Archer Financial Services, Inc.

Upside Breakout in Corn Fails

By Patrick Garrity (June 16)

The corn market finally broke out of its trading range to the upside only to falter rather quickly. The trade was focused on dry weather and extreme heat that was moving into the Midwest last weekend and the early part of this week. Many bullish traders assumed that the funds would come out of their enormous short position, but they only lightened up slightly. There is a common misconception that the funds are not very educated in their trading. Some traders will look at the fund position, believe that they will be wrong and have to liquidate their position in due time. I think the funds are well educated and always have a keen sense of what the fundamentals are saying as well as the chart patterns. I do not think that making a trade based off of a funds extreme position is a good move.

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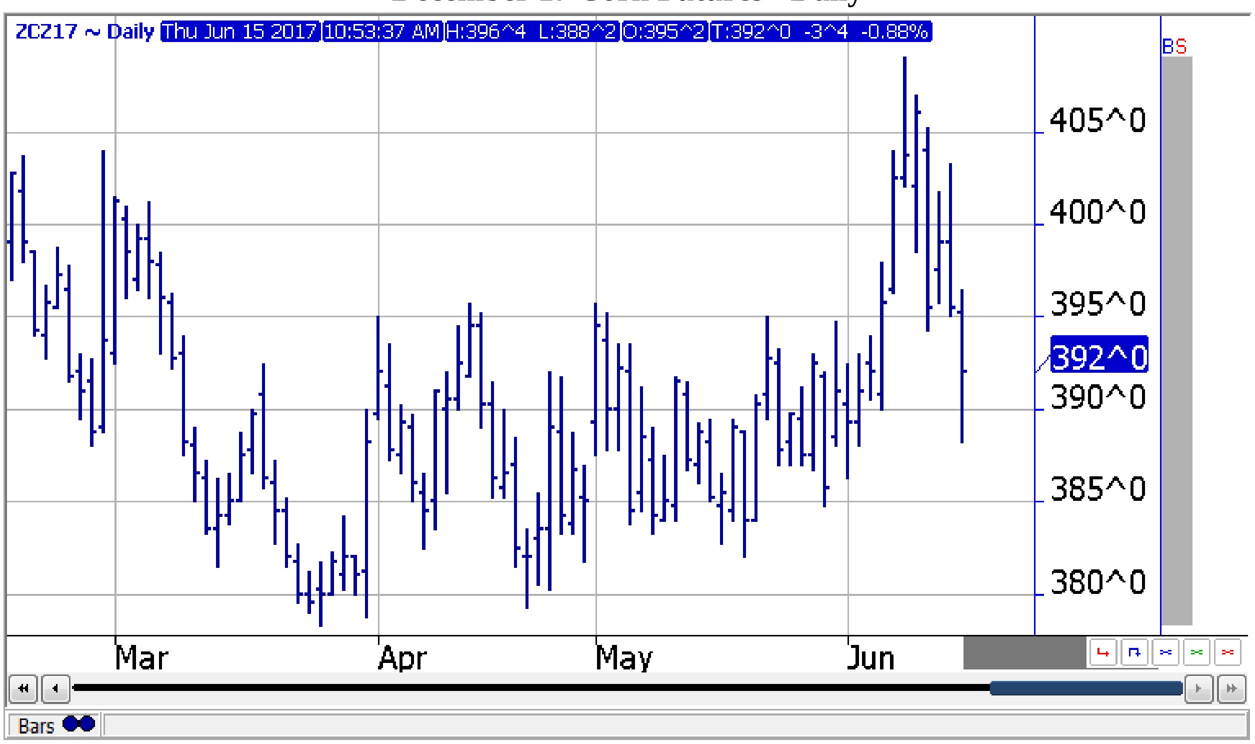

Chart provided by QST

The extreme heat did roll through the Midwest as predicted, but since then we have had some rain follow that helped to limit the concern. Also, the 6-10 day forecast has cooler temperatures and has included additional rainfall. The market optimism for a weather problem has eased and I think you have to start thinking about the abundant supply. The U.S. corn crop has had consecutive good growing seasons where there still remains plentiful old crop corn available. This coupled with a massive crop in South America should hinder any type of major rally. The corn crop has never been ruined in the first week of June and the 15 cent bounce last week was a gift to the producer. The smart producer was selling the highs of late last week and early this week. When the trade was stuck in the $3.80-$3.95 range for the better part of three months, we were hoping it could bounce to $4.00. Anything above $4.00 should be an area where the hedger needs to sell because without a weather catastrophe the worldwide supply will just be too overwhelming.

The Minneapolis hard spring wheat has gained $1.00 in the past month and the surprising thing is that Chicago wheat didn't really follow. The Chicago wheat has been stuck in a $0.30 cent range in the past two months. When you saw the hard wheat make that move, one would envision it spilling over into the Chicago wheat board and supporting corn as well. That has certainly not been the case. Chicago wheat has a similar story to the corn, as the glut of supply is just too enormous from a world standpoint to make a significant move higher. The corn market can look to the export market as a potential catalyst, but so far this year they have only been average and in line with the USDA estimates for 2017.

I think that producers should look to continue to establish hedge strategies near $4.00 and above. I do not think the corn market can sustain a bounce above $4.00 for very long as the supply will continue to weigh on the market and the weather looks to cooperate over the next two weeks. Even if an average crop is yielded this year, I think that is negative towards corn prices because of the massive world stocks and amount of old crop corn available.

My many years of trading futures markets does make a difference. Feel free to call or email me if you have any questions at 312.242.7908 or patrick.garrity@archerfinancials.com.