DITSCH TRADING

August 2024 Monthly Commentary

August was basically a tale of two halves. Markets pushed towards or to new lows in the first half of the month as US farmers sold their abnormally large old crop ownership of soybeans and particularly corn to make room for what is shaping up to be a record 2024 harvest. Ongoing competition from South America right into the US harvest aided soybean futures in pushing lower, while corn saw less competition from other origins but also a clear decrease in corn demand from China versus previous years. This was followed by USDA increasing US soybean acreage and projecting above trend and record yields for both corn and soybeans.

Late in the month and into early September, soybean futures rallied nearly 70 cents with soybean meal leading the charge. Corn futures also clawed higher. US weather had been quite favorable through that point and a major US crop tour suggested soybean yield could reach a sizable record. Finishing weather has not been conducive for realizing the true potential of these crops. August ended up drier than normal and early September will be much drier than normal. US crops still benefit from rain well into September, although the marginal utility of these rains drops by the day as the crop matures. Regardless, crops have lost top end potential. This combined with Chinese users getting a little more active to lock in their fall needs and significant fund short-covering to fuel the rally.

I do not think the rally was justified. The US crop has lost some potential. However, it is still likely to be record large. A more recent private estimate suggested US soybean yield at 53.0 (vs. 53.2 USDA August and 54.9 by the earlier mentioned crop tour) and corn yield at 182.9 (down only slightly from USDA August). Those seem like valid estimates to me at this point. The rally in prices led to significant farmer selling in South America, pushing Brazil's competitiveness (particularly in soybeans) well into October/November. Further, drier US weather is having a major impact on the US river system. This will make logistics much more difficult and has increased the transportation cost, making the US less competitive. US exports will suffer accordingly. I believe USDA is probably at least 150 million bushels too high on their 24/25 soybean export forecast. US soybean carryout is likely to end up near 650 million bushels, almost doubling on the year.

World soybean stocks will continue to grow. Last year, the world produced about 15 MMT more than it consumed. This was masked pretty well by China increasing their stocks by most of this increase in production. However, the world is simply producing more than it consumes. This year the production surplus with normal weather should reach about 30 MMT. Normal weather suggests the function of prices is to either slow production growth or increase consumption. Brazil will expand acreage this year, but at a much slower rate. However, Argentina is set to increase soybean acreage at the expense of corn. This tells me that the market has more work to do to prevent world stocks from ballooning. At the end of the day, world stocks (particularly world stocks at major origins) are the best predictor of future price action.

It was a difficult end of the month. This is why I trade mostly options with a known risk component. The market can be a bit irrational in the short-term and the use of options allows one to ride the storm out with known risk parameters. I still believe soybean and meal futures could be in a 12-18 month bear market. Corn prices remain low relative to beans and have less origin competition for exports. Corn seems reasonably well balanced at current prices while I still expect the soybean complex to move in a generally lower direction (with some obvious up moves along the way).

Regards,

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