn export projection. High prices and larger soy stocks in South America have really shrunk the window of competitiveness for soybeans. At the same time, higher corn prices have taken the wind out of the sails in terms of import margin for Chinese corn importers. Soybean shipments are reasonably strong, but South American basis levels are cratering even for Nov/Dec shipment now. It does not look favorable.

US domestic demand is stronger than export demand for both corn and soybeans. Soybean processors were able to lock in some meal sales early for OND shipment, and that combined with a slow ramp up in crush rates has tightened the domestic meal pipeline considerably. Crush margins are extremely high now though, and I expect record crush November forward. The meal pipeline will not get solved overnight, but the lack of new meal export demand combined with record production should more than offset somewhat better domestic demand for meal (on lysine and canola meal supply limitations). Similarly, corn grind for ethanol is very strong as can be expected given high energy prices. This increase in ethanol use should mostly offset the decline in exports, suggesting a corn carryout near USDA expectations. Soybeans – on the other hand – are likely to only see a modest increase in soybean crush relative to the massive loss in exports, likely increasing carryout to the 550-600 mln bushel range (vs. USDA at 320 mln).

The bottom line is that bear markets can and will rally, sometimes more than expected, especially when technicals/macros/bullish farmer/post-harvest all occur at the same time. My plan will be to keep positions small but lean short. I see more downside than upside to corn and soybean prices at current levels. Wheat is a different story as world fundamentals are tightening, but prices have already made a significant move reflecting that tightness.

Regards,

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