<u>Is Weather Really Moving Corn and Soybean Markets?</u>

By Chris Lehner (July 14)

If you want to believe grain markets rallied because of weather, concern crop yields will be lowered and demand will increase, you may be mistaken, especially if long.

However, cash grain buyers are telling another story and after all, cash grain buyers are what moves grains and pays the producer.

Thanks to the internet, finding cash grain prices across the U.S. is as easy as throwing a dart at a map, getting the zip code of a rural town or a large city where the dart hits and where grain is bought. For most areas, you can find cash grain bids for old and new crops.

Since South Dakota is having some of the very worst growing conditions, an out and out drought on many farms, I checked Yankton, South Dakota. It is on Missouri River, the eastern edge of South Dakota, right above Nebraska and near the border of Iowa.

Yankton has several ethanol distillers within 20 to 100 miles, concentrated hog production, cattle feedlots, feed companies and interstate road systems, north to south and not far from it interstates going east to west. Farmers within 50 miles of Yankton have competitive bids, especially compared to farmers 150 to 200 miles west and north of it where it is very dry and basis is as bad or in some cases worse.

Because of drought in South Dakota and competitive bidding, it is natural to think cash basis would be decent, even strong. However, it isn't what is happening. In fact, basis stinks for old crop and new crop.

It is as if grain buyers are looking out completely different windows than farmers are looking out. As I write on July 13, 2017 around 10:00 AM central time, cash basis bids for old crop corn range from -.63 to -.69 and for new crop corn it's -54 to -61. For old crop soybeans, it ranges from -.77 to -96 and for new crop the range is -.88 to -.94. Over the past two weeks as grains have rallied except for a few areas, Indiana for one, basis has been widening out for corn and has consistently stayed wide for soybeans. Of course, there are some exceptions. When a basis is almost $1.00 below the futures, it sure doesn't make for an argument that buyers are worried dry hot weather is concerning them about getting crops. Actually, it says if a farmer is willing to sell, they take what they get or leave.

Another way to see how cash buyers are buying is to look at the carry. Currently, buyers are trying to put corn off now and for new crop. Corn at the CBOT is at a full carry. The rule of thumb for carrying charges are; corn is 3 cents/month, wheat is 4 cents/month and soybeans are 5 cents/month. As I write, the price on July 2017 corn is 365.75 and September is 375.75 or 10 cents. At 3 cents with half of July gone, the carry to September would be 3 cents plus 1.5 cents or 4.5 cents. At 10 cents, it says buyers are willing to pay 5.5 cents more not to sell it now. From September to December the carry as I write is 14 cents. The normal carry is 3 months at 3 cents or 9 cents. At 14 cents, buyers are paying more not to sell old crop or any early new crop. Often by September, buyers want fresh new crop because old crop has been moved and there is often a gap between supplies, but not this year with old crop corn stocks on June 1, 2017 totaling 5.23 billion bushels, up 11 percent from June 1, 2016 – from the USDA Grain Stocks report June 30, 2017. From December 2017 to March 2018 the carry on the CBOT is currently 10 cents or 1 cent more than what is 3 cents. Actually, the simple carry for corn (price of corn times interest rate/12 = carry) or $3.66/bushel X 4.5%/12 = 1.37cents/month using a good operating loan of 4.5 percent. Add in insurance, the cost of storage at a grain facility or cost of the storage bin on the farm and other incidental costs such as any damage to the corn while stored and labor costs to move corn or grains in and out of storage, unless a farmer thinks his time has no value. Full carrying charges for corn are more likely close to 3 cents now.

The point I am making; when grain buyers are bear spreading, the name implies it. They don't want the grain unless the farmer is willing to take the basis and if at all possible, they are willing to pay the farmer to store it. They hope the farmer falls for the carry and thinks it looks bullish to pay more into the future and if pricing it, they hope farmers store it so they don't have to take ownership.

I am not saying corn and soybeans or spring wheat this year hasn't had a reduction in yields. I am not saying national yields especially in the Northern Plains won't be hurt because it is hot and dry. After all. I live in Kansas City and driving by a bank one evening three weeks ago I saw the time and temperature and thought at first it was 9:10PM when it was really 8:25PM and the temperature was still 91 degrees. As I reported last week, I recently drove from K.C. to Virginia and I saw how crops were growing across the country and I know there are fields of corn and beans that won't be trend line, but I also saw a lot more that will be way above trend line.

What I am pointing out now is the way grain buyers are viewing the market. With a wide basis and full carry, buyers aren't knocking on doors wanting to buy grain. Currently buyers are controlling grain prices the way they are willing to buy, and now it isn't bullish.

Open an account and get my recommendations and strategies. Call 913 787 6804 or email me with your phone number at chris.lehner@archerfinancials.com and I'll call you.