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Will Corn and Soybeans Rally?

By Chris Lehner (Oct 3)

When something negative happens, for many people they want to find something or somebody to blame. For instance, this past July three young boys practiced hitting a baseball in a lot behind their house and near where I live. One boy would pitch the ball, another would hit it, and another would run after it and throw it back to the boy pitching. They stopped when a ball broke a window. When the lady whose window broke came out, and before she said a word, the boy who hit it said his brother threw the ball too hard and he had to swing the bat harder to hit ball and it's why it shattered the window. It was easier to blame his brother.

Since March 2018, U.S. farmers were thrown a hard ball, the trade disputes, and have used it as an excuse for falling grain and oilseed prices. It is a good reason but just part of the variety of reasons why prices broke and like the window was broken and fixed, grain and oilseed prices that are now low will move higher.

Along with corn and soybean futures prices dropping, U.S. farmers have been hit extra hard with a wide cash to futures spread, the basis. Basis, long before the trade disputes were mentioned, has been wide. With the wide basis, farmers have been storing and will store more corn and soybeans currently being harvested. On September 28, 2018 the USDA Quarterly Grain Stocks report showed U.S. farmers were selling stored corn over the summer but were once again and similar to 2017 holding soybeans. The reason; soybean basis has been wide for well over a year.

Grain merchandisers are encouraging storage. Soybean, corn and wheat futures are bear spread. As grain future prices move into 2019, they are progressively higher priced. Bear spreads show grain buyers are concerned they will have to buy too much corn and soybeans during harvest, so they bid more into the future to entice farmers to store it. Traders call it bear spreading and as the name implies, it is bearish.

The rule of thumb for carrying charges is 3 cents/month for corn, 4 cents/month for wheat and 5 cents/month for soybeans. For instance, if December corn is $4.00 then March would be $4.09, and if November soybeans are $9.00, January would be $9.10. When the market has an extended carry, as it has had since the end of July 2018, buyers are saying don't sell off the combine, sell it later and it is exactly what U.S. farmers have and now are doing.

The window of time U.S. farmers have to sell soybeans has and is becoming smaller. Unless there is some calamity in Brazil during their growing season, U.S. farmers have from August/September to May/June to move soybeans. After the May/June time frame, Brazil, Argentina and other Southern Hemisphere production becomes the dominant sellers and exporters. Farmers in the U.S. must remember, the U.S. is no longer the bread basket to the world, but a slice of bread of many loaves in the basket.

Better Pricing Ahead for U.S. Grain Farmers

With an extremely wide basis and grain futures near the lows of September 19, U.S. farmers are hoping for a recovery.

Fortunately, there are indications that hope will turn to reality. Corn will likely be the leader. As of September 12, 2018, the USDA reported corn world ending stocks are going down. For 2017/2018, world ending stocks were at 194.15 MM and currently it is estimated that world ending stocks for 2018/2019 will be at 155.49 MMT. This is a 19.9 percent drop. Throughout the world, hog numbers are up and close to the same increase as the U.S., up 3 percent. Lately, little has been said, but by 2020 cars made in China will have gas with 10 percent ethanol. Brazil is moving from sugar cane distilling to corn distilling. Corn simply makes more sense than sugar cane. Corn distilling plants are being built in Brazilian states where there are two crops grown in a year and unlike cane, distilling bi-products or as they are called in Brazil, co-products, Dried Distillers Grain and CO_2 are produced and sold.

There is no other way to put it, but U.S. corn inspections for exports are starting out the new crop year as though the rest of the world is running out. As of October 27, corn inspections compared to a year ago are up 32.2 percent. Since new crop harvest is just beginning, it means corn inspected for exports is from old crop supplies. There are also indicators that Brazil and Argentina may have been too aggressive in their selling. Exports from the U.S. to Central and South American countries are strong. Guatemala, Peru, Mexico and Jamaica are regular listed export buyers, along with continued strength from Japan and South Korea.

The severe drought in Europe over the summer and new trade agreements will see Spain, France, Germany and the Netherlands increase feed grain and oilseed purchases in the coming year. The E.U.-28 countries produce twice the amount of all hogs and pigs than the U.S.

A year ago, 2017/2018, Brazil had a record soybean crop and producers ended up storing soybeans to the point that there was a shortage of polyethylene bags. Unlike farmers in the U.S., Brazilian producers have not and don’t store and carry grain. A year ago was an exception. Merchandisers underestimated the size of the Brazilian crop and with ships moving to the U.S. in the late summer of 2017, storage was forced upon Brazilian farmers. However, the Brazilian crop wasn’t underestimated in 2018 and it was sold and shipped. Now, reports are beginning to surface that Brazil may need to source soybeans and corn.

China is purchasing Argentine soybeans. Currently, China has purchased 15 percent more soybeans from Argentina than a year ago. China has also purchased soybeans from Ethiopia this year. As the Agricultural Minister of China said when the trade disputes began, they need U.S. soybeans, but will source soybeans throughout the world. Fortunately for U.S. soybean producers, although soy production is increasing around the world, when Brazil and Argentina sell out, supplies are limited except for the U.S. trade disputes will eventually be settled, and China will be a buyer of U.S. supplies. But when is the question. It might be a week, a month, six months or a year from now.

The basis in Brazil is the opposite of the U.S. Where U.S. soybean prices at the Gulf of Mexico are near par with the Chicago Board of Trade, basis in São Paulo, Brazil from October through

December 2018 are around $2.70 over CBOT prices. Face it, $2.70 is an arbitrary number. It simply shows Brazil has little if any soybeans they can presently sell. If they moved the basis to $4.00 over CBOT prices, it is doubtful they could source more than they can at $2.70 over.

However, Brazil's basis drops and drops hard when it comes to their new crop that is harvested next spring. By June 2019, Brazilian producers are offering soybeans at 85 cents over Chicago and the bid is 75 cents over. With estimates of new crop growth larger than the last year, Brazilian farmers currently are under the same pressure as U.S. farmers and possibly more. Brazilian farmers won't receive subsidy payments from their government at harvest as U.S. farmers will receive beginning with the 83 cents/bushel with this year's harvest and with the possibility of another 83 cents in 2019. Also, the wide basis for U.S. farmers narrows as it moves into early spring 2019 and widens for new crop Brazilian soybeans.

What Plans Should Farmers Make?

A wide carrying charge market is bearish. With estimated bushels expected for the U.S. crop on top of old crop stored and what is expected to be planted in South America, the prospects for a large rally is not foreseeable. With the facts presently known, a significant rally in soybeans cannot be predicted. Of course, there is a possibility South America might have weather problems during their growing season, but it is not a fact.

Corn ending stocks are going down. The U.S. is moving and using more corn than it did a year ago. Global usage is increasing and will continue to increase.

If 2017 through 2018 taught farmers one thing, it is imperative to have a marketing plan. Hope cannot move a market. Fundamentals and traders move markets.

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