DITSCH TRADING

September 2022 Monthly Commentary

The first half of the month of September brought us lower yield and production estimates for both corn and beans which supported prices. Late in the month we got some surprises from the stocks and production reports. Soybean stocks were considerably higher than expected, but both wheat and corn had bullish surprises in terms of both stocks and wheat production. This supported those grains versus beans to end the month.

With that all behind us, the newest threat to all US markets is US river levels that are at historically low levels. This has caused major transportation and logistic issues, pushing barge freight up to all-time high levels. Not only is tonnage per barge reduced massively, there have been groundings and river closures that have stopped traffic completely and allowed only very small tow sizes to pass even when open. This is a very bearish development in terms of demand. The scary thing is that this is historically a dry time of year, and there is no sign of relief on the horizon. Thus, the problem could extend well beyond what the market is considering.

Reduced export demand should continue to weigh on spreads and flat price levels, with soybeans and soybean meal potentially the most impacted. Corn will also be restricted, but a lower percentage of US corn is exported relative to beans, particularly in the Sept-Nov time frame.

The upcoming October WASDE report seems to be providing a bit of pause to the ag commodity decline, but provided there are no major surprises in that report, this development looks to be a weight on futures for quite some time.

In addition to the lost demand via a simple inability to execute additional SON export sales, Argentina saw massive farmer selling of soybeans in the form of about 15 MMT in September due to a deal between farmers and the government that allowed farmers to sell at a favorable exchange rate. While that is over, it is estimated that Argentina sold upwards of 5 MMT of soybeans in the export market for SOND shipment. This was not in the grids.

The combination of much more active Argentine exports of soybeans and the river situation suggests US exports could decline as low as 1.8 billion bushels for the marketing year. This would be nearly 300 million bushels below the latest USDA estimate and could push US carryout above 500 million bushels. On top of that, South American production is expected to increase significantly. There is just not a lot to support soybean or soybean meal futures at this time. Soybean oil can show independent or relative strength because it is mainly a domestic commodity, and domestic demand won't be impacted by the river. The corn balance sheet should be relatively well supported by the combination of smaller US production, lower carryin stocks, and an export timeline that is much more heavily weighted in 2023. Wheat futures are focused on developments in Ukraine at least for the time being. Overall, I view the setup as bearish, with soybeans and soybean meal the most negatively impacted.

Regards,

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