

March 2020 Monthly Commentary

With the world going through unprecedented times (nearly half of humanity is facing some kind of lock in or shelter in place order) due to the COVID-19 pandemic, ag markets have faced various obstacles that focused more on supply concerns early in the month (will exporting countries shut down) before shifting to focus more on demand concerns (as the world population locks down, eating habits inside of a house are much lower and with less waste than when they travel and eat at restaurants – and more dramatically they are traveling much, much less sending energy prices to lows that we thought we might never see again).

How do we navigate all of this? Obviously, the overall price trend remains lower for reasons mentioned above. However, at the same time, markets are on a big break – and we have found that China likes buying US corn when nearby futures dip down to around \$3.30 per bushel. China has bought more US corn in the past few weeks than they bought in any year since at least 2014. Additionally, US corn is now competitive to world destinations. After a historically slow 6-month period (Sept-Feb), US corn exports are finally perking up and should remain strong well into and most likely throughout the entire 2020/21 marketing year. Unfortunately, this increase in export demand is not enough to offset the loss in domestic ethanol use as gasoline and subsequently ethanol prices have imploded. At least it is helping to keep corn tonnage moving.

The problem for corn is the new crop balance sheet. Even if corn exports increase significantly (perhaps towards 2.25 billion bushels from ~ 1.75 billion bushels this year), it is just not enough. USDA reported expected 2020 US corn acreage at 97 million acres this spring. Quite simply, with the loss in ethanol demand (perhaps down to 5 billion bushels in both old and new crop), this would suggest that an average US corn yield would send US ending stocks to historically high levels and clearly over 3 billion bushels to be carried out from the 20/21 marketing year. US corn prices most likely need to continue to grind lower to attract even more export demand and also shift some corn acreage into soybeans. However, I expect the grind to be very slow from these lower levels – as we still face spring/summer weather and have to produce the crop first.

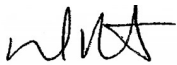
Soybeans and soy products have experienced a significant shift in fundamentals over the past month. Mid-month, supply concerns from Argentine pushed soybean meal futures up 10% in no time. However, by the end of the month, the focus had returned to demand concerns, and that price rally has basically been erased. Soybean oil – once the hope to be the first ag market to face shortages, has shifted entirely the opposite direction on decreased global biofuel demand. Soybean futures still seem a bit overpriced in the old crop positions as Brazil has happily shipped record quantities of soybeans to China and other world destinations, and this should continue throughout the spring and well into the summer. Brazil farmers have been aggressively selling to lock in record prices in their local currency. However, South American production prospects are going lower, with South Brazil and Argentine prospects and yields coming in significantly lower than anticipated. This is an offset of the record production and yields in northern Brazil. Most estimates are now for a Brazilian crop somewhere in the 120-124 MMT range and Argentina in the 49-53 MMT range. At the mid-points of the above, that would represent a loss of 7 MMT vs. the latest USDA projection. Further, Chinese demand is picking back up, and USDA is likely 3-5 MMT too low on their Chinese import projections. All of this suggests that Brazil is likely to have the smallest Sept 1 stocks in many years (as they aggressively ship early due to heavy farmer selling and no carry to SOND), and Argentina seems happy to hoard record amounts of soybeans (their stocks are likely to be higher than USDA estimates on Sept 1, but all in tight farmer hands). This suggests US soybean exports Sept forward can ramp up to historically high levels.

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Further, the new crop US S&D is tightening significantly due to the combination of smaller SAM crops (along with aggressive Brazilian selling on the front-end and Argentine farmer hoarding), better Chinese demand, and a lower than expected USDA US acreage estimate at only 83.5 million acres. I do think prices have likely shifted 1-2 million additional acres into soybeans (coming out of corn and cotton), but even with ~85 million acres, it is easy to project a new crop carryout potentially below 400 million bushels. That doesn't leave a lot of risk premium for yield issues in the US. We need to keep this in mind. I'm not sure soybean futures are overly bullish in here, but I do think the risk is to the upside in the new crop positions.

The bottom line this month is that I think these markets are in a trading range in the short-term. However, over time, I think soybeans should gain on corn and wheat with forward balance sheets very bearish for the grains and switching increasingly supportive for the new crop soybeans.

Regards,



Mark Ditsch
April 4, 2020

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