Archer Financial Services, Inc.

What’s Happening to Corn and Soybeans?

By Chris Lehner (Dec 22)

I hope everyone has a Great Life, Peace and Prosperity in 2018!

As I was thinking about what to write, something I have reported on several times made me want to look deeper into it. Why farmers since 2013 have stored grain year after year. Fortunately, some took advantage of rallies, but many didn’t sell as much as they should have sold and there are farmers that still have wheat, corn, and soybeans stored from 2016 at home storage or at elevators. But farmers weren’t alone as bulls. From calls and emails there were a lot of speculators, and far too many analysts that have been bullish. Why?

Did you know that bear markets are often bad for brokers? I really dislike bear markets. Farmers are growly when markets sink, and speculators are more concerned about inflation than deflation. I would love a good bull market. But clients expect realism and facts. I do see a bull on the horizon, but first the bear needs to die.

So many traders, hedgers and speculators, heavily rely on websites, analysts, consultants and brokers. However, lately it is like when somebody get erroneous information from a computer program. When junk is put in a program, junk comes out. Lately, there has been too much junk.

Algorithmic trading is now a major player in markets, the biggest on many days. There is a very good reason algorithmic trading is widely used. Once the formulas are in the program, the parameters are set and there is no falseness to it. If it makes money, it is kept. If it doesn’t, it is thrown out or trading is stopped until programmers feel it is fixed. The algorithms often are complex, but trading is simple. It works, or it doesn’t. The program has no emotions.

Unfortunately, when fundamentals are used, personal needs too often become a part of trading. If trades are losses, traders search for information that suits their way of thought. Fundamental traders can become one sided. Also, they want to prove they are right and the other side is wrong. They will search the Internet until they find analysis supporting their position rather than facing reality and admit to facts clearly staring them in the face. Examples are numerous. Over the past two years there have been rallies on made up weather stories. In 2016, the US was going to have a mega La Nina. Last spring, a drought in the Northern Plains would affect the entire US crop. Recently, soybeans burped because Argentina was dry during their planting season when every farmer around the world knows when planting, when it is dry, it is better to plant than when wet. Maybe I should start a rumor. There are several volcanoes now and the dust circling the globe is cooling the atmosphere plus the massive smoke from the California wildfires will drop temperatures around the globe. It will be too cool to grow crops this year. Sounds good to me. A few more people writing about it could maybe start a new bull market

Actually, I am concerned when a weather problem does take place, who will believe it.

<u>For 2018, make it a resolution to trade facts and not rumors.</u>

What's Happening to Corn and Soybeans? The Facts

When corn and soybean futures were moving beyond what is considered a normal carrying charge throughout much of 2017, the writing was on the wall what was going to happen during the fall harvest and beyond. In fact, by early spring and during the summer with all the stories of drought and destruction as cash basis widened, it became clearer. The futures markets would fall.

On December 18th, January 2018 Soybean futures dropped to 9.57 1/4/bu, lower than the settlement price for the November contract. November 2017 soybeans settled at 9.59/bu on November 14th. Grain futures in 2017 traded a classic carrying charge, bear spread market. (There are reports archived on Inside Futures that explain carrying charges and bear market spreading).

Corn was the same as soybeans as was wheat. September 2017 corn settled at 3.41.1/4/bu and December 2017 futures on September 14th was 3.54 1/4/bu. On December 14th corn settled at 3.361/4/bu. From September 14th to December 14th corn lost 18 cents, the carry charge plus. One reason, among several, for the additional loss had to do with moving large supplies of 2016 crop right before 2017 harvest, old crop sales on top of a large new crop harvest. At the end of September with the Grain Stocks Report, the cat was out of the bag. Farmers had stored too much 2016 corn and soybeans and a big new crop was going to be added to it.

As another example of carrying charge market or when markets are bear spread; March 2018 corn on September 14th was 3.661/2/bushel and on December 14th it was down to 3.481/2/bu. Bear spreading or a carrying charge market is bearish. Bear spread markets are an opportunity to sell at prices that at least pay the simplest of carrying charges. Above all they are not markets to hold crops not protected.

It is also why on November 3rd, I wrote, *Is it Time to Buy Corn and Soybean Call Options? (Link Below)* As the report points out, buying options when there is a carrying charge, especially calls, are not something that should be done. And for the producers or speculators talked into re-owning crops or being bullish and buying option calls, option premiums have evaporated.

If a farmer bought March corn calls on November 1st when corn was harvested, (Yes, there was corn harvested after November 1st.) and on November 1st March settled at 361.75. Now March 2018 futures as I write on November 20th at 11:30AM central time are 3.48 1/4. March corn 360 calls are down to 3 3/4 cents and on November 1st they were at 12 1/8 cents. 370 calls are now 2 cents and on November 1st they were at 8 cents.

Put options have fared a bit better, but not much. On November 1st 370 March puts were 16 1/4cents and as I write they are 24 1/4 cents. 360 puts on 11/1/2017 were 10 ¼ cents and now are 141/4 cents. However, for protection and a semi-hedge for farmers with the 14.25 cents loss on futures and wide cash market, they have done very little. Puts certainly have not paid even simple storage and with 2 months of time premium at 3 cents a month, put options will lose their time value.

By September 31st Grain Stocks Report, anyone bullish should have known better. The report was glaringly bearish when combined with the earlier World Agricultural Supply Demand Estimates. I am sure the January 12, 2018 Grain Stocks Report will prove a greater number of bushels was stored compared to a year ago (As of 9/31/17 corn stocks were up 32% from 2016 and soybean socks were up 53% from 2016.)

Now any farmer that stored crops at harvest has watched simple carry go down the drain. For those storing and paying for storage, they have lost all the charges for storing and the simple carry charge. In other words, a big waste of money. It is hard to believe but there are grain producers with substantial amounts of the 2016 crop. It could almost be in *Ripley's Believe it or Not*.

As charts clearly show, at least for now, there is nothing that appears to be bullish. There can be profit taking any time, shorts are in control of soybeans and corn

MARCH 2018 SOYBEANS AS OF THE CLOSE ON 12/20/2017

CHARTS FROM ESIGNAL INTERACTIVE, INC.

MARCH 2018 CORN

Is it Time to Buy Corn and Soybean Call Options?

https://www.insidefutures.com/article/2074699/Is%20it%20Time%20to%20Buy%20Corn%20And%20Soybean%20Call%20Options?.html

If you are a speculator or a hedger wanting assistance with an analyst and broker with 30 plus years of solid experience, give me a call 913.787.6804 or send an email to chris.lehner@archerfinancials.com.

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