DITSCH TRADING

February 2016 Monthly Commentary

The overall theme remains unchanged. If anything, these key themes are becoming even more pronounced. Burdensome world stocks of grains and soybeans will be boosted even higher following an excellent South American growing season. It is really quite amazing how productive both North American and South American land has become over the past 3-4 years. Ultimately, the function of the market is to better balance supply and demand. Despite significant price drops, the world is still producing far more than it can consume. This in and of itself suggests lower prices to encourage consumption and discourage production over the next production cycle.

Over the past year, increasing world stocks served first to fill depleted pipelines around the world. Secondly, farmer storage across the Western Hemisphere was plugged and tested. Finally, these stocks are now weighing on worldwide cash markets. Now, as demand shifts from North to South America, one can begin to fully feel the weight of the excess stocks. Soybean time spreads are in a decent carry from spot to new crop for the first time in several years. I look for these carrying charges to increase as we move forward. My US carryout projection is nearly 100 million bushels higher than the USDA. If realized, this 15% ending stocks to annual use ratio would be the largest since 2006/07. While there is no doubt that reluctant farmer selling has thus far kept spreads better supported than these fundamentals would historically suggest, the lack of demand over the final 6 months of the year should weigh further on cash, spreads, and ultimately outright futures prices moving forward. Corn is in a somewhat similar situation due to significant export competition. I expect markets to trade heavy for the next several months. The rate of decline will depend significantly upon US acreage and US spring/summer weather.

While I do not expect any major surprises in terms of acreage, USDA can always throw us a curve ball. USDA will give us prospective planting intentions on March 31. US growing weather will then take center stage, but as I've pointed out in past months, the burdensome US and world balance sheets should buffer any weather scares unless they turn out quite significant. It is worth noting that I do believe there is a slightly better than normal chance of extreme/hot summer weather this year….but even this doesn't threaten the bearish market sentiment.

To summarize, I expect markets to continue to grind lower, volatilities to remain historically low, and time spreads to weaken again in March—which is exactly what I expected at the start of the year. As this environment persists, I will continue to engage as I have thus far.

Regards,
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