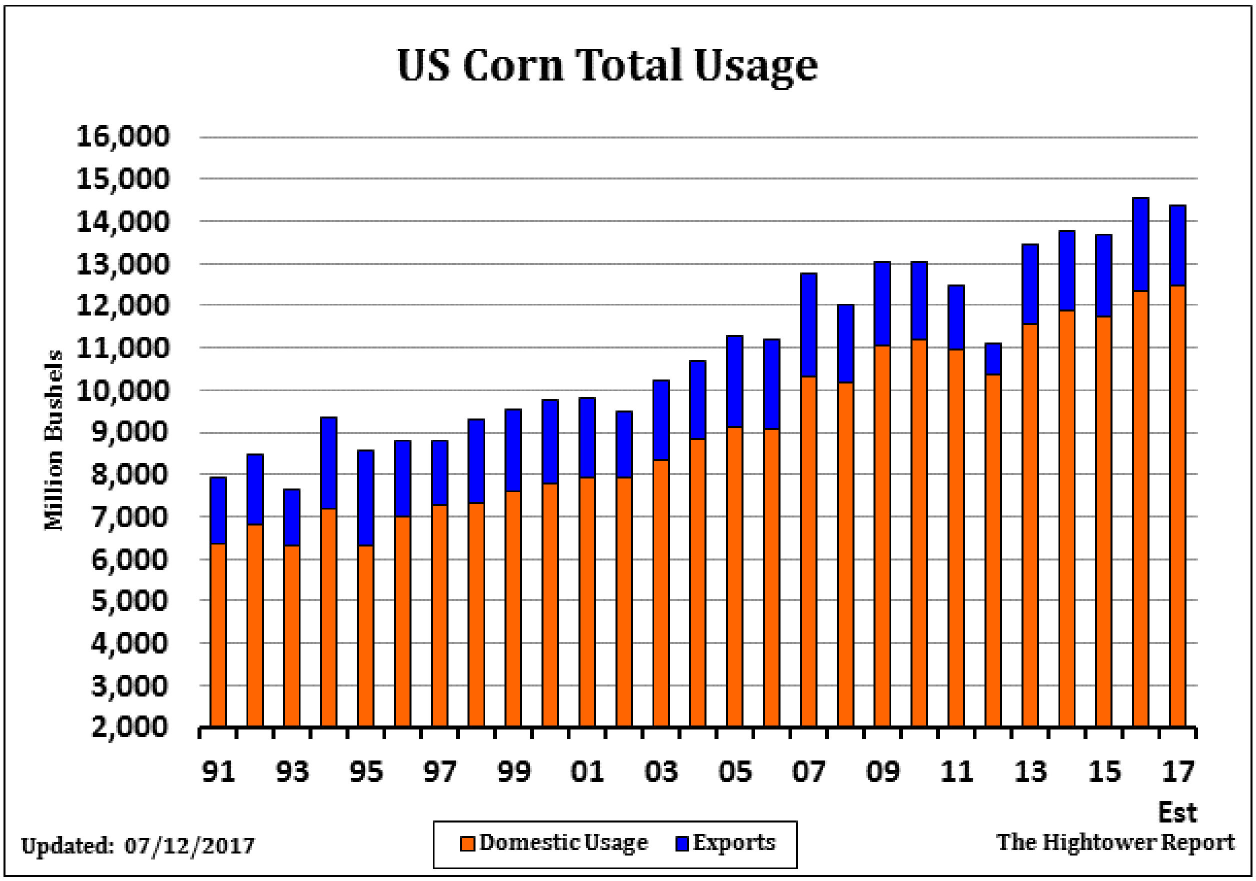
Archer Financial Services, Inc.

