



## **Are Corn and Soybeans Bottoming?**

By Chris Lehner (Nov 16)

I could probably quit with a quick explanation, but some facts are needed to fully explain it. Corn and soybean futures don't need to drop much more because current cash prices and futures are bear spread.

Since farmers are storing corn, wheat and soybeans, along with other grains in larger amounts than the past few years and probably the most ever stored, now grain buyers aren't worried about owning it and not being able to quickly sell or use it. Buyers and merchandisers know they won't have to cover the expenses of ownership, and futures can begin to level off. Of course, speculators may want to push down futures, but since they are already heavily short, I don't see any drastic moves to the downside. Because they are short with bear spreads, they can let the spreads slowly erode and the market will liquidate shorts as they roll to future months.

But it is sort of ironic that U.S. farmers are doing the storing. In 2015 and 2016 there were countless commentaries about China's stockpile of corn. Reports would talk about deterioration, sometimes rodent infestation and how difficult it was to keep corn in condition. Several times I heard farmers mocking the Chinese for doing it and even thinking deterioration would make China buy more quality corn. At least in China, the government owns the stored crops and not the farmer. And now look at China, they are using more corn ever year and now buy it at consistently lower prices. They even vanquished price supports for corn and this year haven't even been taking corn from Ukraine that paid back loans from China with corn sales. Ukraine had to find other buyers. China pushed the market for a few years and now benefits from large world stocks along with their own.

I am not guessing when I know farmers are storing record bushels. The September Grain Stocks report showed higher stocks than previous years and because farmers are waiting for higher prices and for a narrower basis, they are selling what they need to pay current expenses, at least those that can pay expenses before equipment is repossessed, land is rented to another producer or the bank takes ownership.

The proof this year's harvest is being stored in greater amounts can easily be seen simply by taking a drive just about any place in the Midwest.

In 2005, in a scene from the movie "War of the Worlds" huge tripod like machines grew out of the earth to take over the world and to harvest people. Over the past couple of weeks driving around Kansas and Missouri, I thought about the movie. Now, when the astronauts look down at farm fields in the U.S. and in some areas of Brazil, it must look like an invasion of huge white worm like creatures taking over agricultural land. As I drove around this fall, I was shocked at the number of bushels of corn and soybeans being stored in 100 yard long polyethylene bags. If I was driving in Wisconsin and corn had been grown for silage, it's expected to see bags of silage, but when it is corn and even soybeans, the only conclusion that can be drawn is on-farm storage is

filled to capacity and the bags are being used for storage because new crop combined with old crop remains in the bins from a year ago.

### **There is a belief grains should rally due to slow harvest.**

If you believe it is the slow harvest, it isn't the reason. That theory is squashed with the wide basis. A wide or narrow basis is in direct relationship to how merchandisers want to buy grain and oil seeds. As far back as I can recall, I can't remember when basis has been as wide. A wide basis with low futures discourages selling.

Some reports claim movement is slow because the Mississippi River water levels are down, and barges are moving with smaller loads. It's a lot of bunk. The Army Corp of Engineers is keeping the river at current levels because of concern areas up in northern regions are too high, especially behind dams. For instance; the Mississippi River at Red Wing Lock and Dam #3 – Tailwater, near the Twin Cities is at flood stage when it reaches 680.5 feet. As of November 15<sup>th</sup>, at 11:15AM central time the latest stage is 670.78 feet. If the Corp needs to release water from dam and increases flow, they adjust areas at lower levels down river. St. Louis is purposely being kept about 3 to 4 feet above levels if the Army Corp suggests to lower tonnage in barges. As of 11:15AM November 15<sup>th</sup>, the Corp has issued no advisories on the Mississippi to reduce tonnage. (Remember, the reason farmers were behind harvest in the northern Midwest. There has been too much rain and too much rain or snow in the north can be bad for areas down river along the Mississippi.

Current basis for soybeans at St. Louis River is minus 3.75 cents to minus 5.75 cents under January 2018 soybeans and corn is plus 1.50 cents to plus 3.50 cents under December 2017 corn futures. The corn and soybean basis is not bullish although there has been a narrowing.

### **GRAIN INSPECTIONS**

Inspections are down from the last year (latest table below). Grain companies know from forward buy contracts what grain users in the U.S. and exporters presently want and what they will want in the months to come. Grain buyers don't want to buy grain from the farmer unless they can move it. They don't want to own it and pay even the simple carry, insurance, employees the costs to take it in and move it out of storage, hedging margins, and do the work to keep grain in condition. Merchandisers want to buy grain and move it or use it.

There has to come a time when farmers must ask themselves does storage pay? On farm storage has grown exponentially. In years past, farmers often held grain off the market at harvest and would sell into the new year because they didn't want a lot of cash in the harvest year and have to pay taxes on it. Unfortunately, with grain prices down, excess cash at harvest this year isn't the problem. It is quite the opposite. This crop year farmers are storing because they hope markets will rally. However, with world ending stocks increasing, it is difficult to see U.S. exports even coming close to the 2016/2017 crop year.

### **November USDA WASDE Report**

Exports better increase. With extra-large ending stocks and inspections down from a year ago, they will need to increase exponentially to help prices.

**Soybean ending stocks up 41.1% from a year ago and up 115.7% from 2015**

**Corn ending stocks up 8.3% from 2016 and up 43.1% from 2015**

U.S. Grain inspections have slowed with new crop year compared to previous year

**GRAINS INSPECTED AND/OR WEIGHED FOR EXPORT  
REPORTED IN WEEK ENDING NOV 09, 2017  
-- METRIC TONS --**

PREVIOUS YEAR PERCENT GRAIN CHANGE	WEEK ENDING			CURRENT MARKET YEAR TO DATE	PREVIOUS MARKET YEAR TO DATE
	11/09/2017	11/02/2017	11/10/2016		
BARLEY	0	122	0	16,006	25,605
CORN	375,951	456,329	684,990	5,928,036	10,862,375
<b>DOWN 83.24%</b>					
FLAXSEED	0	122	1,688	4,111	11,196
MIXED	0	0	0	0	0
OATS	699	0	200	4,592	6,499
<b>DOWN 41.5%</b>					
RYE	0	0	0	0	0
SORGHUM	82,993	53,812	16,700	582,891	709,398
<b>DOWN 48.5%</b>					
SOYBEANS	2,087,458	2,492,800	2,945,030	16,955,707	19,263,595
<b>DOWN 13.6%</b>					
SUNFLOWER	0	0	0	0	0
WHEAT	301,039	285,143	279,166	11,728,349	12,435,055
<b>DOWN 6.03%</b>					
<b>Total</b>	<b>2,848,140</b>	<b>3,288,328</b>	<b>3,927,774</b>	<b>35,219,692</b>	<b>43,313,723</b>
<b>DOWN 22.9%</b>					

But as bad as prices may seem, as harvest comes to an end, there isn't a need to lower prices much more than they are now. Grain is stored and when buyers want it, they can narrow the basis. The futures market is giving farmers the incentive to store if they take advantage of the carry.

There are strategies for the hedger or speculator to use to take advantage of the carry with futures and/or options. Give me a call and let's talk about what strategy works with your risk exposure. I can be reached at 913.787.6804 or send me an email to [chris.lehner@archerfinancials.com](mailto:chris.lehner@archerfinancials.com) and I will get back to you.

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