Archer Financial Services, Inc.

WHAT IS DRIVING CORN AND SOYBEAN PRICES?

By Chris Lehner (June 9)

Last week it was too wet and cold. Now, reports claim the weather will be hot and dry and it will deplete soil moistures. There is always that possibility, but current soil moistures over the top growing states are at some of the best levels any grain producer would want now.

Also, the drying gives farmers the time needed to finish tilling and to put on chemicals after planting. Besides the Dakotas that are dry, Illinois, Nebraska and Iowa have adequate to surplus top soils at 92%, 90% and 97% with subsoil at 95%, 95% and 97%. During this time of the year farmers want roots to seek out moisture. Also, plants grow at night and with temperatures over the next week with nights in the high 60's to low 70's plants will grow.

There is also talk that on Friday's USDA WASDE report new crop corn acres may drop 700,000 acres to 1 million acres with farmers switching corn to soybeans. Personally, at this time I don't see the USDA changing acres. If they use crop progress and condition weekly reports, up through the end of May, planting progress for corn was on line with five year averages, a point or 2 less, but not enough to show a major shift.

If it isn't temperature, what is driving corn and soybeans?

It is time to cut the rumor mongering and ask why grain markets moving higher. The answer is easy, speculators are buying corn and selling soybeans at the ratio of 3 to 1.

If it was really the threat of dry weather, old crop grains such as the July and August contracts wouldn't be stronger than new crop months of December corn and November beans. Other than corn and soybeans heating up grain in the bins and possibly causing some damage if not properly managed, dry weather won't affect old crop. In other words, old crop corn would be losing to new crop and since April the spread has been moving in a tight range sideways.

On Wednesday, June 7, 2017 the trade volume for July 2017 Corn went ballistic at 523,849 contracts, a daily record with December 2017 Corn at 221,308 contracts. The volume on July Soybeans was light at 143,611 and for November Soybeans it was 86,495. As you can see there is a huge difference in volume between corn and soybeans. There was 72.5% more corn traded than soybeans for July and 61% more corn than soybeans for December corn and November soybeans. This is highly unusual.

As grains have rallied and even when they were moving down, funds have been selling 1 Soybean and buying 3 Corn on the ratio spread. Fundamentally it has been a spread over the past six months that has made sense. When the spread bottomed in December 2016, it was obvious that

U.S. farmers for the new crop 2017 would plant more soybeans and add in the huge soybean crop in South America it made more sense from the fundamental point of view.

Friday's WASDE report may show increases in South America for both corn and soybeans. However, I feel the spread will continue to move with corn gaining on soybeans even if the report is bearish to both because I feel beans will continue to lose to corn.

Below are charts of the spreads for July Corn/July Soybean and for December Corn/November Soybean spreads. As they clearly show, the spread is in a clear uptrend. If the spread continues through the summer, it should be expected to see South America move soybeans to corn, especially if soybeans fall at a greater rate than corn. This is very possible with the Brazilian increase in the ethanol industry moving from cane based ethanol to corn based ethanol and more Brazilian cattle moving to feedlots.

BUYING 3 JULY CORN AND SELLING 1 JULY 2017 SOYBEAN

BUYING 3 DECEMBER CORN AND SELLING 1 NOVEMBER 2017 SOYBEAN

Charts provided by eSignal.com

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