Archer Financial Services, Inc.

Are You Buying Corn?

By Chris Lehner (July 6)

US corn crop ratings drop a percent but, it is ahead of what normally occurs the first week of July. Many farmers from Ohio to Nebraska have said they have fields that are already pollinating. Corn silking was more than double the five year average. So, there should be no doubt pollination is ahead of time. The concern over the next couple of months will be how corn fills out. Being ahead of normal conditions isn't always the best situation. Ask farmers who had it maturing a month earlier than normal in 2012.

No doubt, there will be analysts, brokers and producers talking about high temperatures or where there has been day after day rains. But as I have pointed out in the past, where areas get too much rain, but like a circular target with the bulls eye in the middle and circles surrounding the center, the larger areas outside of the center with too much rain benefit.

Across the Midwest dew points are high and thunderstorms, often with heavy down pours, are fairly common occurrences. Yes, there are areas that need rain, but I can't recall a year when some area doesn't need it, where it is too much or where it is ideal. During the drought of 2012, the majority of the Midwest was dry, but farmers in Wisconsin and Minnesota were hoping cameras didn't travel onto their farms. They had rain when many farms in Iowa, Illinois, Nebraska and Indiana went weeks without it. There are areas that need some rain, but for now, crops look very good.

Speaking of 2012, many traders claim the drought was the reason for the rally. However, corn bottomed on June 30, by August 31, it was up $1.00/bushel and by November 9th, it was up from the low $2.61 ¼ .The low on June 30th was $343 ¾ and the high on November 9th was $6.05. It didn't rally because of a bad crop, it rallied for a couple obvious reasons..

First, US farmers in 2010 sold what was carried over from 2009 and new crop corn every time it reach $4.00. The saying, you can't get hurt selling $4.00 corn was repeated so often even if a farmer wanted to hold it, selling $4.00 corn was so imprinted into thoughts, they had to sell. By the end of June 2010, it was estimated over 80% of new crop corn was sold or hedged.

Secondly, and more importantly, China began buying corn and DDG's from the US like there was no corn available in 2010. They were pushing to complete a stockpile to meet government requirements set forth several years before 2010. At the time, I often wrote, if the US had not sold the majority of the DDG's to China, corn wouldn't have rallied as fast so soon. But eight years ago, DDG's in the US were still getting poor press especially from some of the livestock feeders particularly hog producers and poultry industry. By 2012, and because the ethanol industry was pushing for corn, the press became front page with livestock producers angry over food going for fuel. They should have been angry they weren't buying DDG's with its high value feed energy like they buy it now.

<u>Demand is going to drive corn prices higher in 2018</u> and for a few years ahead. I am amazed how little news is said about China by 2020 having all new cars using 10% ethanol. It is about as little news of the buildup of the ethanol in Brazil moving from cane based ethanol to corn

based ethanol. One obvious reason Brazil is investing in corn distilling versus cane happens because corn in many areas of Brazil can be double cropped.

When investors are interviewed in Brazil and asked why they are building corn based distillers, they naturally talk about the profit potential of ethanol but in the same breath they talk about potential profits in DDG's and CO2 which they call co-products versus calling them bi-products. About one third of the CO2 used in the US is from corn distilling and is used for beverages, dry ice, oil recovery/fracturing and medical uses. Much of it is exported. It is one of the highest grades of CO2 because of the few impurities. But for some reason, DDG's and CO2 in the US are referred to as biproducts. Anyone feeding DDG's in the US knows DDGs are far from bi-products. Fact is that there have been soybean crushers that have closed over the past five or more years because DDGs are in direct competition to soymeal.

But the strongest fundamental that will face users of corn and why the cash basis in many areas has begun to slowly tighten and will tighten once July contracts are fulfilled is usage gaining over production. Already we are seeing weekly inspections and exports pick up and throughout the summer, exports will likely increase. But check out the table below from 2016/2017 with projection for 2018/2019. World ending stocks are expected to decrease by 32.12%, with Brazil decreasing by 37.80%, United States down by 31.21% and China falling fast by 39.92%. By 2019 China's ending stocks will be close to what the US had two years previous. When China produces more than five times the hogs compared to the US along with increasing dairy, aquaculture and beef industries and quickly building distilleries, they will buy corn. (Soybeans are another story or better said, buying soybeans from the US will be the difference between corn and soybean demand.)

ENDING STOCKS OF CORN IN MILLION METRIC TONNES - June 12, 2018 USDA WASDE Report

	WORLD	ARGENTINA	BRAZIL	UNITED STATES	CHINA
2016/17	**227.89**	**5.28**	**14.02**	**58.25**	**100.71**
2017/18 Est.	**192.69**	**3.48**	**8.52**	**53.40**	**79.55**
2018/19 Proj.	**154.69**	**5.49**	**8.72**	**40.07**	**60.50**

Technically, corn appears to have bottomed. I recommended buying futures or buying September and December call options with stops below the trendline. The trendline loses about ¼ cents each day.

