Ditsch Trading

August 2016 Monthly Commentary

August weather followed July's lead, with most of the Corn Belt receiving normal to well above normal rainfall. In fact, July through August ranked as one of the 3 wettest over the past century. Many in the trade are no longer asking whether the US can produce trend or even record corn and soybean yields—but rather by how much will the records exceed previous records. While the major producing areas certainly did not lack precipitation this summer, some are still questioning whether the excessive heat, especially at night, will take the upper end off of yields. This seems to be a bigger issue for corn than for beans.

USDA projected record US yields of 175.1 (corn) and 48.9 (soybeans) bpa in their August report. The overwhelming bias in the trade is that the August corn yield will be the biggest that we see (USDA will trend lower) while soybean yields will continue to trend higher. Most in the trade are 170-173 bpa for corn and 49-50 bpa for soybeans. Given this, it was surprising to see corn futures dip to 7-year lows, making new lows daily through the end of the month. There are a couple of influences to keep in mind here. First, world wheat supplies are burdensome. Wheat futures pushed to new lows before corn futures followed. Second, even with a yield closer to 170 bpa, US corn supplies would reach record highs due to such large corn acreage. While US corn exports are expected to be very solid due to the production shortfall in Brazil, world supplies of wheat will keep them from being overwhelming. Thus, despite the likelihood for US yield to drop from the August USDA projection, it still looks as if US corn ending stocks will grow significantly in 16/17.

While corn and wheat deals with burdensome world feed grain supplies, soybeans look much more interesting from a demand perspective. Reduced South American production led to record US soybean exports in the month of August. 2015/16 ending stocks should be near 200 million bushels, 55 million below the USDA August estimate. The lack of competition from South America should increase demand for US soybeans by 1-200 million bushels relative to the August USDA estimate. This stronger demand suggests that the 2016/17 USDA ending stocks projection of 330 million bushels is too high even if US yield is 50 bpa. Obviously, the counter to that argument is that we simply don't have a good feel for US production yet. Weather was certainly favorable, perhaps yield is even bigger than 50 bpa? I do not think it is, but soybean yield is tough to determine prior to harvest because pod weights contribute more to yield than pod counts, and pod counts are the only objective measure available at this time.

The bottom line is that we still seem to be in a waiting mode for ag futures. It may take 1-1.5 months before we have a better handle on corn and soybean yields. Burdensome world wheat supplies and solid US production will continue to weigh on rally attempts, but record soybean export demand and reasonably strong corn export demand should provide underlying support. For now, the best plan is to keep flat price exposure small and be ready to move on the next opportunity.

Regards,
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