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Is Corn Beginning the Rally?

By Chris Lehner (May 16)

Soybeans had their highest close on March 5th, corn double topped on May 3rd and 4th and both Kansas and Chicago wheat made a high on May 3rd. With grain and beans off their highs and particularly with prices dropping last Thursday and Friday, farmers holding old crop and so far, doing little if any selling of new crop are wondering what to do.

One group of farmers are calling buyers to check prices on forward contracts or calling their brokers wondering if they should be hedging now or outright selling. Then there is the other group, when they come in from planting, who search agricultural websites for weather forecasts hoping to find reports that show someplace in the Midwest where it is either dry or too wet.

There aren't many industries in the world where price protection is offered. For example, the car industry can hedge some of their inputs such as rubber and aluminum, airlines can hedge fuel needs, and use "paper" markets for inputs, but neither can hedge their end product, the price of the car or how much cargo the plane will have or how many people will fill seats on a plane. But grain and livestock producers and users can sell or buy months and years ahead. In livestock, there are feedlots that use long term price agreements or retain ownership of buildings and "sell" space per animal. There are grain producers that contract grow and know what price they will receive from one year to the next. However, too few actually use tools for marketing.

Unfortunately, there are far too many grain producers that hope prices will rally and end up more often than not selling in the lower 30 percent of the market year after year after year. There is no reason for it.

If you don't understand how to use marketing tools and like so many hedgers and speculators, use an expert. There are very knowledgeable men and women who do know how to help you.

The reason I am writing this report had to do with the unusual amount of calls I had last Friday afternoon. In a nutshell, I was asked the same question. What should I do now? It isn't a question with one answer because right off the bat, they have to know whether they want to be a speculator or a hedger. Do they want to capitalize on market movement like a speculator or do they want to lock in prices accepting market movement from the time they hedge to the time they actually buy or sell the commodity?

Corn

For several reports I have concentrated on soybeans or on the corn/soybean spread. I have liked the spread because I feel corn will be in a demand driven rally and with fewer corn supplies even without any possible weather problems going forward. Corn will lead rallies.

The World Agricultural Supply and Demand Estimates Report on May 10th is going to help put a bottom in corn sooner than later. When the bottom occurs may have to wait until U.S. farmers finally sell their old crop, which will likely happen when U.S. farmers can make $4.00/bushel.

But with lower production and with increased usage by year's end, there will be lower ending stocks. The ethanol industry is a definite bonus not only using more corn, but also will help use up sorghum that was hurt with the tariff tax from China. Time will tell if the USDA is right with the claim corn from Ukraine and Russia will be strong competitors the second half of the year. With China's corn crop expected to be down 11 million tonnes, and with low prices for corn compared to soybeans in China, expect corn stocks in China to be less.

Most of the outstanding sentences in the WASDE report should be a green light for new crop corn." Global corn ending stocks are down 35.8 million tons from a year ago, and if realized, would be the lowest since 2012/13."

