DITSCH TRADING

November 2022 Monthly Commentary

Ag commodities remained in a wide, choppy range in November, with the soy complex surprisingly surging towards and even above recent highs late in the month. From these levels, my bias is for lower prices in the coming months.

There are still some crosswinds. The most supportive feature at this time is that the growing season is not off to a good start in Argentina. Below normal precipitation combined with surging heat has the market a bit on edge. While I agree that Argentina production prospects are likely declining for both corn and soybeans, I believe it will take a major reduction to offset reductions in world demand and avoid higher US and world ending stocks for both corn and soybeans.

Let's start with soybeans. USDA is projecting nearly a 10% increase in world exports and a 5% increase in world use. SON world exports and use were basically flat to up 1% on the year. I'm not sure why USDA is so high, but perhaps they feel the world will restock this spring and summer on record Brazilian production. While this could happen, it will only happen on a 'supply push', ie Brazil just having too many beans that have to move. That will not happen at current valuations with cnf values inverted all the way to next fall. In other words, it only happens via lower near-term prices. If the Argentine crop does get smaller (which I believe it will), Brazil should export record volumes but not enough to push world demand anywhere near USDA projections. Market ideas for Brazilian production are actually increasing, with some estimates as high as 155 MMT vs. USDA at 152 MMT. Combine this with a more realistic 2% increase in world use and 4-5% increase in world exports (driven by spring/summer Brazil exports), and my numbers suggest Argentina production would have to fall below 40 MMT (or 9.5 MMT below the latest USDA projection) just to keep world stocks at USDA levels, which are already up 7.5 MMT from the prior year. A more likely decline of 5 MMT in Argentina would leave world stocks up about 12.5 MMT year-on-year and 5 MMT above USDA levels. Bottom line – it is going to take a major disaster in Argentina to support current price levels provided Brazil production remains near current potential. As for the US, I am projecting US exports near 1800 million bushels, or 250 million below USDA – for a carryout in the 450-500 million bushel range. This suggests lower prices ahead, but I do admit it will likely be a long, slow grind lower with up days almost guaranteed on the Argentine hype alone.

Onto corn. We knew corn exports would be slow in SOND 2022. However, they have not just been slow, they have been historically slow. It looks as if SON (Q1 of the marketing year) corn exports may reach only 6.9 MMT or 272 million bushels. Both October and November corn exports are poised to end up below 2.2 MMT, a level that has only been breached 3 months total in the past 10 years. If SON exports are at my projected level of 272 million bushels, that would only be about 60% of the past two years SON and about 65% of the past 10-year average SON. Obviously, the corn seasonal export pattern has changed over the past few years and exports will certainly be larger in 2023. But the ramp-up looks to be quite slow this year, with outstanding corn sales at only 12.6 MMT vs. 25.8 MMT last year. If sales pick up considerably and match last year for the balance of the year, corn exports would be near 1800 million bushels. I am a bit more optimistic and think 1900 is likely. This would still be a major increase to near 400 million bushels in Q2 and an average of 613 million bushels in Q3 and Q4. However, even this ramp-up would be 250 million below the latest USDA projections and would push US corn carryout up towards nearly 1400 million bushels, flat on the year and a major disappointment versus the tightening the market has been anticipating following below trend US corn yields.

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Notice a theme here? I haven't even gotten into soybean oil or soybean meal or wheat – and I could – but the theme emerging for those commodities is similar – lower than expected demand at uncompetitive prices to the world and increasing carryouts.

The bottom line is that I expect lower prices in coming months unless Argentina and/or Brazil are a disaster (more likely in Argentina than Brazil). The only reason I think it will be a long slow grind rather than a quick push lower is that the US farmer has been a very slow seller of corn in particular. This combined with solid (albeit as expected) US domestic demand has kept US domestic basis levels reasonably well elevated despite slow and declining export ideas. Why has the farmer been such a slow seller? Basically, he just doesn't need the money, has been rewarded for several consecutive years by holding, has built more storage, and has 'bought in' to the mantra circulating around the country that corn 'can only go up'. A disaster in Argentina would obviously help his cause. We will see, but my bias is that there will be rallies in order to keep pipelines supplied, but I also believe the highs for the marketing year could very well be in already.

Slow, grinding lower markets with some wicked spikes higher just to keep the pipelines supplied and the blood circulating is my outlook at this time. I am keeping an eye on Argentina weather, which is admittedly not good, and I do admit a major disaster there would alter my ideas.

Regards,

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