

October 2023 Monthly Commentary

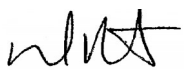
Markets were volatile in the month of October with considerable crosswinds impacting ag markets. In the October WASDE, USDA reduced US soybean and corn yields by 0.5 and 0.8 bpa respectively, which pushed markets temporarily higher. Lack of US demand weighed on both markets a bit throughout the month, but has not fully surfaced yet. The lack of demand weighed more on spreads, with old crop bean carries widening to historically wide levels in an effort to keep corn and beans in the interior with limited export interest. Soybean spreads remain wide all the way through July of 2024, but then show a sharp inverse July to US new crop '24. The market still expects tight US soybean ending stocks. At current values and relationships, I believe USDA is overrepresenting US soybean demand for this marketing year by 175-200 million bushels – but the market has not traded this concept for the time being.

Late in October and into early November, soybean and meal futures have rallied sharply on dryness in Northern Brazil. While forecasts are certainly concerning, it has not been completely dry. Even on the rally, old crop soybean spreads and crush margins weakened further. Spreads would normally rally with supply concerns, so it is a bit confusing. Flat price levels are trading supply while old crop spreads seem to be trading demand. It is interesting to note that world soybean demand has flattened, and there has been almost exactly zero annual growth for the last three years. A year ago, USDA forecast 22/23 world soybean demand near 380 mmt, up nearly 5% on the year. It ended up near 363 mmt, completely flat on the year. Their models seem stuck at 5% annual growth. Again this year, they are forecasting the 23/24 annual demand near 383 mmt, up 5.4% on the year. A more reasonable estimate of 2% growth really changes the scenario and suggests that even a 15 mmt reduction in Brazilian production would lead to record large world ending stocks. I believe that current prices are already factoring in this 15-20 mmt reduction in South American production versus current USDA estimates. That will need to be addressed at some point.

I believe we are one decent/adequate growing cycle away from bear markets in both corn and beans. Corn is actually a little further along in that curve, and prices are reflective of such. Corn futures have had a hard time bouncing much even as soybeans work higher. Both corn and soybean world stock levels are poised to grow with each and every adequate production input. The risk, of course, is that northern South American crops stay dry into Dec/Jan, which is possible. However, any normalization of South American weather should push markets lower. Adequate South American crops would have corn and soybean futures both fighting to reduce US acreage in 2024.

The bottom line is I still see the next big move as likely being another push lower. However, the market is currently focused on South American weather. Thus, the bearish lean will need to be timed properly and with optionality to define the risks.

Regards,



Mark Ditsch
November 7, 2023

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