ADM Archer Financial Services, Inc.

What’s the Next Step for Corn, Soybeans and Wheat?

By Chris Lehner (Apr 11)

With the largest amount of Brazilian new crop moving to ports beginning April and increasing through July, it’s normal timing to see exports slacken from the US. Unfortunately, regardless of what might happen if tariffs are imposed on U.S. crops, as the table shows, exports for all grains and oilseeds besides sorghum are down. If Brazil’s soybean crop ends up at 115 million metric tons or larger as most analysts are predicting, like a year ago, they will sell throughout the summer and into the U.S. new crop harvest as they did a year ago.

With U.S. farmers storing 3 percent more corn and 21 percent more soybeans than they did in 2017 as of March 1st, any delay of movement could end up negative. I hate to say it, but what U.S. farmers need is an honest to goodness weather market during the growing season. I am not concerned about crops being planted late. As we have seen year after year, crops will be planted and even when late as it happened last year in parts of Illinois and Indiana, big crops can be grown. U.S. grains are dependent on summer weather. Corn is made in July and soybeans are made in August, and any weather problems especially in July for corn, will move it higher and take soybeans with it.

GRAINS INSPECTED AND/OR WEIGHED FOR EXPORT
REPORTED IN WEEK ENDING APR 05, 2018
-- METRIC TONS --

GRAIN	WEEK ENDING 04/05/2018	WEEK ENDING 03/29/2018	WEEK ENDING 04/06/2017	CURRENT MARKET YEAR TO DATE	PREVIOUS MARKET YEAR TO DATE	Percent Change For Year
BARLEY	0	0	73	21,071	32,362	-34.9%
CORN	1,937,040	1,445,186	1,212,682	26,475,989	34,553,205	-23.4%
FLAXSEED	0	0	2,229	4,745	28,990	-83.6%
MIXED	0	0	0	0	0	
OATS	399	0	100	12,579	13,293	-5.4%
RYE	0	0	0	0	0	
SORGHUM	246,316	125,239	162,895	4,067,385	3,906,037	+4.1%
SOYBEANS	373,940	578,838	858,320	41,893,537	47,842,322	-12.4%
SUNFLOWER	0	0	0	0	0	
WHEAT	430,080	424,880	659,183	20,368,295	22,493,275	-9.4%

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Total        2,987,775   2,574,143   2,895,482   92,843,601  108,869,484      -
14.7%
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What's ahead?

With the USDA lowering Argentine production by 7 million metric tonnes and increasing Brazil's production by 2 million metric tonnes, along with lowering U.S. stocks by 5 million bushels, the rally of late in soybeans could be near since it was expected. Plus, it is still unclear what China may or may not do as far as tariffs. With China already buying more soybeans last year and so far, this year in Brazil, and with Brazil combining moving into full harvest and movement to ports, don't expect even without tariffs, China to shop anytime soon for soybeans in the U.S.

Wheat markets in the U.S. are going to be hurt with livestock producers preferring corn over wheat. Also, world supplies are increasing, and Russia is expected to move an additional 1 million tonnes to 38.5 million tonnes, which is 10 million more than they did last year. Global 2017/2018 ending stocks are 2.3 million tonnes higher at 271.2 million, which is a new record.

Corn

The USDA lowered Brazil's and Argentina's production by 14.5 million tonnes due to the drought in Argentina and less Brazilian production for their second crop. If South American production drops as much as the USDA expects, I believe this will end up helping prices. Brazil's cattle and hog numbers are up this year and with new corn distilling plants coming on line and with three out of the 10 sugar cane distillers moving to corn, increased usage will drop South American stocks. The USDA raised ending stocks for corn in the U.S. by 55 million bushels.

The grain markets are in a flux. There are too many "ifs." Last week's markets were extremely volatile and without knowing what tariffs may or may not happen are truly concerning.

In my opinion, with recent rallies, if U.S. farmers have old crop, take advantage of the recent rally and look to re-own later. The soybean basis in the U.S. remains much wider than normal. There is a reason for it. Although the crush is increased and is supportive to crush margins, the increasing ethanol distilling will keep DDG prices at a better price than meal and crushing for meal leaves soy oil too vulnerable for movement to the downside, especially with the USDA estimating biodiesel usage lower.

Long term, I like grains and see corn as the market leader. Short term, the recent rally offers an opportunity to sell. I do not like using options at this time unless they are to protect a short or long futures position. The carrying charges in the grains makes buying options too costly. Time will eat up the carry.

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