DITSCH TRADING

July 2018 Monthly Commentary

As we head into the month of August the trade war between the US and China continues, US weather looks favorable, and US crops are generally in good to excellent shape. It is looking increasingly likely that the US will produce yet another record soybean crop, but this time will be unable to export to the country (China) that imports nearly two-thirds of world soybean exports. Not a positive situation. Despite this, soybean futures rallied 12% from their mid-July low to their late July high. It doesn't make a lot of sense, but it still appears as if lower lows are likely as this situation plays out.

Losing China as a buyer is hard to feel in the summer months. US exports tend to slow from 8-10 MMT per month in the fall to 2-3 MMT per month in the summer. This summer, China has been able to buy their supply needs from South America, but that has pushed other countries to come calling on US soybeans, so the net impact has been minimal. This will change by late September through December. The US can easily export 6-8 MMT per month to China in October through December. If the trade war persists (and we see no signs that it won't), this will drop to zero. Even if the rest of the world buys essentially all of their soybean needs from the US (and they should), they simply do not buy nearly enough soybeans combined to offset this impact. 2018/19 US exports could drop to around 1.5 billion bushels vs. the latest USDA forecast of 2.045 billion bushels. This combined with a yield that is likely 2-3 bushels above the latest USDA forecast could easily push US carryout to a massive record well over 1 billion bushels vs. the latest USDA projection of only 580 million bushels.

While the US soybean market braces for a massive buildup of surplus stocks, world grain markets seem headed in the opposite direction. Production losses are adding up across many of the major exporters of wheat. Europe appears to be amongst the hardest hit due to severe weather conditions. This is hurting their feed grain production outlook as well. US wheat and corn exports should be able to take advantage of this and we expect USDA to raise both in coming months. Corn exports have the potential to be a record by a sizable margin, likely exceeding 2.5 billion bushels for the first time. This makes the ultimate US corn yield very important. A big crop is expected, but now it is needed.

If this storyline plays out as outlined above, the function of the market will be to reduce US soybean acreage next spring. If carryout does indeed grow by 600 million bushels, that is the equivalent to approximately 12 million acres of soybeans that won't be needed next year. And who knows if the trade war continues beyond next year. All of this suggests soybean futures work lower and essentially 'run away' from acreage next spring. Thus, while corn and wheat balance sheets look relatively supportive, I'd expect acreage of corn (and to a lesser extent wheat) to increase next year, loosening up the forwards balance sheets. Obviously, this trade war is not likely to go on forever, but one full year of building up stocks can take a long time to recover from.

The bottom line is that I expect soybean futures to work lower in coming months provided August/September weather continues to cooperate. I expect wheat futures to lead any rallies as the world balance sheet tightens significantly. And despite a solid demand outlook, corn may struggle to rally considerably as long as weather stays favorable. Even if 18/19 corn carryout gets a bit snug, the market knows corn acreage can go up pretty easily next year.

Regards,

Mark Ditsch
August 6, 2018

9047 Poplar Avenue, Suite 101
Germantown, TN 38138
newaccounts@ditschtrading.com
ditschtrading.com
T: 901-766-4446
F: 901-766-4406