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Have Corn, Soybeans and Wheat Bottomed?

By Chris Lehner (Jan 26)

For the time being, it sure looks like corn, soybeans and wheat have put in major lows. January 2018 has been a typical spot month for grains and it appears going into February, corn and soybeans may continue to remain off the low side. But, the current rally will be met with profit taking and selling followed by up moves and more selling. It is possible with what we know now, extreme lows have been made and on the other hand corn soybeans and wheat won't move into new highs any time soon. It is good news but not great news for famers. It is good news for speculators because markets are beginning to have some volatility and movement.

Before I get into the main part of my report, I have a question that I have been asked several times and haven't found an official answer. I hope some of you know the official answer. Does the government quarterly grain stocks report use temporary storage such as the polyethylene bags for on farm storage and do farmers claim it if surveyed? Anyone with the answer, let me know.

January has been typical because grains dropped the first week and a half as producers moved January forward contracts, along with producers that normally wait to sell until the new year. As the Quarterly Stocks report showed, grain stocks are high, but with low prices, and with farmers committing late fall 2017 for delivery in January and into 2018 with narrower basis bid, it was obvious after the new year, movement would take place, But, once the initial onslaught of movement was over, there were U.S. buyers that needed to step up and bid more in order to keep supplies on hand.

Some buyers have tightened their basis, mostly for corn as prices have moved up. As markets move into February when grain movement from storage is normally slow, grains might move higher, but soon reports will talk about a slowdown in exports because of the Chinese New Year, the Year of the Dog, that starts on February 16, 2018. Exports are extremely import for U.S. agriculture. Grain and livestock association lobbyists are in Washington DC as I write, meeting with any politician who will listen to them trying to keep NAFTA together. Exports take what can't be used in the U.S. and when there is decent export demand, prices can heat up. When exports are slow, it hurts.

As I have said in the past, I think of exports like gravy on unseasoned and sometimes tasteless food. Gravy can add a richness to even bland and mild tasting food, but if it isn't on the table, eventually the food is eaten. However, no matter how good or bad exports may be, there is going to be grain constantly used in the U.S. and since mid-January, as corn basis has narrowed in many locations, demand has brought corn from its lows and soymeal has certainly helped soybeans.

Over the past year, because of large stocks that anyone buying grain has known is stored, livestock and ethanol distillers have been able to keep minimum supplies of corn and feed as close to hand to mouth as risk management permits. Actually, since distilling began, most distillers may keep up to three months on hand. Of course, they may have it contracted out several months, but as far as physical ownership, they allow farmers the privilege to store it for them and farmers, especially over the past 20 years have accommodated buyers with the buildup of on-farm storage facilities.

Since mid-January as grain movement slowed, distillers and many large hog and cattle feeders have had to narrow basis for corn and because of lower priced forward contracts for soymeal that were purchased late fall 2016, and slow movement of soybeans to crushers along with demand driving up DDG prices, soybean prices have moved up. It is a demand driven market. In one way soybeans are helping corn move up as demand for DDGs goes up as soymeal moves higher. Something like it hasn't happened in many months. When you think about it, when has the positive side of demand entered into grain markets? It is now.

Livestock production in 2017 increased and around the world and it is expected to increase in 2018. For instance, in 2017 cattle slaughter, according to USDA daily slaughter reports, was up 5.7% above 2016 and hog slaughter was up year to date over 2016 by 2.7%. As the year progressed in 2017, cattle weights increased, which increased feed consumption.

It is common knowledge that worldwide ethanol production is increasing as China build distilleries and Brazil is quickly moving from cane based ethanol to corn based ethanol.

Personally, I feel, the move higher has to do with demand rather than weather conditions in South America, especially Argentina. If last year's weather stories weren't enough fiction versus facts, hopefully anyone trading has learned, genetics and exceptional farm management practices have done so much for production. Weather stories need to be questioned for accuracy. They excite, people who like talking about the weather, but when true valid weather conditions drastically has an effect, reports won't have to report about it. It will be obvious and not a generated condition to fill paragraphs on a report.

Since my last report, about three weeks ago when I suggested corn had bottomed, and now as I look at a demand driven market, it also has to be realized, this is not a bull market, and selling will take place. After all, corn and soybeans are still in a large carrying charge market and buyers still want to push off sales into the summer.

Unfortunately, exporting corn is running into big competition in the U.S. A cheap dollar certainly is good for exporting agricultural commodities, but it is also good for all U.S. products. Transportation costs from trains, barges and trucks are truly feeling the effects of U.S. goods moving out of the U.S. Freight brokers are in huge demand.

Do you want to know where I think grains will top? Send me an email at Chris.Lehner@archerfinancials.com with your phone number, address and name and I will send my report with charts and analysis.

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