Archer Financial Services, Inc.

Have Corn, Soybeans and Wheat Bottomed? Continued

By Chris Lehner (Feb 9)

When I wrote the first report on January 25th I have to admit I was surprised with the number of comments and responses. It may have to do with the fact that I have been a bear for several years and now feel the bottom has been made and grains will trade higher. Naturally, the grain markets will have ups and downs, but over the next few years, I see grains moving higher.

For producers storing grains, it DOES NOT MEAN TO KEEP STORING. Rallies are for selling. Over the next several months, U.S. farmers must rid themselves of old crop. The old adage, when weak hands hold the market, it falls. When strong hands own the market, it rallies. The longer farmers own it, the longer lower prices will remain.

This report will primarily focus on feed usage. Following reports will look at distilling, the crush, production and usage by country.

For everyone that is getting tired of winter, as of January 9, 2018 there are just 39 days until spring begins in the northern hemisphere. And before long, the weather pundits will be posting daily reports with their predictions for the U.S. planting season and summer growing conditions. You can take a safe bet most reports will claim there will be negative weather.

Predicting a weather pattern that may delay planting or a report that may damage crop production peeks a lot of interest. It will help sell a few more newsletters or open new accounts for a broker. Certainly, grain producers storing old crop want bullish supply news. Whenever there is talk about supply disruption, new bulls are born, and old bulls are calling their brokers.

However, supply is only one side of fundamental reasoning and to get a good bull market running, demand is needed. When demand is tied to a decrease in supply, there can be a raging bull such that happened during the drought of 2012.

I would venture to guess if a grain producer was asked why corn rallied to over $7:00/bushel, most would say it was the 2012 drought. Of course, they would be right, but it was just part of the reason, the icing on the cake. The grain and oilseed rally started in July 2010 shortly after farmers sold stored old crop and contracted over 80 percent of their new crop. It was the time when farmers, almost like a mantra, said, you can't get hurt selling $4.00 corn. Farmers were right. $4.00 in 2010 meant they had a profit. Corn at $4.00 was a decent price. With the increase in bushels per acre over the last eight years, $4.00 corn now pays the bills.

Once again it has become the mantra for 2018. Farmers can't wait to sell $4.00 cash corn, $5.00 wheat and $10.00 soybeans. Lately, cash prices at $3.50 corn, $4.00 wheat and $9.50 soybeans have generated sales because many farmers need to pay last year's operating loans before they can purchase seeds, chemicals, fuel and fertilizers for the 2018/2019 crops. But there is still a lot of old crop to be moved and very few producers have contracted new crop.

What I just wrote is no secret. Grain and oilseed buyers know farmers have stored crops. The January 12th USDA Grain Stocks report showed grain stored for corn and soybeans was above 2016 stocks, which means there is a lot stored. Yes, corn was just up 1 percent, but when 2016 was up 10 percent from 2015 and soybeans were up 7 percent compared to 2015 with wheat up 19 percent in 2016, even the 16 percent decrease in 2017 for wheat indicates plenty of stored wheat.

But buyers also know unless it is absolutely necessary very few farmers will move corn, wheat and soybeans on lower prices at least until they need room for new crop and in the U.S., that won't begin until August 2018. Buyers have essentially been buying hand to mouth. They know by widening the basis along with a futures market dropping, farmers will keep it. When buyers need it, text messages are often sent out that basis has narrowed and frequently it has corresponded to futures moving up.

Yes, there is more stored than a year ago. Yes, as it presently appears, South America will have another big crop year and for many traders it is hard to see a rally. But as I noted above, demand is half the equation and demand in 2018 is growing.

Livestock production around the world is increasing and hogs and cattle aren't getting lighter. They are and will get heavier. It doesn't take an expert in livestock production to look back during the years of cheap feed when livestock producers don't sell at heavier weights with cheap feed especially at times when livestock feeding margins are as profitable as they are in the U.S. Recent estimates show cattle feedlot margins are around $220/head and farrow to finish hog margins are plus $30.00/head.* Possibly more important is global livestock numbers are increasing.

Of course, the days of feeding corn and silage with supplemental feed to cattle and a ration based mostly on corn and meal to hogs is long gone for production agriculture. The old rule of thumb of cattle needing 50 bushels of corn has been replaced with complete rations now often including Dried Distillers Grains not just for cattle, but for all livestock. But feed rations are still made up of agricultural grains and there are going to be year on year increases. In other words, demand for feed is quickly increasing as countries substantially increase livestock production.

As economies improve, there is an increased demand for higher quality and more food. The U.S. beef and pork markets have no problem proving it. When the economy tanked in 2007/2008, beef demand for higher quality cuts dropped like a rock. The demand for ground meat products skyrocketed and demand for cuts such as steaks, chops and roasts dropped. The U.S. became the Hamburger Nation. The demand for cheap cuts grew and the U.S. was a net beef importer bringing in beef that could be converted to hamburger and ground beef. By 2014, demand began to pick up especially around holiday times for higher quality products. In the past three years, especially in 2017, there were prime cuts breaking records prices. The high beef prices allowed cattle prices to be profitable and as you can see from the tables below, countries around the world are increasing livestock production.