CORN: FACTS VERSUS FICTION

By Dennis Smith **July 20, 2017**

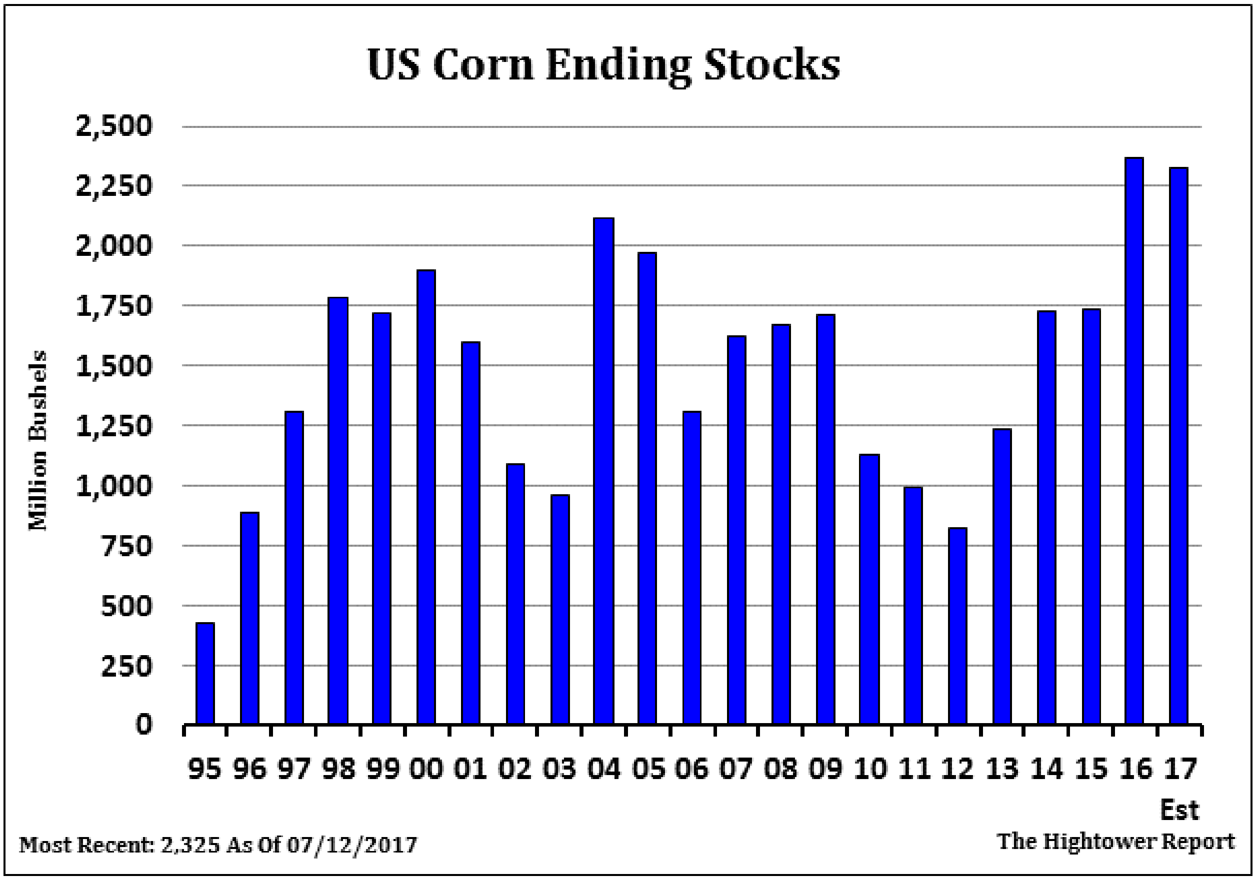
Today's article will first look at the "corn facts" and then look at the weather and crop prospects with a price target and trading strategy in place.

Fact Number one: Total corn projected usage for the crop currently developing is lower than demand for last year's crop. (See the bar graph below).



Fact Number two: Current corn demand (for old crop) is being revised downward resulting in bulging ending stock projections for this year.

Fact Number three: Ending stock projections remain historically large at over 2.3 billion bushels as demonstrated in the bar graph below.



