



## Soybeans: Bears 3, Bulls 1

By Chris Lehner (June 6)

Bears have three solid reasons to sell and bulls have one reason to buy. Bears are ahead, and it is easy to see why.

### **In no particular order the reasons bears are selling soybeans;**

- Production and growth rate
- Spreading
- Merchandising

Over the past few months, U.S. new crop soybeans from November 2018 into 2019 have been the tail of the dog trading on low volume following the direction with U.S. old crop and South American new crop price movement. But with November soybeans reaching 10.60/bushel on April 2<sup>nd</sup>, 10.59 <sup>3</sup>/<sub>4</sub> on May 24<sup>th</sup> and 10.60 <sup>1</sup>/<sub>2</sub> on May 29<sup>th</sup>, along with planting progress and emergence ahead of the five year average, producers hedged and forward contracted, especially when and where \$10.00 cash was available. With the realization that U.S. farmers planted more soybeans than corn, combined with the 117 million metric tonne crop moving to market in Brazil, there are very few hedgers or speculators that want to argue a bull market.

### **What about Argentina?**

For months, the market has known Argentina's crop was subpar. It is the fundamental reason soybeans bottomed on January 12, 2018 and rallied \$1.35/bushel. But with Argentina that had and still has some of last year's old crop yet to sell because of high export taxes that are decreasing monthly by a <sup>1</sup>/<sub>2</sub> percent, the likelihood of Argentina moving soybeans early in 2018 was small when they could have hedged early in 2018 for better prices late in 2018, or early 2019 and paid far less taxes netting at least 50 cents more per bushel, plus the carrying charge. (You may recall, this was explained in a report several months ago). For those that may not have read the report or can't recall, during January export taxes on soybeans in Argentina were 18%. Each month a half percent is deducted over the next two years.

Current soybean FACTS are bearish. Throughout the summer who knows what Mother Nature may bring? Buyers and merchandisers now are bear spreading, concerned about too big of a crop at harvest. Bear spreading as the term implies is bearish. When buyers, the ones who write the checks and who can change the basis are bearish, that pretty much sums it up.

How do we know buyers are bearish? They are spreading the carry as beans move into the future to encourage sales at dates in the future versus at harvest and for old crop, which are also Brazilian soybeans. The normal or rule of thumb carry for soybeans is 5 cents per month.

