DITSCH TRADING

January 2016 Monthly Commentary

In past writings I made references to a few key expectations for 2016: surplus world stocks, stale markets that tend to grind lower over time, reluctant farmer selling, historically low volatility (with daily vol often exceeding mid-term vol), and time spreads that remain historically strong relative to the burdensome world stocks (due in large part to the slow producer selling).

Most of those views remain as we head into February. January WASDE report did reduce 2015 acreage and production a bit more than expected for both corn and soybeans. However, despite the lower production, December 1 stocks were in-line with my expectations – suggesting demand is slower than anticipated. Somewhat surprisingly to me, the market did not seem to realize this combination is actually suggestive of higher ending stocks for both corn and soybeans. USDA opted to reduce demand by less than I feel they should have. This actually tightened their soybean ending stock projection while their corn ending stocks increased only slightly.

All of this combined to push futures up towards the upper end of our expected trade range. The flat price rally, while quite modest relative to what we have grown accustomed to in past years, was met head-on by undersold US farmers, and to a less extent global farmers. For the first time all season, corn and soybean farmer selling exceeded monthly demand, and cash markets drifted lower in response. This flat price rally and ensuing farmer movement has changed my view on spreads. Commercials now have adequate ownership, and this should push spreads to wider carries as they search for demand from a world market that already has excess supplies. I also feel that futures will fail at the upper end of the range and ultimately push back down to the recent lows, but as I've said before, I think this will be a long, slow grind.

On the weather front, South America is now in the early stages of yet another record harvest. There are a few dry pockets most notably covering about 15% of the primary growing areas of Argentina, but overall weather has been quite good for crop development. This should continue to be a bearish influence from now through the summer as they push to move this record crop. Burdensome world stocks should continue to buffer markets from any weather scares. It will likely take a very serious weather threat to spark any significant rallies.

To summarize, I expect markets to continue to grind lower, volatilities to remain historically low, and time spreads to leak lower in February.

Regards,
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