DITSCH TRADING

February 2023 Monthly Commentary

Things change quickly in these markets. After several months of choppy but generally firm trade, ag markets looked ready to roll over late in February. Markets generally broke out of the trading ranges to the downside as technicals turned and moving averages were pierced. About that same time, word was coming from South America that the Argentine soybean and corn crops – already below early expectations by a historical margin – were getting even smaller following some of the strangest weather on record (drought, heat, a quick freeze, followed by more excessive heat). I had been saying for months that ag markets were bearish unless Argentina was a major disaster. It finally seems all but confirmed – Argentina is a major disaster.

Early soybean production estimates for Argentina were near 50 MMT. This worked steadily lower until late February, when historically poor weather now has many wondering if the crop can even reach 30 MMT (at the time of this writing, most seem to think the answer to that question is 'no'. Those close to the production now estimate Argentina will produce only about half of a normal crop, with estimates now mostly in the 25-28 MMT range. Had Argentina even been able to produce a poor crop of 35 MMT, the world balance sheet would look a bit bearish with world stocks growing year on year. However, at 25-28 MMT, world stocks now look to decline. More importantly, Argentina is a major soybean crusher. It now looks as if the world will have difficulty providing enough crush for world soybean meal demand. Quite simply, the beans are misplaced relative to crush assets. While Argentina can certainly import more soybeans, it just won't be enough to offset their disastrous crop. Brazil and the US can both crush a bit more, but the totals still don't add up. Finally, crush can increase at destinations (and China can crush more and send the meal to neighboring countries) – but even with that, it still doesn't look like enough. The bottom line is that I believe soybean meal prices will stay well supported probably for at least another 12 months, until South American 2024 harvest. I will be playing meal from the long side until things change.

The slower crush will obviously have an impact on soybean oil as well, but there are many more substitutes for veg oil than there are for soybean meal and the world's protein needs. Northern Brazil is in the midst of harvesting a record crop, so soybean business has shifted from the US to Brazil, and it is a strong possibility that Brazil can supply all but routine container/food bean/combo cargo soybean business all the way until new crop. Thus, I don't see the juice in soybean oil and soybean prices that I see in soybean meal.

Corn is finally becoming interesting. Corn prices broke below the lower end of our expectations, and that has brought increased US corn demand. With a smaller Argentine corn crop, this should continue. I will lean at least slightly bullish in corn at these lower prices. Wheat is generally much more available than corn in the world market, and this could weigh on corn demand – so my conviction on corn is not overly strong. The bottom line is that I now lean more generally bullish at these lower prices.

Regards,

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