DITSCH TRADING

January 2024 Monthly Commentary

Ag commodity fundamentals are fairly straight-forward right now – the world is simply producing more than can be consumed. For years, world demand grew at a robust pace and producers latched on by expanding acreage and improving productivity to keep up. The slower demand has been a developing story over the past few years that many simply hadn't seemed to notice. World demand growth has slowed dramatically, and after a few years of adjustment, the dam is beginning to break. Prices appear as if they need to go to levels that can improve demand growth and slow production growth.

Expansion in South America, most notably Brazil, and the Black Sea region has created a supply-push market in which several origins are competing for a piece of the demand pie that is slower to expand. Let's talk about soybeans to make this point. In round numbers, the world will produce about 400 MMT of soybeans in this crop cycle to supply world demand of about 375 MMT, ballooning world stock levels by 25%. How did we get into this mess? It has been a gradual process. World supply and demand growth were in fairly good rhythm until demand growth slowed from ~5% per year to closer to 1% over the past few years. Supply continues to grow at something in the area of 5%, mainly coming from expansion in Brazil – although it is noteworthy that lesser producing countries in the Black Sea Region have also been expanding soybean and other oilseed production at a solid growth rate. So now, with a full year of no major crop failures, world soybean stocks are poised to balloon from about 100 MMT up to about 125 MMT, a 25% increase in just a year. Something has to give, and this has and will be the premise behind my trading until there are signs of demand improvement and/or lower world acreage.

It has been somewhat amazing how so many analysts have been focused on the minutia rather than the bigger picture represented above. Micromanaging details and searching for a bull story runs prevalent. This is why world supply and demand analysis is so important.

World cash markets have now reacted to the coming burdensome supplies. Brazil's soybean basis has collapsed even though harvest has just started. Brazil doesn't have the storage that the US has, and they are making sure there are homes for their production. As a result, US exports from here on out are likely to be very small, down to the locked-in routine summer demand. US soybean exports are likely to be only 1600-1625 million bushels vs. the USDA projection of 1755 million bushels. Further, crush could easily fall about 25 million short of USDA projections as it will become increasingly difficult to export enough meal to keep crush rates so high. This suggests a US carryout near 450 million bushels vs. USDA at 280 million bushels.

I didn't talk about corn much above as I wanted to use soybeans as the example. However, corn found itself in a similar situation about 6 months prior to soybeans, and now they are both staring at burdensome stocks this year and increasingly so next year, assuming anything near normal weather. If we assume US corn acreage falls about 4 mln acres and soybeans increase about 3 mln acres – both corn and soybeans are staring at much higher ending stock levels again next year without a crop failure.

We remain in the early innings of a bigger bear market without a major crop failure somewhere around the globe. I think soybean meal is the most bearish, followed by soybeans, and then corn. Soybean meal in particular likely has considerable downside over the next several months. Yes, there will be rallies, but the overall direction should be lower. Corn is a bit further along in the bear market and may be more of a market that just can never earn the carries, with each option sliding to the level the previous option finished at.

Regards,

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February 5, 2024

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