

September 2019 Monthly Commentary

I am sensing a turning point is taking place for Ag Markets. We have a few new developments – none of which can shift the tide alone, but when put together, it seems to suggest that world stocks may be in the process of peaking and heading lower over time. This, to me, suggests the general trend of lower ag markets is probably in the final stages or has already run its course.

September US corn and soybean stocks both came in well below expectations. Corn stocks came in 300 mln bushels light and soybean stocks came in 70 mln below trade expectations and nearly 100 mln below the September USDA estimate. The 2018 soybean crop was lowered by more than 100 mln bushels to account for the light stocks.

Early yields are just that – early – but so far one could classify yield results as generally somewhat disappointing for corn and moderately disappointing for soybeans. Both suggest USDA could be too high on their yield estimates, but soybeans appear to have the most potential for a larger percentage decline. Early yields thus far suggest states like IL, IN, MI, OH and NE are going to have a hard time achieving USDA soybean yield estimates. With only 7% of the soy crop harvested at month-end, it is difficult to draw a strong conclusion, but I would suspect that the late-planted soybean yields will probably prove even worse – with a much higher than normal % planted very late this year. Time will tell, and USDA is unlikely to catch this in the October report, but if anecdotal yield reports remain generally disappointing, trade will take notice before USDA likely reacts in November.

With corn carryin reduced by 300 mln bushels, and even if we assume just 1-2 bpa off yield, it seems as if corn could rally and stabilize over \$4. Maybe we need to get through harvest before this can happen, but wet weather and a very stubborn farmer could make it happen earlier than some anticipate.

Soybeans have an even bigger potential story in my mind. If yield is indeed closer to 46 bpa than the USDA 47.9 projection (again, not likely USDA will report this in October, but I'd expect it eventually), that would reduce carryout from USDA current projection of 640 mln bushels down to around 400 mln bushels. While 400 mln bushels isn't tight – it would be less than half of Sept 30, 2019 stocks. USDA is likely reasonably close on demand, particularly with China now buying up to 6 MMT additional from the US. Factor in any potential weather problems (or even perceptions of problems), and I feel soybean futures can rally to the \$9.50-10.00 range in the medium-term (up another 40-90 cents from current levels).

Harvest is just getting ramped up in areas that have been able to avoid the rain. However, the late development combined with wet weather is likely to keep it far behind normal. This, combined with a bullish farmer should prevent any long-term harvest pressure to basis levels. We do expect nearby soybean basis levels to be pressured by southern harvest, but once that wraps up the northern farmer is expected to be much less eager to sell. This should also help to lift futures in coming months.

Regards,



Mark Ditsch
October 4, 2019

The information contained herein has been taken from trade and statistical services and other sources we believe are reliable. Opinions expressed reflect judgments at this date and are subject to change without notice. Ditsch Trading, LLC does not guarantee that such information is accurate or complete and it should not be relied upon as such. There is risk of loss in trading futures and options and it is not suitable for all investors. PAST RESULTS ARE NOT NECESSARILY INDICATIVE OF FUTURE RETURNS. This document contains only commentary on economic, political, or market conditions and is not intended to be the basis for a decision to enter into any derivatives transaction. The contents of this commentary are for informational purposes only and under no circumstances should they be construed as an offer to sell or a solicitation to buy or sell any futures or options contract. This material cannot be copied, reproduced, modified, or redistributed without the written consent of Ditsch Trading, LLC. No one has been authorized to distribute this for sale.