DITSCH TRADING

September 2023 Monthly Commentary

September featured generally improved weather across the US, the start of harvest in most areas, a couple of key USDA reports, and perhaps most importantly increased competition from other origins for export demand right into the US harvest and export window.

Improved weather, particularly early in the month, has seemed to stabilize corn and soybean yield ideas. USDA projected national soybean yield at 50.1 bpa and national corn yield at 173.8 bpa, both about 0.5 bpa above last year but both still below trend yield levels. Most seem to believe October yield estimates will not vary widely from these September estimates. Our work suggests if anything, yields could improve slightly from the September USDA projections, but not by much. While extreme and variable weather definitely took a dent out of the potential, both now look to be high enough to boost both US and world stock levels. Both corn and soybean spreads have moved into historically wide carries, suggesting the same.

The reason for this is increased world export competition, more than offsetting the reductions in US production. I am now forecasting marketing year annual soybean exports at 1590 million bushels, a massive 200 million below the 1790 USDA projection. I am also projecting corn exports at 1900 million bushels, 150 million below the 2050 USDA projection. South America and others continue to feed the world, offering both corn and soybeans cheaper than the US even as we head into the biggest month of harvest.

The final piece of the puzzle was reported on the last business day of September from the Sept 1 stocks report. Soybean stocks were bigger than anticipated at 268 million bushels while corn stocks were lower than expected at 1361 million bushels. Plugging in these stocks as 23/24 beginning inventories, along with yields close to or slightly above the September USDA estimate and reduced export demand suggests 23/24 ending US corn stocks of 2.3-2.4 billion bushels (about 100 million higher than the Sept USDA estimate) and soybean ending stocks of about 440 million bushels, double the Sept USDA estimate. I do think there is a chance to increase US exports and reduce these large carryover stocks, but not at current prices. Prices will need to work lower to get that job done.

Obviously, the fundamentals are bearish, but there is something to watch. The US farmer has increasingly become a stubborn marketer of grain, even at high prices. More on-farm storage and getting used to higher prices means reluctant farmer sales after the initial harvest push. While I doubt that is enough to significantly rally futures, I do think interior cash and then ultimately cbot time spreads could tighten in response. At current relationships, farmers are likely to sell soybeans and hold as much corn as they can. Commercials will also stop much of what is sold due to the wide carries.

The bottom line is that I believe we are now in bear markets. Prices should tend to move lower over time, but this is likely to be more of a grind with some quick up-moves just to keep things interesting. I will tend to lean short unless or until things change.

Regards,

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