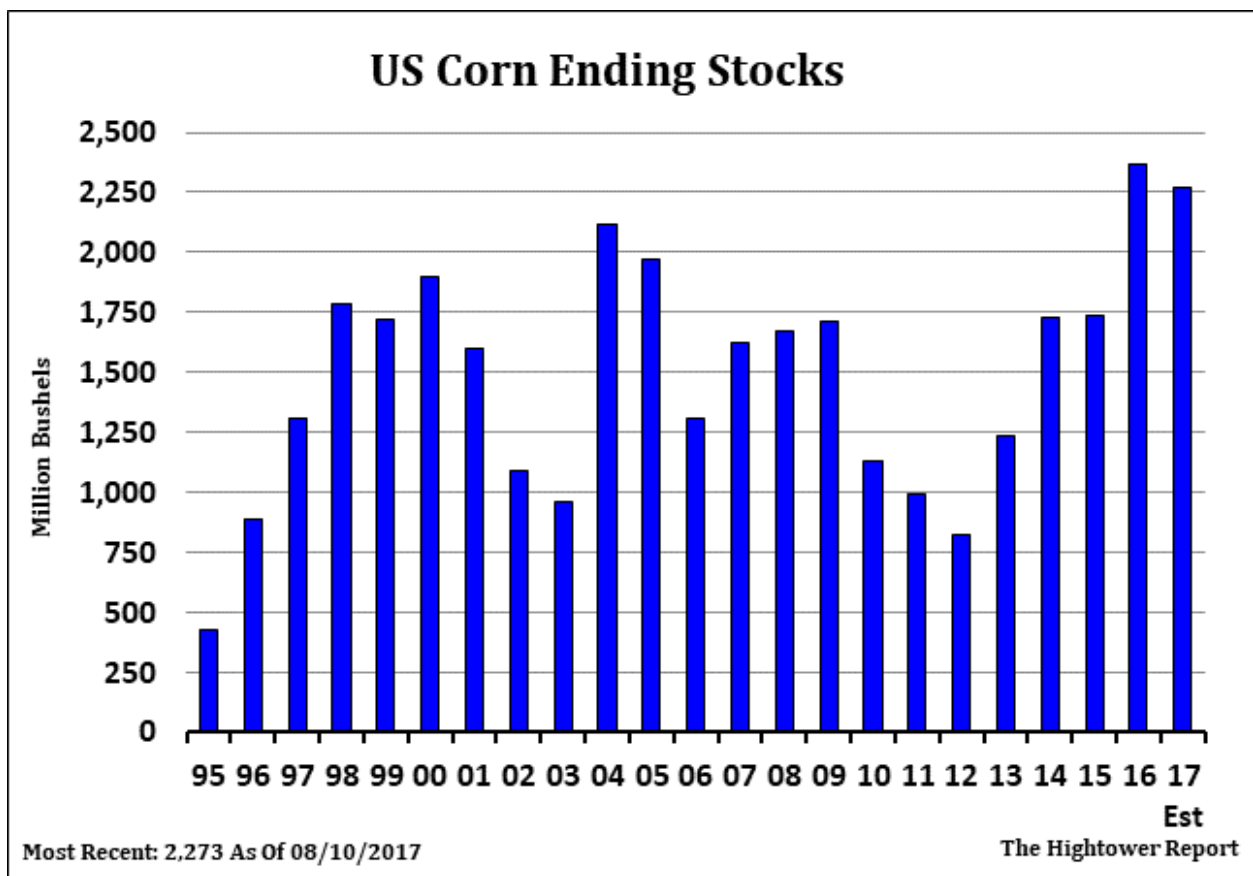




## How Much Lower For Corn Prices?

By Dennis Smith August 18, 2017

The USDA shocked the majority of the trade on August 10<sup>th</sup> when they projected the national average corn yield at a trend line figure of 169.5. This resulted in a total crop size of 14.153 billion, the third largest crop ever and substantially larger than the average trade guess. Given the fact that projected corn demand is still edging lower, larger crop size than expected in the face of shrinking demand left ending stocks 300 million bushels larger than expected.

