Ditsch Trading

March 2016 Monthly Commentary

While fundamentals really have not changed much from the February review, outside market forces moved Ag markets in an unanticipated direction throughout the month of March. Outside markets, despite mostly bearish fundamentals, recovered in what I'd like to call a bear market rally (but time will confirm or deny that assumption). Crude oil rallied more than 50% from low to high. Commodity currencies bounced, with the Brazilian Real having the most meaningful impact on our market (it was up more than 10%, slowing Brazilian producer selling and providing support to US soybean futures). May soybean futures rallied a very orderly 60 cents (about 7%) in March. May corn futures rallied about 6% before giving back all of the gains on the final day of the month in response to a bearish prospective plantings report. May wheat futures were also up about 6%. Soybean oil was the darling of the trade, up about 14% due to a combination of the above-mentioned outside market forces and the potentially negative impact poor weather could have on palm production in SE Asia.

The soybean (and particularly soybean oil) market has broken out of the anticipated range, moving further to the upside. I had thought that we would trade that range well into the summer considering the huge world soybean stocks on hand. If anything, I thought there was more risk to break out of the range to the downside rather than the upside. Thus, March was a frustrating month to trade. Fundamentally, South America is in the middle of another record harvest. US March 1 soybean stocks were the highest in nine years and my forecast for both absolute ending stocks and ending stocks (Sept 1) as a percentage of annual use are also the highest in nine years. The USDA prospective planting number was as-anticipated, and the March 31 stocks report was also neutral. Thus, it is my feeling that the outside market forces have moved the range up, but upside should remain limited barring normal weather developments. I do feel trade has already placed a bit too much risk premium into the market due to the overly-hyped potential for a hot and dry summer. While some bulls may point out that world stocks are poised to decline by mid-2017, my numbers still suggest growing world stocks for at least the next 12 months (assuming normal weather).

The corn market looks more bearish to me than soybeans at the present time. While prospective plantings were neutral for soybeans, they were clearly bearish for corn. USDA projected corn acreage at 93.6 million acres, 3.6 million acres (4%) above market expectations. If realized, this will clearly provide an increased buffer against any less than optimal spring planting or summer growing weather. One would think the function of the market will be to make sure final planted corn acreage will end up lower than this March projection.

Wheat acreage, on the other hand, came in nearly 2 million acres below market expectations. While US wheat has had a very hard time competing in the world export market, a lack of rain in western HRW growing areas could support wheat, particularly relative to corn futures, over the next several months.

Overall, despite the bullish market action in March, my overall bias remains negative, particularly if (when) the US crops get planted. On a relative basis, corn looks the most bearish, wheat the least bearish, and soybeans somewhere in between.

Regards,
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