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Are You Buying Corn on Price Dips?

By Chris Lehner (Aug 22)

This week, grain traders are concentrating on the yearly crop tour that occurs the third week of August. I doubt there will be any big surprises. Since the end of June, the weekly USDA Crop Progress and Condition report released Monday afternoons has given a pretty clear picture of how crops are doing. In fact, this year the vast majority of farmers seem to agree with the weekly reports. I haven't even had one email telling me, often in colorful words, it is wrong. I am sure there are some farmers that disagree but not many. Now, farmers are hoping when crops get harvested, they are as good as they looked this summer. For those of you that don't farm, you would be surprised that a lot of farmers don't check their crops as often as you might think. If it was me, I would probably lose a bushel or two to the acre checking daily, counting kernels, and pulling bean plants to count pods.

Mother Nature still plays a big part now and over the next month or two. For instance in 2009, I had several clients expecting bin busters from planting through growing, July and August. Crops appeared that they could be record throughout the summer. But, before harvest could start, it turned cold and wet. Rains delayed harvest two months or more. I had several clients in Wisconsin and Minnesota that had to wait until the ground froze so they could combine. By the time corn and beans were harvested, there were problems. Crops were harvested when it was wet and there were high costs of drying. Mold was rampant. Toxins were found on load after load. Corn stored under bad conditions came out of the bins worse than it went in. Barges sent down the Mississippi River for exports were rejected time and time again. Toxins made feeding it impossible. There were environmental studies how to dump or use the bad corn.

The grains of the 2018/2019 crop year have also had to contend with the trade war. How much of the price decline that was due to the Chinese not buying U.S because of tariffs and how much has been psychologically price detrimental can be easily argued. After all, China before the steel tariffs and then their tax on U.S. commodities were already buying more soybeans from Brazil. U.S. soybeans had to compete with a big record Brazilian crop on top of stored U.S. soybeans from 2017/2018. (If you want more information, my previous reports go into greater detail). What I am trying to point out now is that it is too early to claim the U.S. crops are finished and it is impossible to say what trade tariffs have done to prices. Let's face it, on any given day trading is mostly technical, or formula driven. The daily ups and downs aren't merchandisers deciding one day to buy beans, for example, 24 cents per bushel higher one day and the next day to drop them 45 cents. Commodity trading is about anticipation of prices in the future. It is why I feel the following chart is so important. Charts offer a view of market direction and unless you are able to pick highs and lows based completely on fundamentals, a picture or chart speaks 1,000 words.

At one time I used many chart indicators. However, I found if I kept charts simpler, but consistent, they worked better for me and it was much easier. When algorithmic trading became the most actively used form of trading, I knew I wasn't going to be able to match program trading with multiple functions reacting in nanoseconds. To trade within their boundaries and possibly more important, the big super money system traders that have enough money to move markets, I use charts to see what is taking place and to follow the trends. I firmly believe, "The trend is your friend." When I combine charts with facts from fundamentals, mid to longer trends are easier to follow.

Corn bottomed on July 12th, six days after the July 6th implementation of the Chinese tariffs. The trade had anticipated what would happen when tariffs took place, but once the tariffs happened, the news was old. It wasn't news for the future, and commodity trading is all about the future and anticipating the unknown. Plus, corn in Chicago at $3.50/bushel put corn at several regions in the U.S. below $3.00/bushel. In the middle of July, unless a farmer is forced to sell sub $3.00 corn, selling stopped and the other side of the equation took place. It made corn cheap to buy. I am not sure why, but reports tend to focus more on grain production for the trader and grain farmer versus for the user, such as livestock feeders and buyers needing corn for distilling, or beans for crushing.

This year livestock numbers, U.S. hogs and cattle, have increased about 3 percent, which is about the same as they have increased worldwide. Hog and cattle feeders have had feeding margins, due to the drop in their respective prices over the past couple of months, fluctuate slightly above break even to feeding with negative margins. Buying feed, for instance corn below $3.00/bushel is one price variable they can hedge to help with risk management, along with other costs they can lock in. The same can be said for hog producers. Also, there are feedlots that market cattle on programs based on costs of production. When they can lock in costs, they know they can make money, or find a buyer that will take their formula to buy the cattle or hogs.

