

## January 2022 Monthly Commentary

South American weather has been historic this year. Much of southern Brazil has been the driest of the modern soybean production era. This has seemingly caused many issues within the analyst world, as many looked back at historic percentage losses, only to now be finding that early harvest results are much worse than the worst in recent history. At one point, production estimates ranged from 144-150 MMT for Brazil, 48-50 MMT for Argentina, and 8-10 MMT for Paraguay. The range of estimates dropped very quickly in late January as more was learned about the state of the crop. At this time, I would say that Brazil estimates range mostly from 126-132 MMT, Argentina 40-42 MMT, and Paraguay 5-7 MMT. At the mid-points, this is a loss of 29 MMT against thoughts just a couple of months ago. USDA did reduce their estimates in January, but it seems there is room for another significant cut. Further, there are fears now that Brazil may end up below 125 MMT, Argentina below 40 MMT, and Paraguay below 5 MMT.

The market was lulled to sleep a bit early in the month of January by the surplus soybean stocks in the United States, and it seemed unwilling or unable to understand that by September of this year, and particularly by March of next year, we are looking at the tightest origin soybean stocks in history on a stocks to use basis, even if production ends up near the upper end of the latest estimates. If production falls towards or below the lower end of current estimates – origin stocks will fall to historic levels of tightness, considerably tighter than anything we've ever seen before. South American basis levels are telling a similar story, rallying significantly despite the flat price rally.

The function of the market at this point, in my view, is two-fold. First off, the market will need to ration or at the very least delay soybean demand over the next 12-15 months. This is not easy to do given a lack of substitutes. Second, the market needs to encourage more US soybean acreage in 2022. Amazingly, new crop soybean futures have lagged new crop corn gains recently, so there has been very little (if any) progress in that regard. All of this suggests more upside in soybean and soy product futures.

My feelings on corn and wheat are less dramatic. The drought in South America has certainly taken a toll on their corn production as well. However, South America's percentage of world corn and grain production is much lower than that of soybeans. Mounting tension in Russia and Ukraine add to the risk premium in grains. I am not bearish corn or wheat futures, but I do think soybeans need to take the lead against grain in order to increase US soybean acreage. Corn doesn't look like it wants to give up the acreage easily, which will make the job of soybeans increasingly more difficult.

The developments in South America have shifted world fundamentals into a very bullish scenario, particularly for soybeans and soy products. Inflation and higher input, transportation, etc costs just adds to the bullish theme. I am looking for more upside in coming months.

Regards,



Mark Ditsch

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