Ditsch Trading

June 2023 Monthly Commentary

Where to begin? June featured extreme volatility, with ag futures reacting violently to one of the driest periods on record across much of the US Corn Belt. Dryness initially helped the US crop to get planted in a timely manner, but as the dryness persisted, fears of a potential disaster took hold. Corn and soy complex futures put on historic gains despite ample world stocks and one of the slowest US export periods on record driven primarily by large South American supplies. Early in the month, forecasts continued to call for a pattern change towards wetter conditions, but those forecasts sizzled out mid-month and fears grew increasingly prominent. By late month, the pattern did finally begin to change with widespread rains falling by late month. Futures reversed course late and gave back a large percentage of the gains. It was a tough month to trade, as markets reacted swiftly to each and every shift in the forecast. I am basically just relieved I didn't get chopped up. Better trading opportunities await once weather is better defined.

To add to the excitement for the month – USDA's June 30 stocks and acreage report provided some major misses in actuals versus estimates. Wheat, corn and soybean stocks were all lower than expected (5%, 3%, and 1% below trade expectations respectively), suggesting last year's crop may have been somewhat overstated. However, the real surprise came in the acreage numbers. USDA reported that farmers planted 4 million fewer soybean acres than projected in March, while corn acreage increased by more than 2 million acres. Good planting weather and high-priced corn relative to soybeans apparently kept farmers planting corn across the Midwest, reducing soybean acreage accordingly. In response, the soy complex regained much what had been lost while corn futures sunk to new lows for the move. Soybean oil and meal futures also experienced significant moves in the relationship, with soybean oil surging late month while meal sat pretty still. The market has been caught a bit off-guard by strong soybean oil demand for biodiesel use while meal struggles to be competitive with South America in the export market.

So where do we go from here? To a certain degree, we are back to trading weather after all of the wild swings. Weather has definitely improved across the Corn Belt, with many areas getting crop saving rains already with more to follow. The Eastern Corn Belt was the main area of concern early in June, but these areas have really benefitted from the rains. The Western Corn Belt, on the other hand, was performing quite well relative to the east, but now much of those areas have turned dry. While weather does seem to have turned much more favorable - with normal and even above normal rainfall projected now into mid-July - the question is how much damage was done by the historic dryness from planting into late June. Crop condition ratings have not improved much with recent rains, and the crop remains pretty poorly rated. However, trade seems to think we have put in the lows on condition ratings and we should improve from here (versus a more normal year when conditions tend to decline in the hotter months of July and August). As of right now, I'd suggest the market is looking for corn yields maybe 5% below trend (versus fears of 10-15% in mid-June), with soybean yields projected maybe 2-3% lower (weather for soybeans is much more important later in the season).

With all of the focus on weather, the market has not been zoned in on demand. US export demand is awful, to put it mildly. Summer demand was expected to be slow, but not this slow. I am getting increasingly concerned that this may extend into the US harvest. South America has been aggressive to keep the foot on the pedal and keep pushing soybeans and corn out via exports. US new crop export sales are well behind normal, and South America is much more competitive than normal right through our gut slot for harvest.

What does all of this mean? Well, weather still remains the most important driver. Will corn yield be 165 or 175? Will soybean yield be 49 or 53? If we take mid-points, that would suggest potentially burdensome corn stocks, with 23/24 carryout potentially near 2.4 billion bushels due to much slower export demand. Soybean carryout looks more interesting, with carryout potentially close to this year even with the slower demand. The easy answer would be that this suggests higher soybean prices and lower corn prices. However, it is not necessarily that easy as corn prices are now challenging some cost of production levels while soybean prices are back to historically high levels. This price relationship suggests South America will plant more soybeans and less corn. Soybean world stocks could easily push to burdensome levels by next spring. I've always been a believer that corn and soybean prices follow world stock levels and more importantly the changes in those levels. Both corn and soybean world stocks look to increase over the next 6-12 months. This tells me that we should be in a sell rally mode, and that is where my mindset lies. However, with that being said, weather will remain very important and any return to overly dry weather can and will switch my mindset accordingly. It is not a time to put on large positions in my view. More of 'trade the ranges' with a negative bias unless or until weather changes. Hold on tight.

Regards,

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