DITSCH TRADING

November 2020 Monthly Commentary

Fundamentals across ag markets tightened further in November, pushing futures to new highs for the move. Soybeans pushed up to $12 while corn rallied to $4.30 before setting back somewhat into the last few days of the month on profit taking and somewhat better rains in South America.

The longer-term balance sheets remain supportive. US export sales continue at a torrid pace, and while shipments did not reach quite as high as we had expected, we suspect much of that was due to weather and logistical problems and we expect much of what was ‘lost’ in November will be shipped in December and January. South America is running on fumes on old crop supplies – Brazil because they are truly tight and Argentina because of the currency crisis that significantly discourages farmers from converting any more soybeans into pesos than they absolutely need to. Most of the farmer sales from Argentina are barter in return for inputs for the new crop. The combined 3-country major origin soybean balance sheet (US, Brazil, Argentina) is as tight as it has ever been, and looks to remain that way even with a record crop in South America. Chinese demand has been even better than expected, suggesting USDA is too low on their 20/21 soy import forecast. Demand from the rest of the world has been somewhat sluggish, but part of that is surely due to ‘crowding out’ from China, who moved first to secure the limited US port capacity. US crush demand set an all-time any month record in October, driven primarily by record domestic needs for soybean meal (high priced substitutes), but also due to better product demand around the world. It still looks as if rationing will be required in the US prior to the end of the 20/21 marketing year. The difficulty, and the reason for set-backs and wider ranges, is that the US farmer aggressively sold his 2020 crop at these higher prices, meaning there are plenty of beans in commercial hands for the time-being. Further, the world is now sufficiently covered well into February, meaning US sales will slow while shipments remain strong. However, I am of the strong opinion that this just delays the inevitable. I look for choppier action but higher highs to come.

The corn balance sheet also looks interesting, but not as bullish as soybeans in my opinion. China has turned into an aggressive buyer of US corn, but much of that is for later in the marketing year. Thus, as the corn balance sheet tightens, things may not feel truly ‘tight’ until we get further into 2021. Further, while the soybean balance sheet likely requires rationing, the corn balance sheet still has some room in it. Finally, new crop 2021 soybean prices likely still need to gain on corn to encourage at least 90 million soybean acres in the US this fall. This is why I expect corn to be a follower and have no real feel that corn will lead rallies. I think soybeans are the better buy. While corn is a follower, wheat should be even more of a follower.

The bottom line is that I still expect higher prices over time. This bull market is different than some that we have had in the past in that it doesn’t look to be solved within a year or with another normal or slightly larger than normal production. That should mean that breaks are well supported and there are still higher highs coming over the next several months.

Regards,

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