Archer Financial Services, Inc.

Can't Get Hurt Selling $4.00 Corn

By Chris Lehner (June 13)

In 2010 U.S. farmers repeated "You can't get hurt selling $4.00 corn." It became a mantra that seemed to relax farmers as they heavily sold old crop stocks and new crop during June. Look for heavy sales near $4.00 cash.

Corn has been following soybeans from the last week of May up to Tuesday June 12. With soybeans dropping on the July 2018 contract from $10.50¾ on May 24 to $9.52 on June 12 as the date I am writing, June 12, 10:15 AM central time, corn was bound to move lower, especially since much of the drop was due to planting ahead of the five year average and growing conditions that have been much better than most traders expected in the first two weeks of May.

However, for the same reasons as I reported on May 16 in the commentary "Is Corn Beginning to Rally?" corn has fundamental demand strength, along with an outlook for diminishing supply.

The WASDE Report on Tuesday June 12 for U.S. and global supplies basically sums up corn reporting lower ending stocks for both the U.S. and globally. In all actuality it shouldn't be a surprise, farmers throughout the northern hemisphere, when they weren't even finished with last year's crops, said they were going to plant more soybeans. Also, month after month U.S. ethanol usage is up and ethanol distilling is growing in Brazil and in China. I have reported several times China, by 2020, wants new cars to be at least 10 percent ethanol blend.

U.S. ending corn stocks have been dropping at an alarming rate. Ending stocks in 2016/2017 were 2.293 million bushels for 2017/2018; ending stocks were 2.102 million bushels and now estimates for 2018/2019 are 1.577. In two years, 2016/17 to 2018/19, U.S. ending stocks will be down a little over 31%. As the report indicated, the projections are tentative. Currently, corn in the U.S. is growing in the majority of the Midwest like a weed. If there is a change during July with high temperatures and less rain, this is a year where it could definitely affect price. As the adage goes, corn is made in July and beans are made in August.

As I reported in May, Chinese usage is going to grow over the next three to four years, drastically reducing stocks. We also have seen over the past year ethanol production increasing and cattle moving to feedlots in Brazil that use more corn. World hog and cattle production is up.

So far, weekly U.S. hog federal slaughter year to date is up 2.9 percent and cattle production is up year to date 3.0 percent.

Fundamentally, the WASDE report was good news for corn, and Tuesday traders were buying corn, but many were buying as they were liquidating short positions. As the first paragraph of the report said, some of the data might be changed because planting wasn't finished when the report information was gathered in the Northern Hemisphere and it will be several months before we know what will be planted in the Southern Hemisphere.

At this time, it is also too early to say a technical low has been made for corn. The January 12 low may still be a target. As the chart below shows, there is a gap from $410 to $4.11. With the wider than normal basis, look for farmers to do Hedge to Arrive contracts at the gap and wait to lock in basis at the time of delivery. Farmers may also consider using the March 2019 corn contract with a gap at $4.18 ½ to $4.19 ½ and to take the basis now that many buyers are offering with a narrower basis in 2019.

It should also be remember that U.S. farmers are no longer the bread basket to the world and just a slice off a very big loaf. China does not support corn prices and farmers throughout the world will be using strength off recent lows as opportunities to sell.

December 2018 Corn as of 1:15PM June 12, 2018 – Look for farmer selling at gap from $4.10 to $4.11.

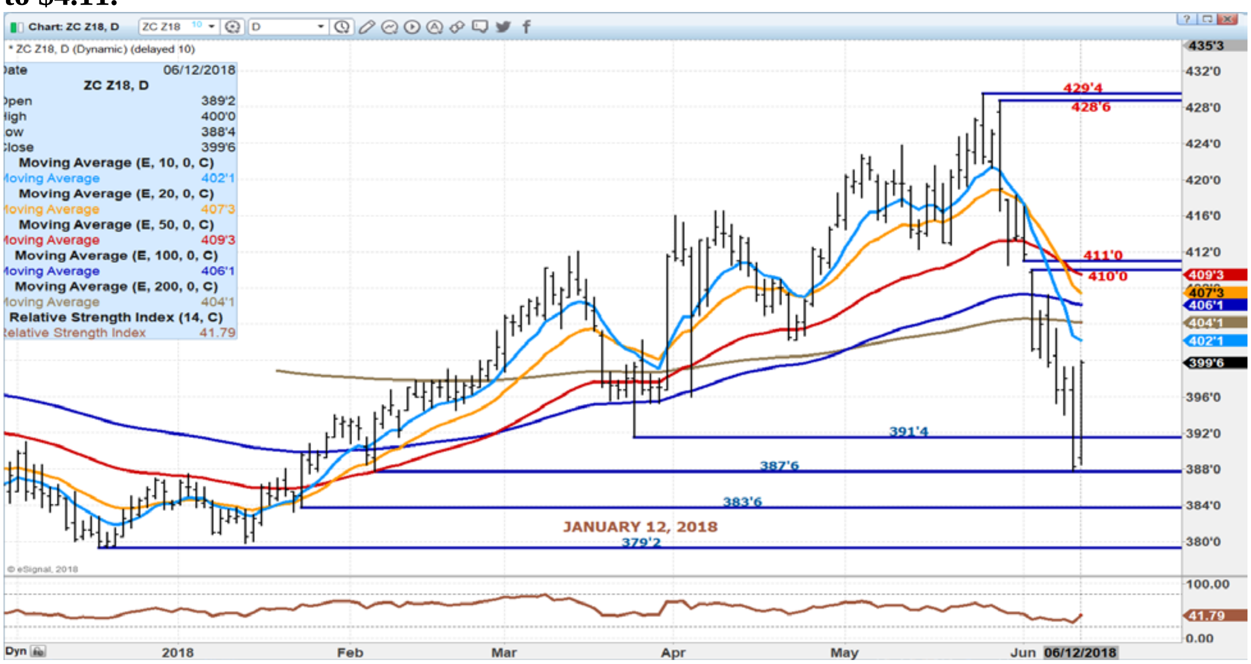

Chart from eSignal Interactive Inc. at 1:15PM Central U.S. time June 12, 2018

Another eye opener in the report should be the Brazilian soybean crop raised up to 119 million metric tonnes. A year ago Brazil moved soybeans steadily throughout the summer into late September. But with ships scheduled for the U.S., Brazilian farmers were forced to store. It is well known that China over the past year has bought more soybeans from Brazil than they have from the U.S. and they will again this year. Last year Brazil didn't schedule enough ships. They learned a lesson. I seriously doubt they will have the same problem this year except for the last two month's increases of 4 mmt.

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