DITSCH TRADING

March 2024 Monthly Commentary

Ag futures recovered some of their sharp losses in March. Trade seemed focused on the end-of-month stocks and acreage reports, and there wasn't enough farmer selling to offset short-covering.

The March corn acreage report was supportive, at least relative to trade estimates. US corn acreage was forecast at 90 million acres, 4.6 million below last year and nearly 2 million below trade ideas. The corn acreage in and of itself should not be overly shocking considering economics favor growing soybeans. However, soybean acreage was right at trade ideas – 86.5 million acres, up almost 3 million from last year. It is the acreage pie that was the surprise, with corn plus bean acreage at only 176.5 million vs. estimates near 178.5 million. Further, major crop acreage was projected more than 6 million acres below last year. This seems extreme. Yes, production margins are being squeezed and a few marginal acres are likely to come out of production or at least spend a year in fallow, and there will be a few less double-cropped acres, but I expect the acreage pie to rebound in the June report – especially considering we aren't seeing any major weather issues that could increase prevent plant acreage. With economics favoring soybeans, the increase could go predominantly into beans. For now, a 1 million acre increase in soybeans and 0.5 million in corn in the June report seems like a good estimate.

Even with the lower corn acreage, it looks as if US corn carryout is likely to exceed 2.1 billion bushels for both this and next year assuming normal weather. The soybean balance sheet looks to become much more burdensome in 24/25 with normal weather. At this time, I am projecting US ending soybean stocks just shy of 450 million bushels in 23/24 and swelling to around 750 million bushels in 24/25. If realized, soybeans would actually become more burdensome than corn.

South American soybean harvest continues to push along, with Brazil near 75% complete and Argentina poised to get started shortly. There remains a wide range of production estimates especially in Brazil, and it seems as if many have not been able to keep up with the acreage expansion in Brazil. Brazil production estimates vary widely from under 150 MMT to over 160 MMT. I would lean towards the upper end of this range. Argentina production ideas are tighter with most expecting 50-54 MMT, a huge increase over last year.

World soybean stocks are likely to swell to a record 120-125 MMT in 23/24 and could reach a massive record of 145-150 MMT in 24/25. Brazil expansion continues – it is just too hard to slow it down in the near-term. In the meantime, world demand growth has slowed from the 4-6% growth we had grown accustomed to - down to 1-3% in recent years. Something has to give at some point. I still think we are in the early stages of 12-18 month bear market in soybeans and soy products without a major production scare at a major origin. The function of the market is to slow acreage growth (particularly in Brazil) and/or spur demand growth. That would require lower prices.

One thing that has kept prices somewhat sticky to the downside and contributed to the price recovery in March is the slow farmer selling around the world. USDA reported March 1 corn and soybean stocks in all positions up 13% and 9% respectively, but stocks in commercial hands were actually down. On-farm stocks were reported up 24% for both corn and soybeans. While this is not a perfect measure of farmer selling (the farmer can own grain on storage at commercial elevators, and can have forward contracts for on-farm grain), it serves as an excellent proxy. The US farmer is tremendously undersold, caught off-guard by the sharp break in prices. Further, both Argentine and Brazilian farmers are also well undersold. Slow farmer selling can be supportive in the near-term, but it is bearish in the longer-term, as they can't hold forever.

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 supply, the trend should be towards lower levels that can achieve that function of the market. I think corn prices are likely to trend lower as well, but soybeans are expensive against corn – something that I expect to reverse (soybeans should become cheap relative to corn) over the next several months – as always assuming that weather is normal. I will focus primarily on trading soybeans and meal from the short side until something changes.

Regards,

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