DITSCH TRADING

February 2024 Monthly Commentary

Futures in the corn, wheat, and soybean complex weakened further through much of February before mostly stabilizing and/or bouncing back late in the month. Fundamentals have not changed much – we are still looking at excess stocks building into burdensome stocks both in the US and worldwide if normal growing weather is achieved.

Harvest is progressing normally in Brazil, but the range of production estimates remains quite wide. Local advisory/consultant types are as low as 140-145 MMT while commercials are as high as 155-160 MMT. One thing to keep in mind is that acreage expansion has caught a segment of the trade by a bit of surprise, and this higher acreage suggests the crop is likely no lower than 150 MMT. Regardless, even a crop as low as 145 MMT would be enough to further build world stocks. Argentina has not started soybean harvest yet, but favorable weather suggests their production in the 50-52 MMT range. I suspect the record combined size of these South American crops has yet to fully weigh on markets, with more downside expected in April/May as Argentine harvest gets rolling.

South American basis levels reached historically low levels very early in the harvest this year. That was a surprise given the reluctancy of their farmer to extend sales at levels below what they have grown accustomed to. In March, basis levels appreciated from the historically low levels as Chinese and other world demand finally surfaced and farmer selling picked up to a moderate, but below normal, pace. While the world is now extending coverage into the summer, world demand remains disappointing and well below USDA estimated levels. Further, even with the appreciation in South American basis levels, they remain a sharp discount to US levels, suggesting US exports will fall to cover on the most traditional of buyers in the summer. All of this suggests that USDA remains way too high on US soybean exports. I am estimating exports at 1590 million bushels vs. USDA at 1720 million for the current crop year. Additionally, USDA appears slightly too high with their crush estimate. My 23/24 carryout projection is 480 million bushels, 165 million higher than USDA.

Corn and wheat futures have pushed lower than soybeans in terms of historical relationships. Both are a bit further along in the move lower than soybeans are. Market attention is in the process of shifting to the US new crop. Acreage uncertainty and some sort of summer weather premium has seemingly put a bid into the market and a temporary hold on the slide lower. Current price relationships suggest an increase in soybean acreage at the expense of corn. If US soybean acreage does increase by about 3 million acres, and if normal summer weather is achieved, US and world soybean stocks will balloon to burdensome levels. Granted, that won't be fully realized for another 6-9 months, but it is the reality we are dealing with. Moving further along the curve, South American 2025 production levels are expected to expand yet again, which would build stocks even further.

I still believe soybean and meal futures could be in a 12-18 month bear market. That does not mean that prices will go down every day, every week, or even every month. The point is that world production is simply growing much faster than is world demand. Until prices work to either reduce world acreage (very difficult) or boost demand, the trend should be towards lower levels that can achieve that function of the market – as always assuming that weather is normal.

Regards,

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