Archer Financial Services, Inc.

SOYBEANS - RUMORS, FACTS AND A CHART

By Chris Lehner (Mar 9)

If an algorithmic trading program is based on a set of complex mathematical variables with pre-programmed trading instructions, what would be the best commodities to trade? The answer most likely is soybeans, soy oil and soy meal, tied together as the crush. After all, the crush is a mathematical formula and put it together with multiple intra and inter marketing spreads and pre-programmed trading instructions that have years of back testing trade results, the soy complex is ideal. The multiple combinations of trading possibilities are exponential. Perfect for algorithmic trading. Throw in a few fundamental trades that go along with current news, and beans, soy oil and soy meal, the crush, can explode.

Over the past three years, soybeans, because of an overinflated weather situation busted out to the upside. Well written rumors start them out. The moves are mostly about supply and maybe a drop of the demand side of the fundamental equation. But go back over the years to when commodities sustained rallies and demand was the largest part. As pointed out in last week's report, corn rallied during the drought of 2012, but the rally began two years before, July 2010, based on strong exports, especially Chinese buying that was very real.

But after any explosion the dust settles and reality sets in. Traders take profits and as we see in soybeans and soymeal, markets reverse, and the Lehner Law of Commodities takes over; "What goes up on technical trading, and exaggerated news, goes down on reality."

Soybeans and soy meal made a low on January 12th, bounced off the low through the end of January, dropped nearly 20 cents and took off February 6th, topping out on March 2nd. The low on Feb 6th was 9.79 ¼ and the high was 10.82 ½ on March 2nd. Meal was the propellant for the move. But as I reported in my last report, the two countries that buy most of the meal from Argentina, the U.S. and Brazil are certainly two countries that don't need it. Yes, southeastern U.S. poultry and hog producers do buy South American grains and oilseeds but the USDA since the first of the year already projected bean imports to be higher than a year ago before all the talk of poor weather in Argentina and there was no change on the March 8th WASDE Report from the February report.

Imports in February and March are project at 5 million bushels, which is up 3 million bushels from a year ago. However, soy meal imports for February and March are projected to be at 300,000 tons compared to last year at 349,000 tons. It also must be taken into consideration that the U.S. imports soybeans from Brazil and Argentina. As a matter of fact, this year soy meal imports at 300 thousand tons equals the expected ending stocks of meal in the U.S.

Why Did the Rally Stop?

Of course, a move of 103¼ points that May soybeans rallied during February would be a great move to capture, but to a computer program, the financial gain has no awareness unless it has been programmed. Algorithmic programs often enter trades and stop when movement begins to abate and is statistically measured to be slowing. One indicator I personally use is daily volume. When daily volume begins to decrease, and markets begin to become less volatile, I begin looking for a change in direction. With the crush, I also look at changes for soy oil and soy meal. The rally in February led by meal saw volumes of meal moving more than oil. In a couple ways when the crush is driven by meal it is stronger for soybeans since the value of meal is more than that of oil and when crushing more for meal and if oil isn't part of the strength, it isn't a good indicator over a period of time. Oil needs to be contained. Meal can be mounded and covered if absolutely necessary. Crushing more for meal, and if oil isn't moved it can become a problem. Throughout February, the crush was all about meal.

Soybeans moved in a big technical channel. It wasn't coincidental that soybeans moved up to the highs and stopped. As the chart below shows, the angles of the red and green, upper and lower trend lines are the same angle. This didn't happen by chance. Programs were set. The bottom trend line was made first and simply by moving up to the first point on the July high, there was an eventual point if markets moved up, as they did March 2nd, they would meet. After all, an angle is a number and can be put in as a variable. At the same time technical chartists used the same trend lines. It wasn't a coincidence, but a well planned and executed move, along with reports of a drought in Argentina would disrupt meal supply.

The rally also took place in a month when there wasn't a spot month. February is a month of anticipation. It isn't a month where soybeans and products can be delivered. It is a month when there isn't a chance a speculative long can be forced to take a delivery. Fundamentals of what might take place in a month where there is delivery can be real news or rumors. And as the expression goes, buy the rumor and sell the facts. When Brazil and the U.S. are the biggest buyers of soy meal from Argentina and when neither country needs it, the fact was bigger than fiction.

When demand, solid and proven demand moves markets, get on board. When demand and tight supplies move markets higher, get on board and hang on for a big ride. After the WASDE report on March 8th, several callers didn't understand why the USDA didn't take more off Argentine soybean production. I wondered why they didn't raise Brazilian production to reflect analysts' estimates in Brazil or that U.S. Traders aren't looking at what they have at home with soybean ending stock up 25 million bushels from last month, which is 252 million more than a year ago. It doesn't paint a bullish picture. But similar to a year ago when a drought in the Dakotas would supposedly reduce the entire U.S. crops, myopically pinpointing Argentina is easier than looking at the big picture, or areas where crops are good.

There is a reason corn is moving higher and, the way I see it, corn will be the commodity that is the big upcoming bull. Look for a break and be ready to be a buyer. In future reports, corn will be discussed. Better yet, become a client and be first to know when to buy.

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