May 2013
Month End comments

Agricultural markets were quite confusing in May. By mid-month, there were several signs that the old crop soybean tightness was finally getting resolved. US soybean export sales have virtually shut off due to much cheaper South American offers. In fact, it now works to bring South American soybeans into US crushers near coastal ports. US basis levels dropped nearly $1 per bushel both domestically and in the export market. US domestic meal consumption has slipped to the lowest levels since 1998. It finally looks like the US might skate by until new crop. Despite all of this, old crop futures pushed through the upside resistance to post multi-month highs when fundamentals least suggested that should take place.

New crop futures are also going through some major shifts. New crop balance sheets have looked quite bearish and the idea was to sell rallies in new crop bean and corn markets. After 2-3 years of less than ideal weather, spring rains replenished soil moisture and it looked like crops would get off to a phenomenal start. While this is certainly the case in many areas of the Eastern Corn Belt and even the extreme Western Corn Belt, much of Iowa and surrounding areas covering parts of Illinois, Minnesota, Wisconsin, and the Dakotas have endured one of the wettest springs in history. Thus, while the spring rains were beneficial to many areas, they have prevented planting across some of the most productive land in the US. We are now facing the possibility of losing 4 million acres of corn (or perhaps more). Soybeans are even more confusing, as the intended corn acreage should shift to soybeans. However, if rains persist beyond mid-June, soybean acreage could be threatened by attractive crop insurance options. Obviously, markets are in a state of confusion and weather over the next 3 weeks is critical in estimating new crop supply. As the wet weather persists, it becomes increasingly likely that there will be a more substantial net loss of planted acreage not only for corn but also increasingly for soybeans.

Given the weather uncertainty, it is difficult to be very bold on forward price forecasting. The weather market has developed early this year. It is interesting to note that the corn balance sheet can accommodate a decrease in production much better than the soybean balance sheet can. It would take a major supply shock to tighten the corn balance sheet considerably. One can fantasize about a tight soybean balance sheet should acreage decrease and yield drop from a trend level near 43.5 bpa down to something near 41 bpa.

As for the old crop, it seems as if the slower demand is slowly 'solving' the old crop soybean balance. On the other hand, corn basis levels continue to appreciate, suggesting old/new corn spreads may have to put in one final push to get us through to new crop. Unlike last year, there will not be as much early new crop corn to help bridge the gap. Thus, the bias is for old/new soybean inverses to slowly fade while old/new corn inverses may need to strengthen further.

Regards,
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June 7, 2013

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