DITSCH TRADING

October 2022 Monthly Commentary

Ag commodities took on mostly a trading rather than trending environment in October. Later in the month futures attempted to push towards the highs of the recent ranges. However, it appears there are enough cross-winds remaining to keep futures in check for the time being.

US fall soybean and corn production ended up below trend, caused by uneven weather across many major growing areas. While it was not a disaster, it was enough to keep US stocks relatively tight at least until South American production comes off in early 2023. That will be the next major factor to watch. So far, South American weather is mixed with Argentina far too dry but Brazil (which produces much more than Argentina) in fairly good shape to start. Brazilian soybean planting is off to a fast start. Total South American production is expected to increase significantly in 2023 provided normal weather conditions. Stay tuned.

Low US river levels have pushed barge transportation rates to all-time highs, at levels well above anything we thought we would ever see. Tow restrictions and daily closures at numerous points along the river are also reducing the total tonnage that can pass towards New Orleans, limiting fall export capacity. The corn export program has been terribly small, allowing the soybean export program to exceed expectations given the conditions – but even soybean exports continue behind last year’s levels despite tighter competing South American stocks.

Ukraine grain and veg oil exports have exceeded expectations given the ongoing war, but the daily back-and-forth from Russia regarding access to ports has caused extreme volatility, particularly in the wheat market. So far, US exports of corn and wheat have been small, but the fear remains that any extended disruptions could push business back to the US in early 2023.

The US farmer seems to hold more grain off the market every harvest. They tend to wait until prices appreciate to their target level. Farmer selling was historically quite light during harvest this year. This keeps a bid in the market, as the world needs to keep US grain flowing.

The bottom line is that while futures have crept up towards the upper end of recent ranges – and I feel that is justified by the slow US farmer selling – I still feel the market is in more of a trading rather than a trending market. The range has moved upward, but I don’t see the catalyst to push futures significantly higher – particularly given the potential for a record South American harvest beginning in just a couple of months. Look for dips to be supported by the need to keep US farmers selling and rallies to be resisted by restricted US export potential and larger South American crops looming.

Regards,

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