

## November 2021 Monthly Commentary

The market seems confused. I am right there with the market. I don't recall a time in which there were so many crosswinds, and ag markets have gone up and down sporadically – seemingly going up on a lack of sellers, down on a lack of buyers, then repeating over and over again.

At one point later in November, it seemed almost as if the market was beginning to make some sense again. World stocks of corn and soybeans are growing, (I've always been a firm believer that this is the driver of flat price over time), and prices were adjusting lower. However, in hindsight, it was nothing more than a repeat of the break on a lack of buyers mentioned above. The rally on the lack of sellers soon followed.

So what is going on with prices? While world stocks of grains and oilseeds are increasing, they are not at a burdensome level. Inflation, and specifically ag inflation/food inflation ideas have caught the attention of the macro traders – and perhaps most importantly, the US and world farmer has firmly bought into this inflation idea as well and has sold a much smaller percentage of their crop than one would expect given historically high prices (it doesn't take much to get the farmer to buy into a 'bull story'). US basis levels for all ag commodities are at historical high levels despite historically high futures prices – in an effort to generate more movement from the farmer. US domestic demand and crush margins are very strong, and quite simply there is more demand than available supplies (with unsold farmer tonnage not yet available to the market). Finally, South American weather got off to a very good start – but now there are some mild to moderate concerns with the weather forecast for southern Brazil and Argentina.

While it is tough to admit, all of the above suggests to me we may be in more of a 'buy the dip' type of market than a 'sell the rally' type of market – at least until South American harvest kicks into full gear. When is that? Brazil will harvest some early soybeans, but its really mostly February through April for them and April/May for Argentina.

The bottom line is that the combination of ag inflation ideas along with a hoarding mentality by the US and to a lesser extent world farmer, tells me that we have probably reached a new price paradigm in which \$12.20 for soybeans and \$5.50 for corn is 'cheap' – at least until South American production is better defined. World demand – specifically Chinese demand – has not fully recovered, so I don't think we need a significant rally either - unless of course South American weather turns truly bad. The next few months will be transition months, and there is a reasonably strong possibility that world fundamentals can still weigh on the market next spring and summer. I just don't think the time for a significant break in prices is now.

Regards,



Mark Ditsch  
December 6, 2021

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