



Is Soymeal Showing Soybeans Soon Will Bottom?

By Chris Lehner (July 10, 2018)

There are times when markets move in volatile, big erratic moves, and you can bet your last dollar that speculative money is doing it. Soybeans are a good example.

Are farmers dumping beans into the market? Of course, they aren't. The basis has been wide since last harvest, remains wide and it is a strong reason the last Grain Stocks report showed US farmers carried 26 percent more soybeans than they did the year before.

Yes, there are farmers delivering soybeans now but mainly it is on July contracts that were done at harvest when they took advantage of the carry being offered and improvement on basis to deliver in July over fall delivery. No doubt, there may be a few farmers that are panicking or being pushed to sell to pay loans, but not enough to fill a thimble. Normally, by the second week of a contract month delivery is over and movement comes to a halt.

Beans are volatile now and being pushed lower because big money is following the path of least resistance. After all, nobody is knocking down doors at US ports to buy US beans with exporters taking Brazilian beans and users in the US are buying hand to mouth. Also, there are enough small bulls that give big bears something to eat.

However, there is a positive bean fundamental that few seem to be watching

Soy Meal is beginning to look friendly. Traders have been bull spreading meal. They are buying the front months and selling into late 2018 and 2019. When most people look at a bull spread, they think the opposite because months in the future are less than months nearby. But the easiest way to look at a bull spread is that a buyer is wanting a commodity in the present or nearby and they will worry about buying it in the future. Demand is stronger in the front than it is in the back. There is no carry. Crushers aren't accumulating meal and needing to extend the carrying charge and can sell it for more in the present. Bean oil barely has a carrying charge, so it appears they are even getting rid of oil. Crushing for meal is good news and when there isn't an extended carry on oil, it is even better news.

Whenever I write about spreads, I am told how spreads seem too complicated.. Face it, a lot of big traders like spreads. Quite often traders may have futures on throughout the day, long or short, and near the close spread off. Sometimes it is quite easy to see it happening during the last five minutes of the day. Algorithmic programs are often spreaders because spreads are about the differential, not two prices, but the difference of two prices, a number that is to put into a mathematical program.

Traders have been bull spreading meal since June 6th. For example, since June 6th October 2018 soy meal to December 2018 meal was \$1.70 under December and as of the close on July 10th at 8:00AM central time, October meal was over December by 1.80. Traders are bull spreading meal months starting with July 2018 through July 2019.

The current margins on soy meal are initial at \$1815.00 and maintenance is \$1650.00. Spreads are \$440/\$400. It is easy to see why a trader would spread. At current spread margins, a speculator could have 4 spreads to one futures. Four spreads initial margin would be \$1760.00.

With spreads often less volatile, but far from always, it only makes sense for a money manager, large or small to use spreads especially when users are likely buying hand to mouth.

On the chart below, it is noticeable how volume has increased since June 6, 2018

LONG OCTOBER 2018 SOY MEAL/SHORT DECEMBER 2018 SOYMEAL CHART AS OF 8:00AM CENTRAL TIME JULY 10, 2018



Chart provided by eSignal Interactive.com

A friendly meal market often indicates a bottom is nearby in soybeans. However, if crushers crush only for meal and can't sell soy oil, since oil needs hard sided storage, if too much oil accumulates, oil can become an anchor for soybeans. But now, there is just a slight carrying charge for soy oil that indicates, crushers aren't having a problem moving oil. Now, may be when problems with Argentina's growth could be affecting the market.

Do you take advantage of spreads? Are you even looking at spreads? If not, open an account with me at [Open An Account](#) and look at various trades from futures, spreads and options.

Email me at chris.lehner@archerfinancials.com or call me 913 787 6804 with any questions. Thank you.

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