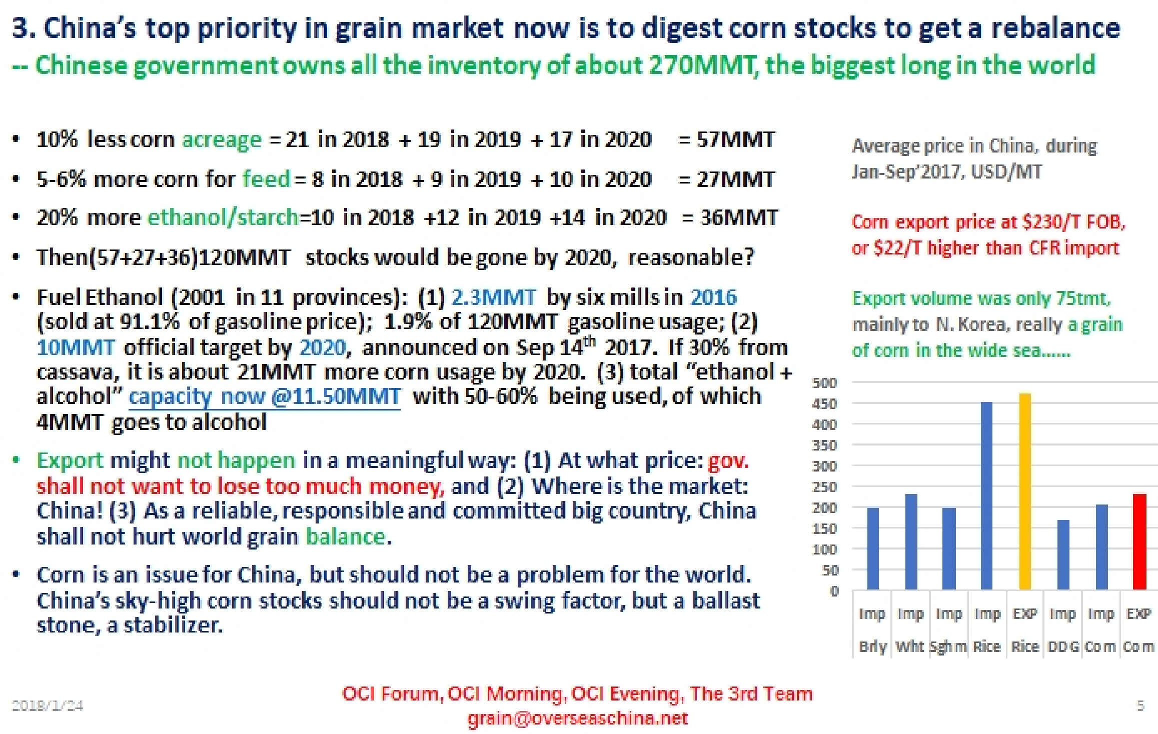
Northern hemisphere farmers this year shoved aside feed grains for oilseeds. U.S. farmers looked at last year's yields on soybeans, the price after harvest and before combines were put up, decided to plant more soybeans. Brazil is using more corn now and usage will increase moving forward. Corn won't cancel out cane based ethanol, but corn distilling will see growth where cane based ethanol won't. Demand for choice beef in Brazil has moved 19 percent more Brazilian cattle this year. Although feed costs are higher using corn versus grass feeding, demand for choice beef will increase next year with more cattle going to feedlots.

Chinese Corn Usage

About six years ago, I received a call from Jeffrey XU who was at the San Francisco airport on his way to meetings in Chicago. At the time he was Chief Economist for ChinaTex. He wanted to meet with me because of reports I posted online. The next morning, he arrived and explained he liked the reports and wanted to meet the person writing them. We ended up spending the morning and most of the afternoon together and since the time have stayed in contact. A few months ago, he was in Kansas City with others Chinese traders located in the U.S. and we were able to meet for a while and spent most of the time talking about grain markets. Admittedly it is a real pleasure for me to spend time with him. I am glad I can keep up my end of the conversations.

Jeffrey left ChinaTex to become Deputy General Manager for Dongling Grain and Oil, LTD and in 2014 to the present is General Manager of Overseas China Investment Limited. As we were talking he shared with me a very detailed program on supply and demand. Thankfully, he gave me the permission to share it. I am sure if there are updates he will send them on after he has a chance to read this report.

But as you can see from the table, China will quickly go through stocks. It is another reason I like buying three corn and selling one soybean as a speculative trade and advising livestock producers and other grain users to start locking in grain and feed needs.



From: Jeffrey XU – General Manager Overseas China Investment Limited and Shanghai Goodsoy Trading Limited

I do feel lucky to meet people like Jeffrey XU and I know being able to discuss markets with a person like Jeffrey makes me better at what I do. It is terrific sharing opinions and then being able to pass them on.

If you have question or comment for me, contact me at 913.787.6804 or email me at chris.lehner@archerfinancials.com.

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