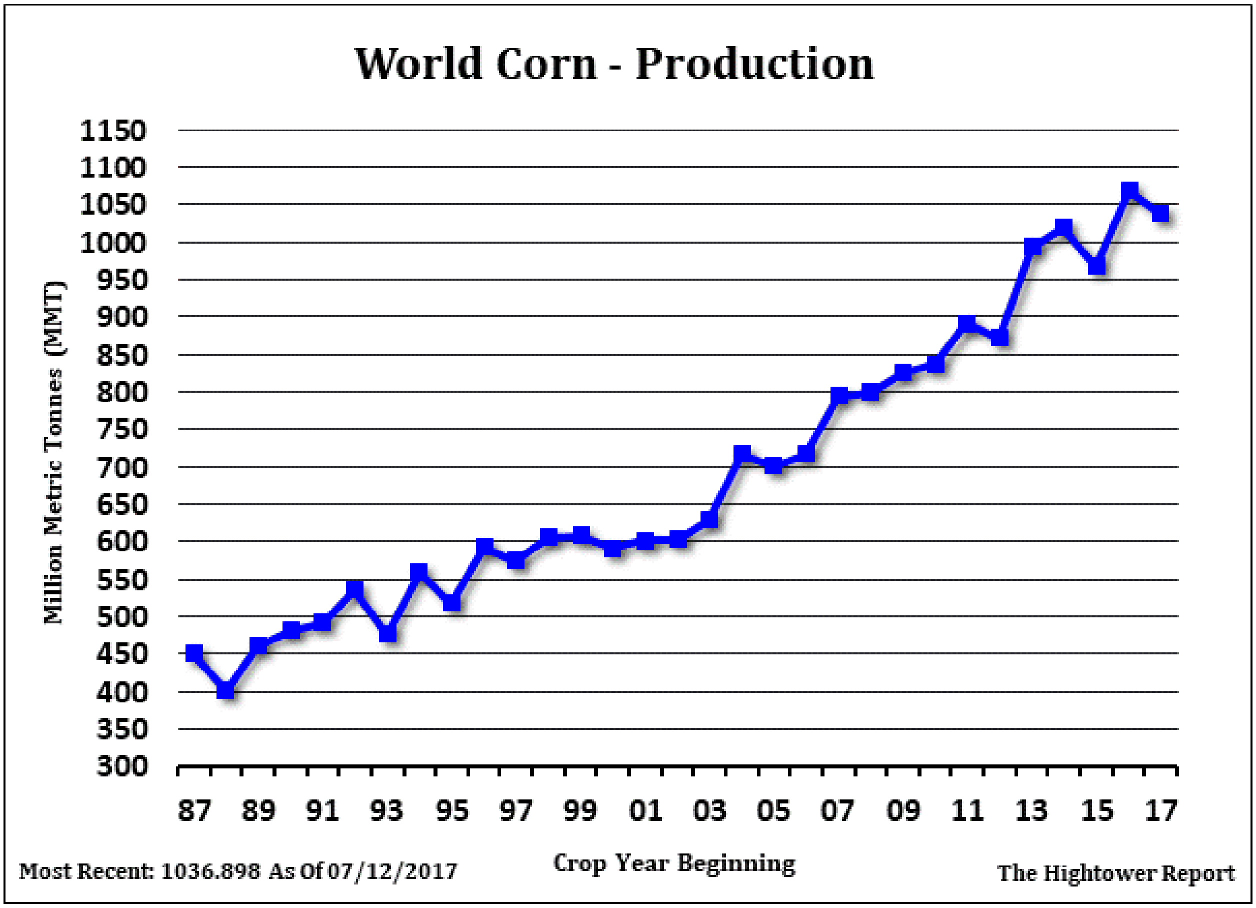
Fact Number four: According to data provided in the June 30th stocks report, U.S. producers were holding 2.8 billion bushels of corn in on-farm storage as of June 1st.

Fiction Number one: The developing crop is a disaster because good to excellent ratings are substantially below last year.

Fiction Number two: Corn prices need to move higher to sharply higher because the national average yield will come in below trend line.

Fiction Number three: Normal weather in the Midwest does not make good crops.

Fiction number one pertaining to yield is suggesting we need yield to be at trend line or higher to prevent prices from going higher. Last year was an exceptional year with above trend line yields. With a huge ending stock figure of 2.3 billion and with producers still holding huge old crop stocks, prices do not need to move higher in the face of below trend line yield. The market is demonstrating this. Corn prices this week are twenty cents lower than the highs from last week despite the fact that condition ratings have declined. Fiction number three is suggesting that weather must be perfect to produce a good crop. In fact, I'd rate this year as a normal weather crop year, which means rain showers somewhere every three days, some areas consistently miss out on rains and at some point it gets hot for a period of five to ten days. This is a normal pattern and normal weather makes for a good (but not excellent) corn crop. Currently 13% of corn acreage is experiencing drought. Subsoil moisture is available to all of this acreage with no drought areas starting out the growing season. This tells me that drought areas that do not experience long periods of excessive heat will still produce a better than expected crop.



The last thing we need is trend line yield in corn. The above graph shows world corn production barely edging down from all-time highs last year. The world is awash in corn. When U.S. stocks and world stocks are large, prices need to move lower, not higher in order to increase demand. Currently, demand for the developing corn crop is lower than last year's crop. Prices need to move lower to sharply lower, not higher in an effort to increase the demand base for this crop.

We bought September $3.70 corn puts last week on the sharp rally and we've added to this position this week on the rally. The upside is left open. We have not spent any money on calls. It's my opinion the corn market will be resolved to the downside by the end of August. My current downside target is $3.32.

My many years of trading futures markets does make a difference. Feel free to call or email me if you have any questions at 312.242.7905 and dennis.smith@archerfinancials.com.

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