

Are Corn Prices Beginning to Boil?

By Chris Lehner (Nov 6)

As a pot of water starts to heat up, first there are tiny bubbles on the bottom of the pot. Slowly the bubbles will begin to rise and float to the top. Some get half way and break, with some making it all the way up. A pot can simmer for a long time unless more heat is added. Corn began simmering mid-September and will simmer for a while until there are some changes to bring it to a rapid boil and rally.

There is fuel that can and will be added to heat corn prices up, sooner or later. More than likely it will happen after harvest is over and corn is stored that wasn't sold off the combine to pay immediate bills. Merchandisers are keeping the wide basis because they don't want to pay carrying charges. Keeping the basis wide "forces" farmers to store.

Reasons to Rally

In no particular order of importance; the U.S. has available stocks to sell. Europe, due to the severe summer drought, will need coarse feed grains, oilseeds and/or meal. European hogs are fed more wheat than corn, but if stocks of feed wheat are drawn down, it will be friendly to corn stocks for feed. Just as important, internal usage in the U.S. has increased because the U.S. has more cattle and hogs and distilling is strong. Possibly the most important, as time goes on, the U.S. crop isn't going to be as large as many have believed it would be and quality issues that have begun to show up will limit what will be fed and what is exported, and exports are going to increase.

Grain inspections are strong. Better way to put it, they are exceptionally good. As of November 1st corn inspected for exports, is up 78.27% over a year ago and it just two months into the new grain year. For example, last week the U.S. sold corn to their regular customers Mexico, Japan, South Korea, Viet Nam, along with countries in Central and South America. It's a pretty simple deduction to see why Columbia, Peru and Costa Rica are buying more U.S. corn. Brazil is using more of their own and also sold more last year. It was no secret Argentina a year ago had poor growing conditions and now they have nothing to sell. Cattle and hog numbers have increased in Brazil, along with corn used for ethanol and Argentina has increased cattle going on feed.

GRAINS INSPECTED AND/OR WEIGHED FOR EXPORT
 REPORTED IN WEEK ENDING NOV 01, 2018
 -- METRIC TONS --

GRAIN	----- 11/01/2018	WEEK ENDING 10/25/2018	----- 11/02/2017	CURRENT MARKET YEAR TO DATE	PREVIOUS MARKET YEAR TO DATE
CORN	1,254,057	698,619	456,819	9,898,827	5,552,575

As of the October 11th WASDE Report, the forecast for U.S. corn production was dropped down 49 million bushels. Look for more decreases on the November 8th report and the December 10th report as reduced yields show up across northern Iowa, Minnesota, and Wisconsin and Canada. Unfortunately, for the northern Midwest states not only did weeks of heavy rains in September reduce yields, but quality problems are an issue. Vomitoxins will reduce what can be sold for ethanol with concerns of concentrating toxins in DDGs. Exporters will not want high levels and livestock producers don't want to feed it. If you recall, late harvest in 2009 in the northern Midwest due to wet conditions saw heavy levels of toxins. Corn on barges on the Mississippi River never made it to ports to be loaded and there were many areas that simply had to bury it. You may also recall 2009 was the low point for corn and by June 2010, corn rallied until August 2012. Now, I am not saying corn will rally as it did then because China began buying like the world was running out in 2010 to finish their planned strategic grain reserves program, but with world-wide livestock, and poultry increases and demand increasing for distilling, corn demand will improve moving into 2019.

Time will tell how corn production is in South America this growing season. Any production problems with the increasing demand will benefit prices.

MARCH GLOBEX CORN 2019. CHART AS OF NOVEMBER 6, 2019 12:30 PM CENTRAL U.S. TIME – March corn is near the upper channel trend line and 200 day exponential moving average, a close over both is positive. But be careful, with the rally, selling can happen at any time.



CHART By eSignal Interactive, Inc.

Although corn is well off the September lows, the carrying charges are wide. The current spread between December 2018 corn and March 2019 corn is 12 cents. Merchandisers are wanting farmers to put off sales and sell into 2019. Carrying charges decrease as time moves on. The normal loss is about

3 cents a month. If a farmer plans to store, take the carry and if bullish buy a call near where corn is sold. However, since options are also made up of time value, remember corn needs to rally above the price of the option and the carrying charge of the month sold to break even.

At this time I don't suggest buying outright call options. If you must, buy one without a lot of carry priced into it and one not far into 2019. Remember it is November and the nearest sport month December is weeks away. During a non-spot month, the trade goes the direction of the side with the most money many times regardless of bullish or bearish fundamentals.

Contact me with questions or comments at **312 242 7942** or send an email to chris.lehner@archerfinancials.com.

Would you like to open an account with Chris? Go to our interactive New Account application at [Open An Account](#). It is fast, saves on postage and it's green.

Futures and options trading involve significant risk of loss and may not be suitable for everyone. Therefore, carefully consider whether such trading is suitable for you in light of your financial condition. The risk of loss in trading futures and options can be substantial. Past results are not indicative of future results or performance. The views and opinions expressed in this letter are those of the author and do not reflect the views of ADM Investor Services, Inc. or its staff. Research analyst does not currently maintain positions in the commodities specified within this report. The information provided is designed to assist in your analysis and evaluation of the futures and options markets. However, any decisions you may make to buy, sell or hold a futures or options position on such research are entirely your own and not in any way deemed to be endorsed by or attributed to ADMIS. Copyright ADM Investor Services, Inc.