

August 2023 Monthly Commentary

August is typically the most important weather month for US soybeans. Much like has been the case for all of 2023, August turned into a month of extremes. Rainfall in the first half of August was well above normal across much of the Corn Belt, and production prospects were improving mid-month. However, weather in the last half of August and continuing into early September turned extremely hot and dry, with many record-high temperatures being set and many key areas receiving very little or no rainfall for most of that period. There is no question that the finishing weather could not have been much worse, and production prospects have clearly declined. The question is obviously just how much production will be lost to this extremely poor finish.

At this time, I would suggest that national soybean yield is likely to finish below 50 bpa and possibly near 49 bpa. We do not know yet, and a 1-2 bpa increase or decrease to this level is entirely possible. The Eastern Corn Belt has seen relatively good rains, and Ohio/much of IN/half of IL could see near to above trend yields. However, part of IN/Northern IL/everything west and north of there is likely to see a significant hit. At 49 bpa, national soybean yield would end up about 6% below trend yield and about 4% (1.9 bpa) below the August WASDE estimate. Bullish, right? Well, its not that easy. US export demand is already being rationed. Brazil has somewhere in the neighborhood of 7 MMT higher soybean supply on Sept 1 than they had last year. They are competitive with US exports Sept-Dec, a time period in which the US normally dominates world exports. Further, South American soybean production is likely to be at least 30 MMT higher than last year. USDA projects South American production up 33.15 MMT – with Argentina up 23 MMT, Brazil up 7 MMT, Uruguay up 2.2 MMT, and Paraguay up 0.95 MMT. I am shading that a bit as I think their production numbers are a bit aggressive, but remain 30 MMT higher than last year. Granted, this crop has not even been planted yet and needs to develop. However, this combination of increased competition from Brazil in Sept-Dec and incredibly higher South American supplies March '24 forward definitely buffers the enthusiasm for higher soybean prices. If my projection of 49 bpa is realized, I still think world soybean stocks will build by at least 14 MMT from Sept 1, '23 to Sept 1, '24.

What does this do to the US balance sheet? A 49 yield would reduce US production by about 150 million bushels. I think USDA is 100-125 million bushels too high with their export estimate. This combination would suggest a 49 yield would result in ending US soybean stocks near to just under 200 million bushels, 40-50 million below the level USDA projected in August. In other words, the first 1.9 bpa lost from the US crop is likely to be about 75% countered with lower export demand. Obviously, if US yield drops to the 48 bpa (can't be ruled out), it will be much more difficult to reduce demand from these lower levels and we will encounter a rationing situation. This would result in higher prices. Conversely, if yield ends up over 50 bpa (also can't be ruled out), the US would have a surplus and soybean prices would slide lower. The risk appears to be more to the upside than the downside at this time in the \$13.50-13.75 range, but with a close eye on final yields.

Products could be interesting. Origin meal supplies appear to be quite tight until Argentina harvests their '24 crop. However, that's been well advertised and has not developed as quickly as most expected. World meal demand is sluggish and destination crush (as well as use of soybean alternatives) is increasing. Once we get into the 2nd half of the US marketing year, meal may become quite loose, and US processors may struggle to export enough meal to crush to the levels expansion and biodiesel needs demand. Meal could turn more bearish March '24 onward.

Corn yields have probably been hurt as well. At this time, I would suggest a national corn yield in the 172.5-174 bpa range. At the mid-point of 173.3 bpa, US corn production would drop about 150 million bushels from the August WASDE estimate. However, much like soybeans, I feel USDA is about 150 million bushels too high with their export corn forecast. Thus, my carryout with current yield ideas is near 2.37 billion bushels, quite loose. I feel like corn prices can continue to slide lower, but it may take harvest to truly feel the weight of the excess supplies. Corn may turn into a good old fashioned bear market, just slowly moving lower over time.

The bottom line is that the US soybean balance sheet gets incredibly tight, even with lower demand, should yields drop towards my projected levels. Corn, on the other hand, appears ample even with a drop in yield. Thus, my bias will be towards higher soybean and lower corn prices. With that being said, yields will be watched closely over the next 1-2 months to determine what we are truly dealing with.

Regards,



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September 5, 2023

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