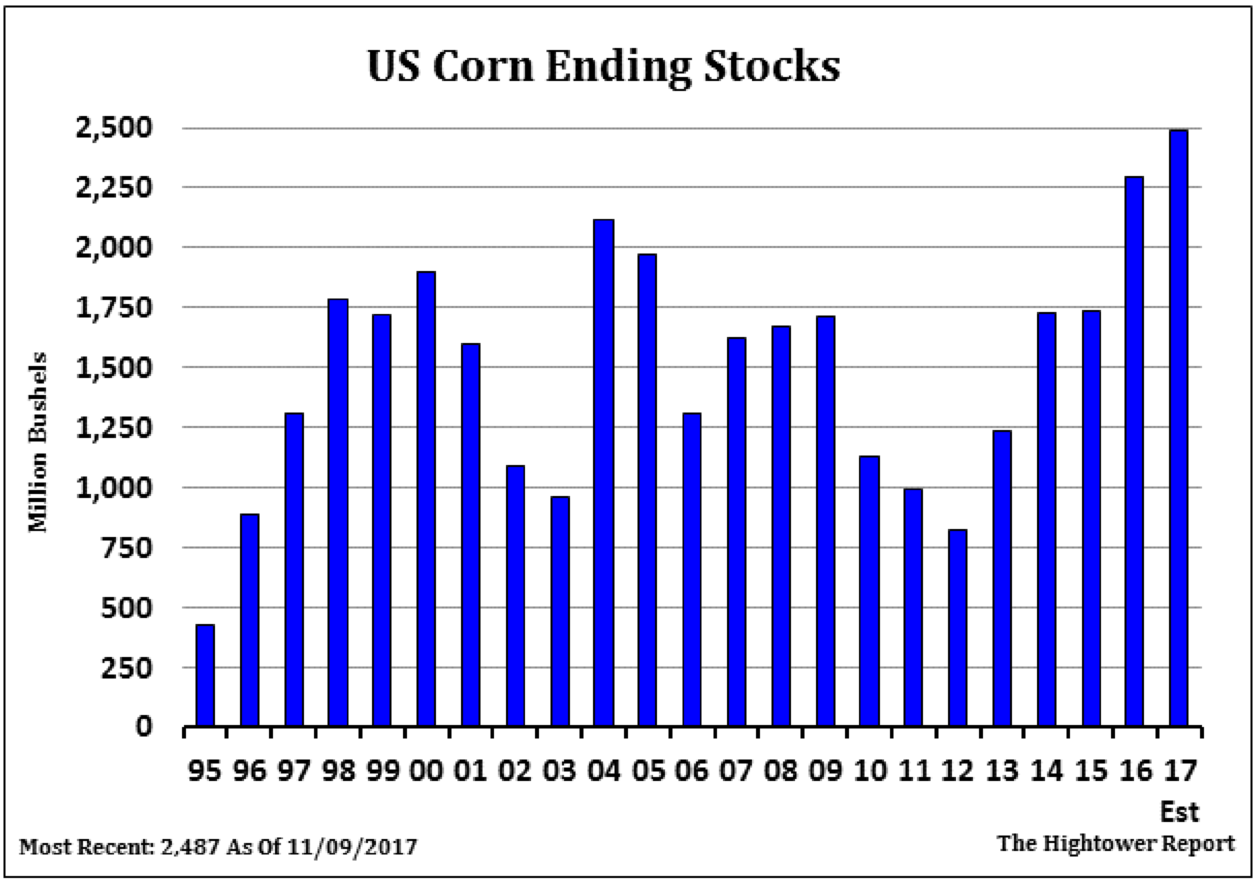
Archer Financial Services, Inc.

Corn Prices; Hope is a Dangerous Thing

By Dennis Smith (Dec 1)

Fundamentally and technically, there's simply no reason to be bullish the corn market moving into 2018. The USDA on November 1st is projecting record large ending stocks (for November 1st) at 2.487 billion bushels. There is corn piled everywhere in the country. Bins at the grain elevators are full, bins on the farm are full and massive piles of corn can be seen all over the Midwest. When you combine this with an extremely bearish wheat fundamental situation, feed grains are dead in the water and grinding lower.



The USDA's baseline projections, recently released, indicated producers will sow 1.0 million fewer wheat acres, but acreage going into corn and soybean production will both increase approximately a half million acres each. **In other words, the USDA is telling us that acreage devoted to corn production will increase next spring**. They move on to predict ending stocks for 2018/19 to be as high as 2.6 billion bushels.

There is consistently one reason that I hear over and over again for being bullish toward corn prices; "The funds are holding a record large short position." Never mind the reason that they're holding a huge short is tied directly to the fact that the fundamentals are extremely bearish and to the fact that the chart pattern is overwhelmingly bearish.

If you're a grain producer in the Midwest and corn is one of your stable commodities to provide income for your operation, you're facing a major challenge to stay afloat over the next couple of years. This is simply a harsh reality. One obvious solution is to march your corn to town on four legs or in the case of poultry, on two legs. Guess what? Pork, poultry and beef production are all projected to be record large in 2018 and likely again in 2019.

In a dire situation going into 2018, sitting on the crop and hoping for the best is not recommended. The best is very unlikely to happen. For our livestock producers we've been recommending that each time corn futures touch contract lows, to sell some puts. For grain producers looking to market their grain we've strongly recommended to move to a larger than normal amount of cash grain at harvest, even if prices are below cost of production to avoid accumulating storage fees and interest charges. Many times when producers move cash grain they want to replace ownership through long futures or long calls. We recommend neither of these, for corn anyway. If or when futures trade in the range from $3.70 to $3.90, sell the rest of your corn, or at least most of it. Keep your operation afloat to live another day to raise another crop.

When looking at the current grain fundamental situation hope is a dangerous thing. We're strongly recommending to our clients to prepare for the worst and hope for the best. Please contact me with further questions at 312.242.7905 or via email at dennis.smith@archerfinancials.com.

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