

December 2022 Monthly Commentary

Markets focused primarily on supply concerns from Argentina in December. Brazil (which should account for approximately 75% of South American soybean production) remains in mostly very good shape. However, the talking heads wanted to focus on Argentina (which should be about 20% of the total this year). For a bit of perspective, Brazil production ideas remain in the 150-155 MMT range, up 25.5 MMT from last year at the mid-point. Argentina production ideas have indeed dropped, with ideas in the 36-42 MMT range, down 4.9 MMT at the mid-point. Also, not talked about much is that Paraguay is expected to produce approximately 10 MMT of soybeans, up 4.8 MMT from last year. Yes, March 1 world stocks will be down slightly from last year, but not enough to offset the net 25.4 MMT increase from the above scenario.

Additionally, USDA is projecting world soybean demand to rise by 5% and world exports to rise by 10% this year. This is not going to happen. In the first four months of the marketing year, world exports are up 0.2% from last year. Yes, shipments to China are up about 6%, but shipments to the rest of the world are down 12%. Most notable reductions are to Africa (less than half of last year as they focus on alternative proteins), Southeast Asia down 17% (much of the same), Taiwan down 7%, and the EU down 14%. I do think there is some pent-up demand waiting on cheaper Brazilian soybeans – but not enough to work exports to up 10% on the year. My estimate is 6 MMT lower than USDA – all from outside of China.

I will fully admit that stocks are tight, both in the US and in South America, right now ahead of the record Brazilian harvest. Thus, I remain bearish, but fully admit it will take time to replenish pipelines and it could be a choppy move lower with some sharp upticks along the way.

The smaller Argentine crop should have a bigger impact on soybean meal as opposed to soybean oil (and soybeans). There just is not necessarily enough crush capacity in the right places should Argentina's crush fall considerably. With that being noted – managed money is already record long soybean meal and Brazil will be able to offset some percentage of the crush lost in Argentina. Further, Argentina may import beans from other South American origins in order to crush. I would not mind owning some meal on a relative basis against oil and/or beans, but I will wait for better timing.

Corn and wheat seem fairly priced to me at this time. On one hand, US demand for corn is very slow. USDA is likely more than 100 million bushels too high on US exports. However, the smaller Argentine corn crop can help the US for a short window in April through July or so.

The bottom line is that my bias remains lower over the next several months, led by soybeans and soybean oil. But the move may be slow and inconsistent (with several upswings) – so timing will be key.

Regards,



Mark Ditsch
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