Cattle Production Annual Growth Rate by Country

1	Australia	10.50 %
2	Korea, Republic Of	5.63 %
3	Egypt	4.32 %
4	Argentina	4.23 %
5	Uruguay	3.57 %
6	Turkey	2.78 %
7	Brazil	2.38 %
8	Canada	2.33 %
9	United States	2.20 %
10	Mexico	2.09 %
11	New Zealand	1.37 %
12	China	0.79 %
13	India	0.73 %
14	EU-27	0.17 %
15	Japan	0.00 %

Cattle Total Slaughter by Country in 1000 HEAD

1	China	50,800.00
2	India	38,900.00
3	Brazil	38,810.00
4	United States	33,614.00
5	EU-27	27,330.00
6	Argentina	12,800.00
7	Australia	8,050.00
8	Russian Federation	6,350.00
9	Mexico	6,110.00
10	New Zealand	4,250.00
11	Turkey	4,220.00
12	Canada	3,140.00
13	Uruguay	2,200.00
14	Ukraine	1,934.00
15	Egypt	1,700.00
16	Belarus	1,200.00
17	Japan	1,045.00
18	Korea, Republic Of	880.00

Swine Production Annual Growth Rate by Country

1	Ukraine	9.46 %
2	China	4.64 %
3	Mexico	3.06 %

4	United States	2.32 %
5	Korea, Republic Of	2.12 %
6	Belarus	1.70 %
7	Russian Federation	1.54 %
8	Canada	1.49 %
9	Brazil	0.75 %
10	EU-27	-0.08 %
11	Japan	-0.48 %

Swine Total Slaughter by Country in 1000 HEAD

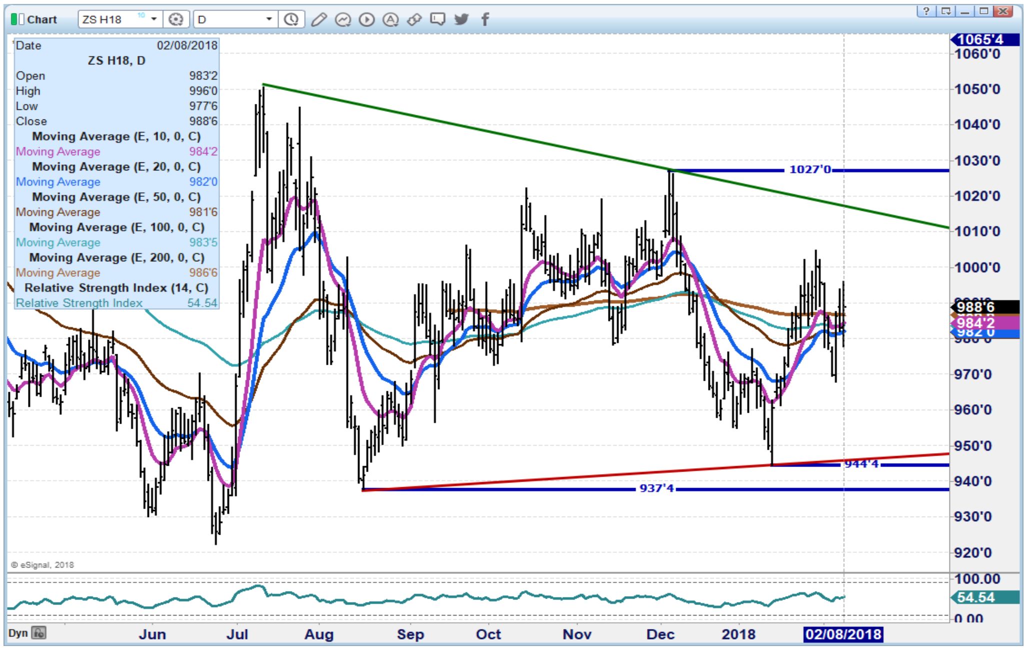
1	China	700,000.00
2	EU-27	258,800.00
3	United States	127,050.00
4	Russian Federation	40,470.00
5	Brazil	39,275.00
6	Canada	22,150.00
7	Mexico	18,890.00
8	Korea, Republic Of	17,200.00
9	Japan	16,300.00
10	Ukraine	8,788.00

Above tables from: http://www.usda.gov/ Year of Estimate: 2018

Near term where do I see prices going? Soybeans for March around $10.40/bushel. At 10.40, with many U.S. country bids 70 to 75 cents under Chicago, the price will be near to the $9.50/bushel area where many producers will or should sell. March corn is nearing a top at $3.70. Several distillers have narrowed the basis to 20 to 25 cents under Chicago.

March 2018 Corn – I use exponential moving averages. As I write on February 8, 2018 at 12:40PM, the 200 day average is $370.5. Corn should move to it. Corn has broken out of the downward channel. A good indicator as moving averages have crossed over with 10 day now over the 20, 50 and 100 day averages.

March 2018 Soybeans – Meal is the driving force for soybeans. A very positive indicator. DDG prices have been moving higher and soy meal prices have been playing catch up to DDGs. The green overhead line on March is near 10:15. Look for crusher to begin to narrow soybean basis. Also, $9.50 cash should be attained in late February. Naturally there will be some talk of a slow down due to the Chinese New Year Holiday beginning February 16th. It could pull prices down for a bit, but it won't last.



Charts as of February 8, 2018 at 12:40PM Central Time and are from eSignal Interactive, Inc.

Give me a call to talk about your trading needs at 312.242.7942 or email me at chris.lehner@archerfinancials.com.

*Week Ending February 2, 2018 from Sterling Marketing, Inc., Vale, Oregon 97918.

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