Corn and Crude: Shifting Market Dynamics

By Matthew Krupski (July 21)

Corn and Crude Oil futures have more in common than the letter C. These two commodities have become more correlated as ethanol use has increased in recent years. However, going forward the most important drivers of price in both the crude and corn will be the health of the global economy.

Both corn and crude oil have benefited from technological advancements in their respective industries. In crude oil, fracking technologies have expanded the production capabilities of oil producers around the world. In 2008 the U.S. was producing about 5 million barrels of crude oil per day. Yesterday, the EIA reported that 2017 U.S. crude oil production will average 9.3 million barrels/day and project almost 10 million barrels per day next year. While OPEC has attempted to support crude oil prices with production cuts, non-OPEC nations have been steadily increasing production and I anticipate that this will continue. The OPEC nations could respond with production increases to maintain market share.

Similarly, global corn production has been steadily increasing yearly. Advancements in seed technology have resulted in hardier crops and increasing yields, and global acreage continues to expand. Over the last 10 years global corn production has increased from around 700 million metric tons in 2006 to over 1 billion last year.

Historically, weather shocks and OPEC actions could dramatically affect the supply of corn and crude respectively, and therefore prices of both of these commodities. However, the recent technological advancements in these industries have made the supply side of the supply/demand equation much more reliable. With the supply side of both of these commodities more stable, demand becomes much more important. The most important driver of demand is the overall health of the global economy. If the global economy expands at a healthy rate, the demand for both of these commodities will continue to grow. If global growth suffers, prices for these commodities should suffer as well. Going forward, typical measurements of economic growth: GDP, unemployment, even company earnings could have more influence on the prices of these commodities than we have seen historically.

As always, remember that futures and options trading is not suitable for all investors. Consult a qualified professional to determine the suitability of any trades for your situation. My many years of trading futures markets does make a difference. Feel free to call or email me if you have any questions or would like to open an account. Contact me at 312.242.7978 and matthew.krupski@archerfinancials.com.

Go to our interactive New Account application at Open an Account. It is fast, saves on postage and it’s green.