DITSCH TRADING

January 2017 Monthly Commentary

The best way to describe the current soybean, corn, and wheat markets is that we are in a moment of transition and waiting. As such, we are being cautious and opportunistic as we watch the markets. World stocks of corn, wheat, and soybeans are historically large, but this has already been discounted at current prices. Looking forward, it is likely that world stocks of soybeans are in the process of peaking if we assume normal 2017 growing weather, even with a moderate increase in US soybean acreage. Corn and wheat may have a little further to go, with much depending upon world growing conditions over the next 12 months.

With this in mind, I do not see considerable downside in soybean prices. I will admit that this is a longer-term prospect, but I would also argue that futures markets are forward-looking and tend to price world stock prospects over the next 6 -18 months, leaving cash markets to address current surpluses. Last month, USDA estimated Brazil soybean production at 104 MMT, and the mid-point of market estimates remains very close to that idea. However, USDA still estimates Argentina production at 57 MMT, while the market is probably more of a 52-55 MMT range, suggesting South American production is likely to be reduced by 2-5 MMT. Further, USDA reduced US 2016 production by 1.5 MMT and reported December 1 soybean stocks some 2 MMT lower than I had projected (mostly on account of the smaller crop). Combine all of this with growing world demand (led by China), and it appears as if the US needs to plant something in the neighborhood of 90 million soybean acres (vs. 83.4 million in 2016) to maintain world soybean stocks assuming normal weather. This is a tall (although not impossible) task, with some acreage certainly switching from wheat and corn into soybeans.

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. Despite this, I also feel burdensome stocks and heavy cash markets will also prevent a significant rally in the near-term.

I don't have much to add regarding grain prices this month. They are probably about where they need to be at this time. Stocks are large, but acreage and production, not only in the US but around the world, remain questionable – suggesting prices likely stabilize near current levels awaiting further information. The US farmer has been a very slow seller of corn. This is a two-edged sword, supporting prices on breaks because commercials don't have enough ownership but providing resistance on rallies with a considerable amount of selling above the market.

South American production prospects and the upcoming March 31 US Prospective Planting report will provide further guidance in coming months.

Regards,

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