Barring any new tariffs, corn bottomed at $3.58 ½ on July 2nd. From past reports you may have noticed, I use five different exponential moving averages (EMA). Corn traders have used the 10 day exponential moving average as a selling opportunity and since May 29th any month of corn futures have not closed above it. Soon it will. A close above the 20 day EMA and above $3.80 ½ is a definite buying opportunity because it would be over the three day highs at 3.80 ½ 3.80 ½ and 3.80 ¼ from June 21st -June 25th. A close below the low trendline should stop out longs. Clients call me or broker for daily recommendations. Livestock and users should buy corn and meal needs though 2018.

DECEMBER 2018 CORN AS OF 7:20AM Central time July 6, 2018

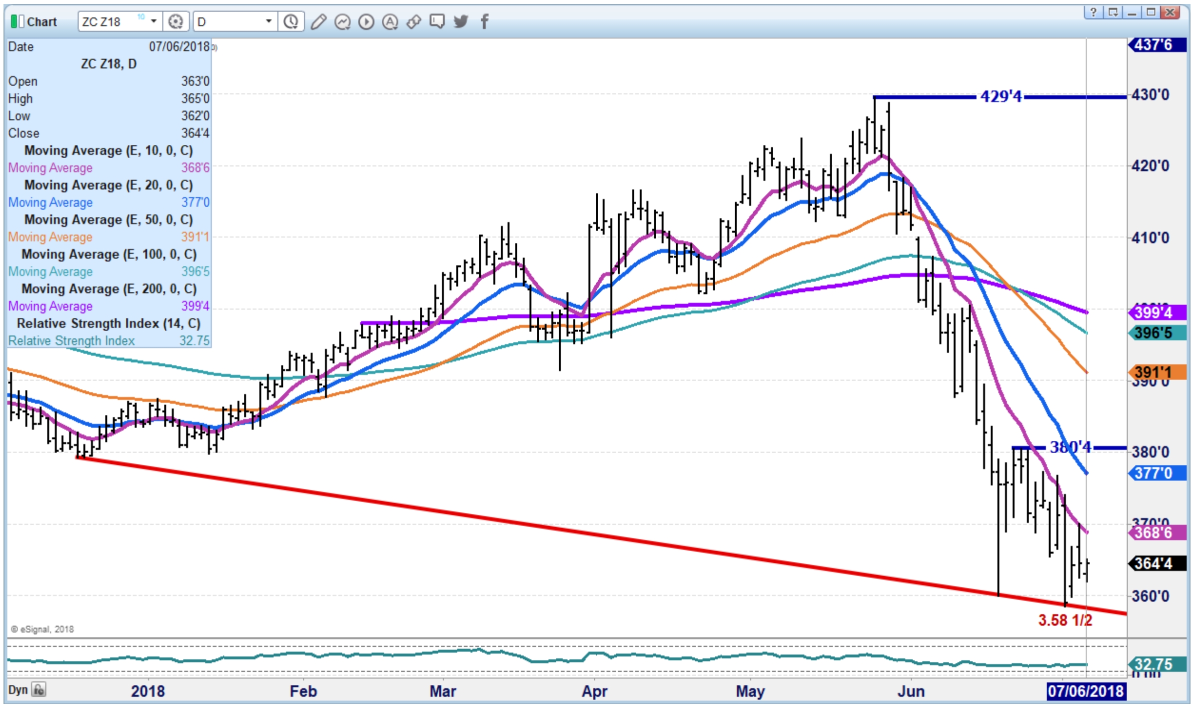

CHART FROM eSignal Interactive, Inc.

Soybeans

Soybeans may be forming a bottom but could break to the $8.28 to $8.29 level. As I write after the close on July 5th, November 2018 soybeans settled at 8.49 ¼ . I am not bullish beans but even a dead cat bounce back to the $9.05 to $9.10 level is very possible. Soymeal has been bull spreading which is a plus for soybeans, but soy oil and soybeans have been moving to full carry and have been bear spreading. Meal could be telling us it has bottomed, and users should be using bull spreads as a method to buy usage out six to nine months.

I will have another report on soybeans in a day or two, but I quickly want to point out, the tariff war isn't the only reason soybeans have dropped. Far from it. I am not a fan of President Trump, I don't feel proposed tariffs are good for the US but the US farmer planting more soybeans than corn this year on top of a record Brazilian crop, getting suckered into believing the reduced Argentine crop was world-wide bullish and not taking advantage e of rallies up to $10.60 ½ should seriously ask themselves why soybeans have dropped. The week before soybeans topped I advised in tow reports to sell soybeans. The calls and emails I received telling me I was wrong didn't surprise me. It surprised me on the June 29th when the Grain stocks report showed US farmers were holding 26% more soybeans than they did the previous year after two previous years that also had rumor stories that shot up soybeans in the winter and early spring. Personally, I would like a good rally in soybeans, but don't expect one like I do in corn.

Of course, many things can happen between now and the fall before combines roll across fields. New buyers outside of the tariff war zone can become buyers. Weather from heat to lack of rain to frost can cause severe damage. As the saying goes, corn is made in July and soybeans are made in August but maybe this year we should move that up a couple of weeks. But with what we now know, count on corn and stay tuned in for soybeans.

Call me at 913.787.6804 or email me at chris.lehner@archerfinancials.com with any questions or go to our interactive New Account application at Open An Account if you would like to open an account with me. It is fast, saves on postage and it's green.

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