DECEMBER 2018 CORN – The basic trend line, connecting the lows on July 12th and August 13th can be used as an opportunity to buy, or if already long, as a place to liquidate if prices fall below it. For example, this chart was made on August 21st at 12:20PM central time. If the price dropped to $3.70 ½ to 3.70 ¼, I would buy if it dropped below it. I would have a stop if at 1:15PM the price was a couple pennies below it, or below the low made on August 13th at $3.66. The moving average tracks the price over a period of time. I have found you can use several moving averages of different time intervals as long as they are consistently used. For this chart, I am using 10, 20, 50, 100 and 200 day exponential moving averages. In my opinion, $3.88 ½ is a target. It was the high on July 31st and as you can see the price was pushed up to it, or close to it seven times. A close above will be friendly. It will tell me, the traders that sold it at those levels likely will get out of their shorts if there is a close above it and it will also be above the 100 day moving average, which it hasn't been above since the price broke below it on June 4th. There is also a gap at $410 to $410 ¾.

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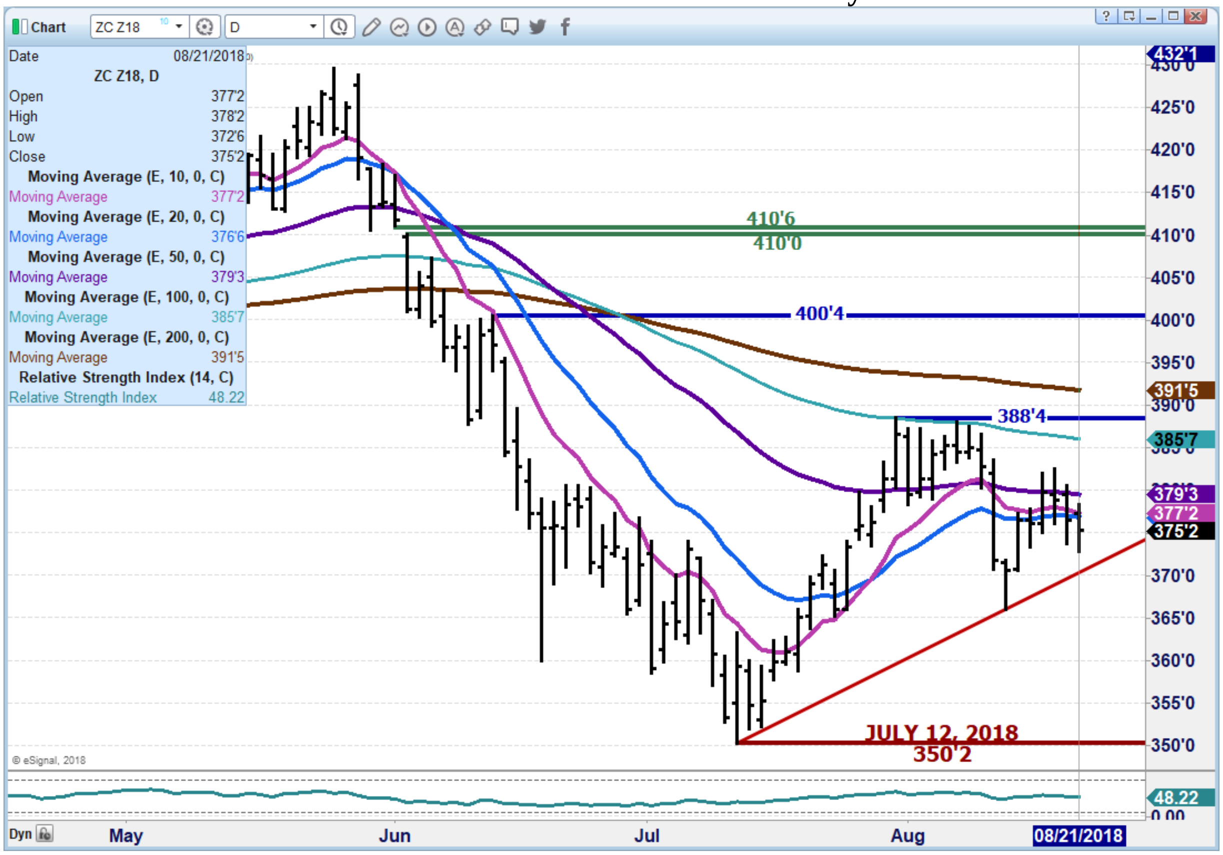

CHART FROM eSignal Interactive, Inc.

I like buying corn. Previous reports go into greater depth. They are archived with my other reports on www.insidefutures.com or to get up to date, charts open an account with me, and I will share my currents market outlook along with strategies and recommendations.

Contact me at 312.242.7942 and via email at chris.lehner@archerfinancials.com. I look forward to hearing from you. To open an account with Chris, go to our interactive New Account application at [Open An Account](). It is fast, saves on postage and it's green.