

June 2020 Monthly Commentary

USDA shocked the trade with a surprisingly small combined corn and soybean acreage estimate in their June 30 report. While corn and wheat June 1 stocks were higher than expected, it was not enough to offset the nearly 5 million acre decline in combined corn and soybean acreage from the March intentions report. Trade had long suspected that March acreage was too high for corn and too low for beans, and they were correct in terms of direction. However, corn acreage declined 5 mln acres vs. expectations of a 2 mln acre decline, while soybean acreage increased only 0.3 mln acres vs. expectations for a 1.2 mln acre increase. This combined with much higher than expected Jan-June 2020 South American soybean use (primarily exports, but also crush), and somewhat less than ideal US weather with July temps trending above normal – tightens the US soybean balance sheet. The US and world soybean balance is on the cusp of swinging to an interesting market (in terms of upside potential) for the first time in several years. The corn balance sheet still looks excessive, but much less so than imagined prior to the severe drop in acreage and less than ideal US weather.

One of the most important developments over the last several months has been the amazing pace of Brazilian farmer selling of soybeans and resulting use (exports and crush). It is estimated that the Brazilian farmer has already sold about 93% of the 2020 crop (vs. 71% LY and 75% avg on this date) and about 40% of their 2021 crop well in advance (vs. 15% LY and 12% avg on this date). That is roughly 55 MMT (over 2 billion bushels) of hedging above last year or normal. Looking at this another way, that is 400,000 contracts of CBOT soybeans above normal, nearly half of the total soybean open interest. If we assume that the Brazilian farmer now has less selling power and will sell less in coming months, the selling will need to come significantly more from the US farmer. The aggressive farmer selling has resulted in much higher than normal use (not to mention much more aggressive selling of March through May 2021 in the physical market). Jan through June total Brazil soybeans plus crush is up an amazing 28% or 18 MMT (exports up about 17 MMT, crush up about 1 MMT) on a crop that was only 4-5 MMT larger. While use will taper off faster than last year, July and August look to remain historically strong. I estimate that USDA is about 8 MMT too high on their Oct 1 Brazilian soybean stock estimate (USDA is expecting Brazilian stocks to be down about 7.5 MMT, I expect them to be down about 15.5 MMT). This is important in that the world will have to turn almost exclusively to the US for SOND soybeans. I look for record SOND and annual Sept-Aug 20/21 marketing year soybean exports. This is fundamentally bullish soybean futures.

Corn has less of a story. I guess I feel that corn is priced 'about right', supported by the likely rally in soybean futures and pressured by eventual farmer selling, a large 2020 crop, and sluggish demand. However, corn exports should pick up in early 2021, so the ideas of sub-\$3 corn are probably not going to happen unless the US can somehow produce well above trend yields – and that looks unlikely given the current forecast.

The bottom line is that the soybean market finally has a story, in my opinion. Weather over the next 2-2.5 months will determine the extent of this story, but I feel upside may be another 50 cents or more even with the current forecast. Corn and wheat futures may reluctantly try to follow, but is likely to fail.

Regards,



Mark Ditsch

July 7, 2020

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9047 Poplar Avenue, Suite 101
Germantown, TN 38138

newaccounts@ditschtrading.com
ditschtrading.com

T: 901-766-4446
F: 901-766-4406