Ditsch Trading

March 2017 Monthly Commentary

I wrote last month of the developing battle between bearish fundamentals and bullish 'reflation' ideas. Well, it didn't end up being much of a battle - fundamentals were the clear winner in March, especially in the soybean complex, falling nearly $1 per bushel. In fact, while I have been leaning bearish, soybean futures dropped much faster than I had anticipated. We found out that while $10 may be cheap, it isn't cheap enough when world supplies reach record high levels.

To recap: South American production estimates just keep going higher. Two months ago, Brazil was seen in the 102-106 MMT range, but is now most likely in the 110-114 MMT range. Two months ago, Argentina was considered a 52-55 MMT crop, but the range is now more in the 55-58 MMT neighborhood. At the mid-point, this adds 11 MMT of production to these two countries alone in just two months. To put this into perspective, this means that the US can lose nearly 5 bpa from the 2017 crop just to offset this.

To add to the bearishness, USDA told us that March 1 US stocks were considerably higher than expected and also that US farmers are expected to plant a significant record soybean acreage this spring. World supplies continue to build with lackluster demand outside of China. What more can we throw at this market?

It is pretty simple now from a fundamental standpoint. There are more soybeans in the world than there have ever been before, and it now looks like the burdensome supplies will grow even bigger over the next year. Prices should seek a level that ultimately stops this growth. World stocks of soybeans now look to increase to near 92 MMT by the end of this marketing year (or about 10 MMT higher than the last USDA estimate), and with normal weather they likely increase another 10 MMT to over 100 MMT by the end of the 17/18 marketing year.

This is all pretty bearish, but we need to keep in mind that soybean futures are already on a $1 break over the past month. How much of this has already been priced in? At some price, world farmers likely clam up and willingly hold some excess stocks – but it is doubtful they can hold such a large percentage of these record crops. I look for prices to continue to drift lower, but it likely won't be as smooth of a ride as it was in March.

Grain prices are more of a follower. The higher soybean acreage came at the expense of corn and wheat (USDA projects soybean acreage up 8% while corn and wheat acreage is forecast to fall 4% and 8% respectively). With that being said, world grain supplies are already burdensome and this does not appear to be enough to change that over the next year. Look for the chop to continue, with prices ultimately drifting lower again with good weather. I aim to stay delta short in order to be a part of the descending market while not subjecting the program to too much volatility.

Regards,

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