DITSCH TRADING

October 2016 Monthly Commentary

Soybean, corn, and wheat futures have been whipped around more by outside forces (macro influences, worries about a deflating Chinese currency that are front-loading demand, strengthening Brazilian currency that is slowing farmer selling, 'on' then 'off' ideas regarding global commodity appetite and inflation in general, etc.) than by fundamentals over the past two months. This is not to mention trade flows that are forcing the hand of longs and shorts at various times throughout the month. This makes navigating markets very difficult, and unfortunately I do not see this changing prior to 2017.

With all of this uncertainty, I feel it makes sense to keep positions close to small and neutral in order to wait for the next real opportunity. Fundamentally, soybean stocks are building globally, but the changes mentioned above seem to be providing support at a much higher level than we experienced last year. I believe soybean futures have support near current prices ($9.90 Jan Soybeans) with very strong support down another 40 cents or so ($9.50 Jan Soybeans). To put this into perspective: futures traded below $9 for much of the early part of the 2015/16 marketing year with similar global fundamentals. It just seems that the world consumer has decided that sub-$10 is cheap enough to buy and the world producer (especially the South American producer) has decided that sub-$10 is too cheap to sell. On the other hand, I feel it will be difficult to rally significantly without a major problem in South America. At this time, the South American weather is very good, but it remains early. I think soybeans will probably find themselves in a broad $9.50-10.50 trading range until something more significant changes fundamentally. As far as the products are concerned, global vegetable oil stocks are tightening and global meal demand is fading. I'd look for soybean oil prices to work higher while soybean meal is more likely to grind lower over the next 6 months or so.

Corn seems fairly priced to me at this time. US production was very large, but world demand for corn and other feed grains has been growing at a much stronger pace than the market had anticipated. US stocks are still poised to grow, but I expect US corn exports to pick up significantly over the next several months, reducing carryout prospects somewhat.

I view wheat futures as having the most upside over the next 6-12 months. While I admit this is a long-term play, quite simply US producers cannot make money at current prices while world users are using more wheat at the expense of other proteins in their feed rations at current prices. Wheat stocks are burdensome, but prices are historically low and prices tend to work over time. Thus, I expect a slow appreciation of wheat prices over time.

Regards,

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