Ditsch Trading

May 2016 Monthly Commentary

The structural and fundamental changes highlighted in the April review continue to drive our markets. If anything has been surprising, it has been the rate of growth in global soybean and soybean meal demand. Our world soybean demand projections have been significantly higher than most, but actual demand continues to exceed even our optimistic expectations. April was highlighted mostly by a significant 10-15 MMT decrease in South American soybean production. May was different in that the majority of these production losses were fairly well known early in the month, but it was the world demand growth that surprised traders, producers, and end users in the month of May.

We highlighted last month the dramatic decline of about 10 MMT in South American production from a year ago. This decrease in supply coupled with rampant world demand has cut South American supplies significantly. March through May South American crush plus export use was up about 8 MMT from last year. This combined with lower supply/higher demand has pulled down South American stocks significantly. Their basis levels are finally reflecting this, with Brazilian soybean basis now well above +100. South American soybean stocks are so depleted that they simply cannot satisfy the world's massive appetite for the June/July/August positions that they normally supply. This is pushing soybean and to a lesser extent soybean meal business back to the US on a scale-up basis for July, August, and September shipment. While US supplies are currently very large (I project June 1 stocks just over 860 million bushels, the largest since 2007 and 235 million bushels above last year), the pace of demand will chew through these stocks rather quickly. I expect each month, August through December, to set monthly US soybean export records. Along those same lines, while I expect 2015/16 carryout stocks to be higher than last year, I do forecast them to finish more than 100 million bushels below the current USDA estimate. Further, I expect September crush plus exports to be so large that this carryin will effectively be 'gone' before harvest really kicks in by late September. Contrary to what many commentators seem to be writing, I feel strongly that this is a demand-pull market and we haven't even begun to trade any potential supply (production) issues just yet.

This brings me to the production side. I do believe US soybean acreage will exceed the March USDA estimate by 1.5-2.0 million acres. Despite this, the demand pull will be so large that even with trend yields, I project 2016/17 carryout at bare minimum pipeline levels. Sub-trend yields will lead to rationing, which means higher prices. May was an increasingly volatile month. I expect volatility to increase over the next several months due to the depleted South American stocks, underestimated world demand, and production uncertainty.

I've written a lot about soybeans this month because this is where I see the opportunity in coming months. I expect prices to push higher (perhaps significantly higher) in an attempt to increase world production or decrease world demand. Corn and wheat futures are not as interesting at this time. Corn demand is very impressive with world corn demand surpassing all estimates and the northern half of the Brazilian crop burning up. This is pushing world demand back to the US already, and this should continue for some time. However, unlike beans, current US corn supplies as well as new crop acreage seems adequate to take on the demand. The caveat of course is any type of production uncertainty. There are enough crosswinds in corn that I expect a choppy/sideways market as opposed to the bullish soybean market. I expect the soybean/corn ratio (SX/CZ is currently near 2.6) to increase towards 2.8-3.0 in coming months. Wheat is even less interesting than corn. There is plenty of wheat in the world, but it is priced accordingly in my opinion. I'll leave wheat analysis for others at this time.

Regards,
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