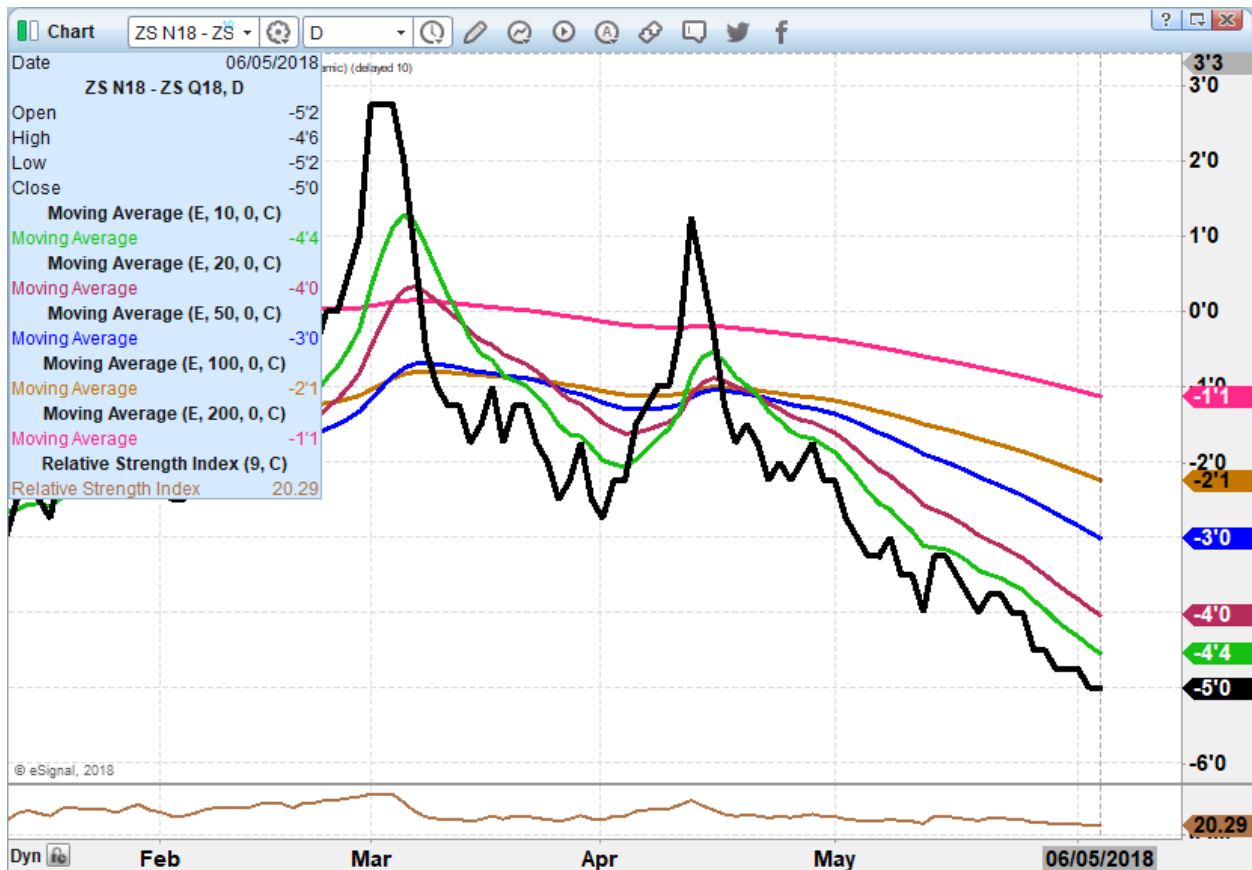
As both charts below show, soybeans have been bull spread. On April 12, 2018 July soybeans settled 1¼ cents over August and as of this writing June 5<sup>th</sup>, August has moved higher than July by 5 cents and probably will move at least to 10 cents over.

On the second chart November soybeans on May 25<sup>th</sup> were only 2¾ cents under January 2019 soybeans and as of this writing are 5 cents under January and will move to at least 10 cents or more under January. In some locations across the Midwest, farmers can also get a narrower basis into 2019 than is being offered now.

Crushers and soybean buyers extend the carry and narrow the basis, not because they are bullish, but because they are bearish. Higher prices into the future over nearby prices simply show buyers are concerned about too many grains or oilseeds being sold off the combine, or at harvest and want to stretch out purchasing. It is the reason the Chicago Board of Trade came into existence in 1848. Trains were hauling too many grains into Chicago after harvest and buyers needed a pricing method to keep grains away from Chicago and country warehousing and storage began.

Both of the spreads below when soybeans have moved higher or lower since they peaked have spread out and both spreads will go to full carry or more.

### JULY 2018 SOYBEAN/AUGUST 2018 SOYBEAN SPREAD



## NOVEMBER 2018 SOYBEAN/JANUARY2019 SOYBEAN SPREAD



CHARTS FROM eSignal Interactive, Inc. JUNE 5, 2018 AT 11:30AM CENTRAL U.S. TIME

The world has more than enough soybeans now and buyers are anticipating increasing movement throughout the summer with Brazilian sales and U.S. old crop sales. Last year when Brazil's crop, with an estimated 114.10 mmt, was sold throughout the summer and into the early part of fall. This year Brazil's crop is estimated at 117 mmt and they learned a year ago that ships are needed into the end of the year, or they end up storing.

With tax exports lessening into the end of 2018 and into 2019 for Argentina, there is a strong possibility, they will sell in late 2018 into 2019.

**There is no doubt the U.S. soybean crop will be large unless there is a weather problem.**

**The carry is widening, and basis remains extremely wide in the U.S.**

**Give me a call and let's talk about what you need to do.** I can be reached at 913.787.6804 or email me with any comments [chris.lehner@archerfinancials.com](mailto:chris.lehner@archerfinancials.com).

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