Ditsch Trading

May 2023 Monthly Commentary

Ag commodities seemed to have something for everyone in May, violently whipping up and down in the month of May. The problem was that it was very difficult to figure out what the markets would be focused on at any given time. There were enough cross-currents to keep daily volatility high, but it was very difficult to get a read into what was coming next.

US planting of the new crop has been swift. Generally, that is a bearish development, and it was – for a few days. However, dryness across a wide area of the Corn Belt gained increased traction as the month developed. While it is difficult to hurt a crop much in May, the concern has been that the dryness is now forecast to persist until the middle of June. Even then, rainfall is not projected to be large – more like normal. That combination was enough for corn futures to bounce significantly despite prospects for a much looser new crop balance sheet should normal weather return. The soy complex was generally much more reluctant to rally, as late May and early June weather is even less important for soybeans than it is for corn. Soybeans, meal and oil all were able to put in significant lows late in the month before finally bouncing on dryness concerns and a tight old crop balance sheet. Overall, corn still gained substantially on soybeans in May. Wheat markets were all over the place, with HRW pushing to new highs mid-month on US production concerns, before all wheat gave in to cheaper world prices late.

South American basis levels remain under significant pressure, and the US is not competitive for corn or soybean business for the balance of the summer. Corn got a very short window – essentially March through May shipment – in which strong US export shipments were able to take place. However, prospects for June through August and even beyond look dismal. Likewise, soybean exports have ground to a near halt other than the traditional container and combo cargo business – along with the business to Indonesia, Japan, and China (for storage) that flows almost exclusively to the US. Barge freight has dipped further below tie-up rates than I can remember in my career- showing just how slow US exports will be for the balance of the summer. Ironically, the only commodity that the US will export in some serious volume for the balance of the summer will be soybean meal. Despite that, soybean meal has been the weakest of all the commodities. US crush rates are record-high with new plants coming onboard and more to follow in coming months. Thus, soybean meal has had to push for export business in order to push out the excess. Meanwhile, South American soybean basis remains historically weak, keeping their meal offers sharp as well.

Looking forward, weather will dominate for the next couple of months. If rainfall does not return towards normal amounts by the last half of June, markets can go higher. However, I feel that markets are already trading significantly lower yields (particularly since my demand projections are well below USDA). Thus, anything resembling a more normal weather patter can quickly push prices back lower again. Risk/reward suggests lower markets in coming months. With a crop anywhere near normal, the US will ultimately need to buy back demand, particularly in the Sept-Dec timeframe, and things are not looking great at this time. I feel corn has the most downside potential at this time.

Regards,

Mark Ditsch
June 5, 2023

9047 Poplar Avenue, Suite 101
Germantown, TN 38138

newaccounts@ditschtrading.com
ditschtrading.com

T: 901-766-4446
F: 901-766-4406