Archer Financial Services, Inc.

Will Corn and Soybeans Go Lower?

By Chris Lehner (Aug 4)

Fundamental traders want facts. They want supply and demand factors that move markets. They also want something newsworthy that makes markets move. This is why the internet has countless analysts and bloggers giving their daily opinions.

Day to day markets often move on who has the most money. Exchanges have hard facts that show most of movement on the daily markets is technical and now algorithmic trading.

I believe markets move over the long term on fundamentals, but accept the fact that big speculative money in the short run moves the markets day to day.

Cash markets go along with the futures, but cash buyers and sellers can change the basis, the difference between cash and futures according to what they want and need. The past two months are a perfect example. As grain markets rallied on the futures and merchandisers widened the basis. Cash grain buyers were telling sellers futures are moving higher, but we don't care if it is too dry or too wet. Currently the cash basis in many areas of the U.S. is wider than it has been in several years. Unfortunately, farmers and traders look out their back door and trade what is happening in their local area and use reports that justify their way of thinking.

Using charts is of utmost importance. They are like maps. But, unlike a map, charts indicate starting points, points along the chart and where the ultimate point may be. But until the point of liquidation is reached, there can be detours and often a complete change in the desired or undesired end.

I use fundamentals and charts. As it was explained to me, if you wash your hands, it is easier and you get them cleaner using both hands at the same time rather than trying to wash one by itself.

Quick Fundamentals

About three weeks ago, I wrote a commentary on why selling grains was fundamentally the path to go. At the time, when most reports concentrated on heat and lack of rains in the Northern Plains, I focused on grain stocks and world supply and demand. I also didn't like that far too many analysts and reporters were simply trying to excite readers. It's common knowledge that farmers want markets to rally and individual speculators rather buy a market than sell. It's why so many reports of late left out Brazil's record breaking soybean and corn yields, the problems with the lack of storage in South America, expectations that China will have bigger crops and the competition from Eastern Europe. Above all, they didn't want to talk and write about the huge stocks from the 2016 crop.

Being bullish certainly made farmers happier. It made the farmers holding more grain in storage than they have ever had on their farms or paying "rent" month after month thinking the market would fly past $5.00/bushel, but hoping they could get at least $4.00/bushel cash for old crop. It made farmers glad they hadn't contracted any new crop.

But as the market is showing, all the hope of July is turning to reality with cash market buyers are telling sellers to take the price or leave it. The carry on corn is almost double the normal carry. For example: as I write on August 3, 2017 at 10:45AM central, December corn is $3.80/bushel and March corn is $3.92. Any student of marketing knows this is bear spreading and it is shouting, grain buyers don't want grain at harvest and are offering sellers to keep it and sell it in 2018. Buyers do it because they know what they still have stored from 2016 and what they can sell at harvest. The carry from December to July 2018 is 22 cents. It is full carry plus 4 cents. In other words, buyers are trying to keep grain in the farmer's hands rather than buy it. Add in a very wide basis and it clearly shows buyers are doing whatever they can, not to take ownership unless it is on their terms. If they must buy it they are going to make sure they won't lose if they must own it.

One consideration that traders need to be aware of is Brazil's record crop will take longer to move this year and is competing for export market share with U.S. old crop and in a couple months U.S. and northern Hemisphere new crop.

It also must be considered that any changes to the NAFTA agreement may not be beneficial for U.S. agricultural commodities especially for grain sales to Mexico.

December 2017 Corn – On July 11th Dec corn topped at 417.25 and the low as I write so far has been 3.75. Connecting lows made in March and June, the support on Friday August 4th is 3.72 and if it takes to August 25th, the support line and where the overhead line meet is 370.25. Of course, as I said above, the end point can always change and so can dates. As I write, all a chart can say now is the low has been 3.75. However, if prices move through support, the next support, as I view it is the low made on August 31, 2016.

All charts from eSignal Interactive, Inc.

NOVEMBER 2017 SOYBEANS AT 10:45AM AUGUST 3, 2017 – Overnight markets on August 3rd went down to within ¾ cent of filling a gap at 9.63 to 9.58. As I write, the price is below all moving averages. I use 10, 20, 50, 100 and 200 day exponential moving averages. A close below 9.58 projects a fall to lower support line near 9.11.

One of the biggest pitfalls fundamental traders have is not wanting to use all the fundamentals. Bullish traders seek out bullish news and bearish traders seek out bearish news. When using charts, at least a trader can see the market direction even if they don't want to believe it.

Are you getting what you need from your trading? If you are searching internet sites it usually means you are looking for support. I write a report online once a week, but my clients get my advice and help whenever they want it.

Call me at 913.787.6804 or email at chris.lehner@archerfinancials.com. I look forward to hearing from you.