Ditsch Trading

March 2018 Monthly Commentary

March was, in hindsight, a month driven by structure ahead of the annually important end-of-March stocks and acreage report. While fundamentals pointed increasingly bullish throughout the month, it seems as if speculative buyers got ahead of themselves and spent most of the month reducing their length ahead of these reports. This pressured prices lower as the market lost focus of the longer-term bullish fundamental factors. These important reports were released with only a couple hours of trading remaining in March, which did seem to finally turn the tide.

USDA reports basically reaffirmed our ideas, specifically that old crop soybean and corn stocks are more than ample, but new crop acreage is not adequate and leaves no room for any type of production issues. USDA reported March 1 soybean stocks at 2.107 billion bushels, more than 300 million bushels higher than the previous record. Similarly, corn stocks were surprisingly high at nearly 8.9 billion bushels. However, the real story was in the acreage estimates. USDA projected soybean acreage at only 88.98 million acres, about 2 million below most estimates. They forecast corn acreage at only 88.03 million acres, more than 1 million below most estimates. Higher spring wheat and cotton acreage accounted for most of the decline. Further, spring weather is not looking favorable for early planting.

Turning to South America, the situation in Argentina looks worse by the day, and production estimates continue to fall accordingly. Neighboring countries Uruguay and Paraguay are also facing production declines. Some of this should be offset by Brazil, where production ideas have gone up over the past month. However, it looks to us like combined South American soybean production is likely to fall 5-7 MMT below the last USDA estimate, or about 20 MMT below last year. Similarly, South American corn production is likely to fall about 10 MMT from the last USDA estimate.

What does all of this mean? Higher US old crop stocks allow more slack in the old crop balance sheets. However, this is more than offset by the production shortfalls in South America, lower US acreage of corn and soybeans, and weather uncertainty heading into the planting season. The US will become a much larger percentage of world corn and soybean exports much earlier than normal, gradually pulling down abundant US stocks. While old crop carryouts should still remain adequate, combined US and South American stocks are likely to be enough lower to push US fall exports of corn, soybeans, and soybean meal up to record levels – forcing new crop carryout ideas lower and to quite tight levels. This is quite a shift in mentality, and it doesn't seem as if the market has fully latched onto this yet.

Ag prices had gotten very low, and we have been well aware that a weather problem in a major growing area could rally prices significantly from their lows. That weather problem now seems to be taking place in South America, so we expect soybean, corn, and wheat prices to continue to trend higher in coming months. Without record yields this looks like it could easily become a longer-term, 12-18 month rally in an attempt to pull more world acreage for coming growing cycles.

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It is important to note that there are some political influences working against the soybean complex in the short-term, and they are getting a lot of press. Trump's proposed tariffs on numerous Chinese imports have sparked backlash from China. Soybeans are on the list of items China reportedly intends to hit with a retaliatory tariff. With that being said, the drought in Argentina essentially limits major world soybean exporters to only the US and Brazil. Brazilian basis levels are record-high already, and they simply cannot supply the entire Chinese soybean demand. Further, if China were to gobble up all of the South American soybean supplies, this leaves less soybeans available to crush in South America, further troubling world soybean meal supplies. The bottom line is that I view setbacks on trade concerns as buying opportunities, but I plan to use options to manage risk of quickly declining markets in the near-term (which should also allow me to buy sharp breaks).

Regards,

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