Ditsch Trading

December 2016 Monthly Commentary

For the past six months, soybean and grain futures have shifted back and forth in a wide, choppy range without much rhyme or reason behind the daily swings. At the end of the day, prices haven't gone much of anywhere, but the swift daily swings have been difficult to understand.

Moving into the New Year, I am becoming very modestly friendly towards prices. I believe soybeans near $10 and wheat near $4 have limited downside unless world production ends up significantly larger than currently forecast. Corn is the one commodity that could potentially sink lower, or at the very least have a difficult time sustaining a rally.

The world has clearly decided that $10 soybean futures are *cheap*. I believe this level may become a longer-term floor price unless South American production significantly exceeds expectations.

Brazil has had very good weather over a large portion of their soybean crop. However, there are trouble spots developing now, with some parts turning too dry and others too wet. Overall, it still looks like a very good crop, but the top end may be coming off now. Brazil production ideas seem to be in the 102-106 MMT range vs. USDA at 102 MMT. Argentina has faced numerous weather issues. Dryness in some areas is likely reducing acreage while excessively wet areas in central Argentina are increasing in size. Argentina production ideas are trending slightly lower accordingly, with many now in the 52-55 MMT range vs. USDA at 57 MMT.

Combine the lower mid-point on South American production with Chinese demand that is exceeding expectations and it just seems as if the market will try harder to encourage US farmers to plant 90 million acres of soybeans this fall (one could argue the world will demand that much). Based on all of this, I think soybean futures are finding solid support near $10 and could rally towards $10.50 with the weather uncertainty, or even higher if the situation worsens.

Wheat prices are low enough to prevent farmers from planting wheat. Wheat futures can rally on this alone. The farmer will respond by planting much less wheat, and wheat stocks should move from burdensome to adequate over time.

Low wheat prices suggest a major shift from wheat into dryland corn in the US. Thus, I still expect the SX17/CZ17 ratio to trade up towards 2.8-3.0 into the spring as we head into planting (currently trading near 2.6), through some combination of higher soybean futures and lower corn futures.

Regards,

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