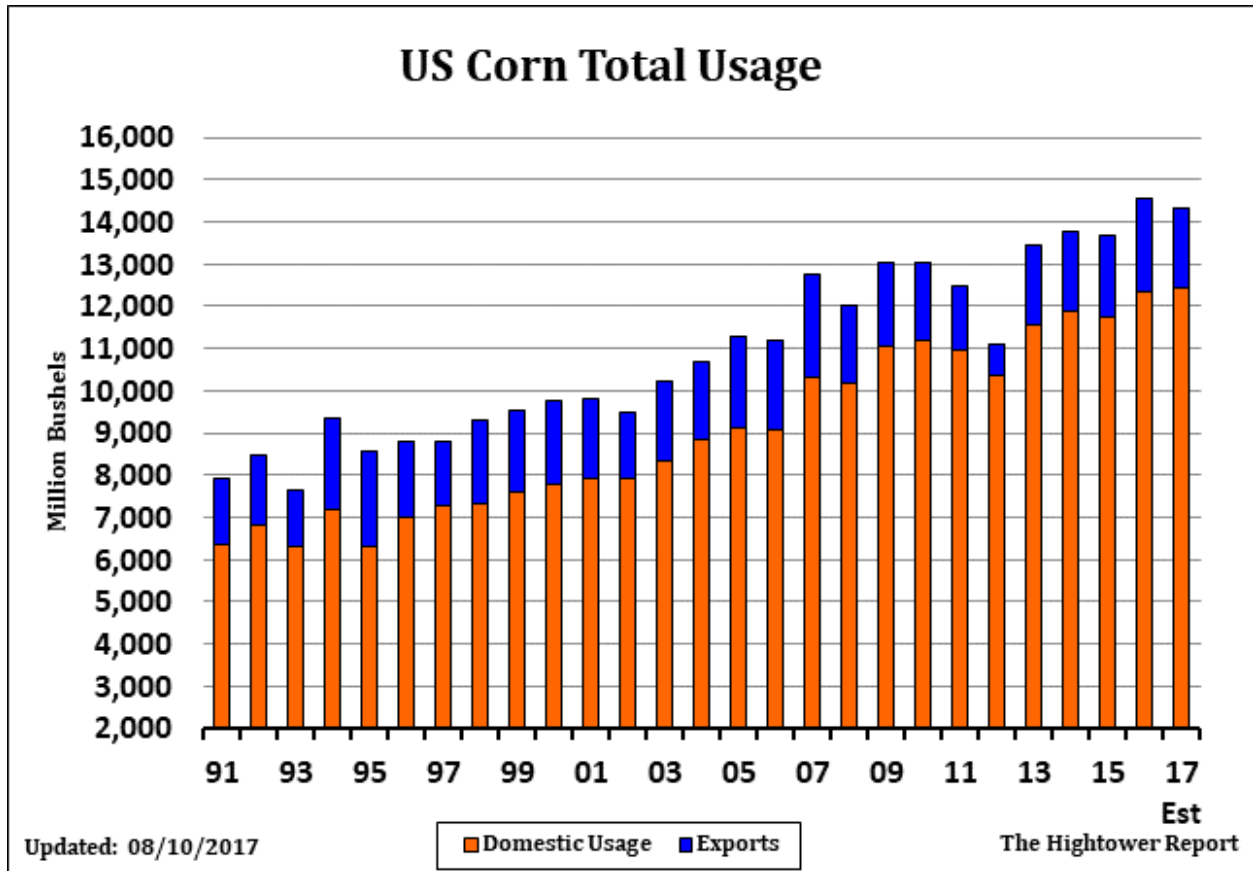


The first question to grapple with is: how can one expect prices to rally for a commodity, in this case corn, when total demand for the commodity is declining?

The second question is how can anyone expect prices to rally sharply, with ending stock projections substantially above two billion bushels?

The bullish fundamentals just are not there. What is needed is a period of historically low and fairly narrow prices. This will encourage and eventually stimulate renewed demand for corn.

Repeating, expecting a sharp and sustained rally in corn prices when demand for corn is declining is just not logical and realistic. The growing season, while quite variable, is a far cry from a major drought.



There are two fundamental items to monitor that will/could spur a bottom in corn prices. Something needs to happen to disrupt the production process, whether it be in South America or in the U.S. The problem, sadly, is that the U.S. producer is no longer the low cost producer of corn. The South American producer is. The other potentially bullish development worth watching is the huge stockpile of corn in China, much of which is likely not fit for animal consumption. If/when the Chinese government ever comes clean and reconciles this, suddenly world corn supplies will take on a different look.

So my bottom line is that at \$3.50 for new crop December corn futures, I'm no longer bearish. We've unwound all short hedges this week. However, I'm not bullish either.

Contact me directly at 312.242.7905 or via email at [dennis.smith@archerfinancials.com](mailto:dennis.smith@archerfinancials.com) to discuss further.

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