Archer Financial Services, Inc.

Corn Stuck in Neutral

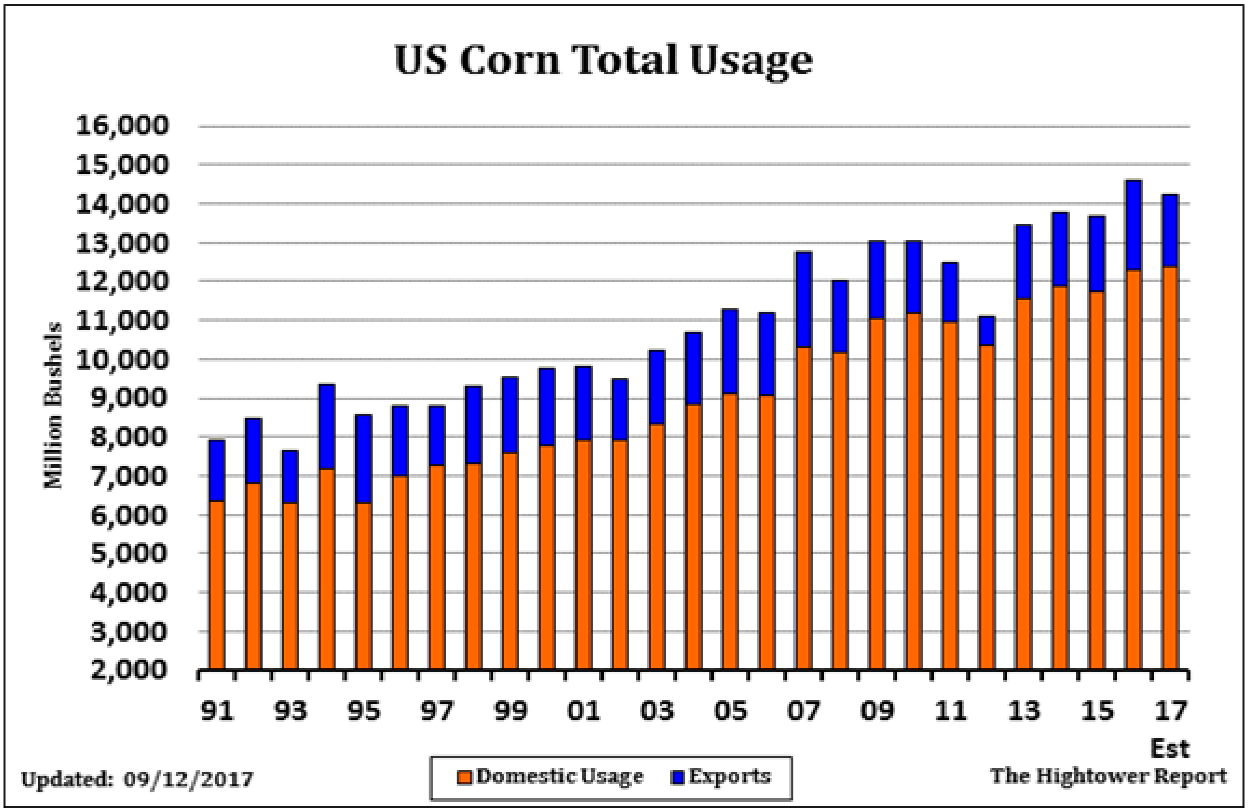
By Patrick Garrity (Sept 15)

During the month of August, corn prices steadily declined, losing 40 cents until gaining a quarter of it back on the last day of the month. The bulls believed the market had exhausted itself to the downside and pushed it too far and a recovery was in order. However, the following week and a half led to a choppy five cent range trade with no upside follow through. Corn has still lacked a catalyst to propel itself off of contract lows. Traders looked to the September USDA supply/demand report to be the facilitator for a bounce as they expected the USDA to revise the yield and total production lower. Not only did the USDA figures not come out lower, but in fact they raised the yield slightly! This surprised the market as corn futures fell and came within a cent of the contract lows. Many want to believe that this was a positive re-test of the previous low as they recovered into the close, but I believe this low will be tested again soon.

Although the corn bounced off the contract lows after the report, we do not see much more upside in the futures. We think it will revert back to August's steady weak trade over the next two weeks leading into the crucial Quarterly Grain Stocks report at the end of the month. There are just too many bearish influences on the market and despite the claims of bullish traders looking for the yield to be revised much lower, there is too much corn. We have an abundant supply of old crop corn after record large production last year and this year will not quite match that level, but it is still a huge crop.

According to the latest USDA report, the U.S. corn yield was listed at 169.9 bushels per acre, which is up from 169.5 in August and the production was 14.184 billion bushels, which was an increase from 14.153 in August. The ending stocks were also bearish as 2017/2018 were revised up 62 million to 2.335 billion bushels. The world figures are also weighing on the market as the world ending stocks came in at 202.5 MMT as opposed to August's estimate of 200.87. The global supply glut will hamper the futures as U.S. corn exports will struggle to excel. With massive production coming out of South America last year and seedings projected to rise this year, the export market looks restricted. The only real positive towards exports is that the value of the U.S. dollar has steadily declined all year. However, if it starts to correct like it has started to over the past week, it could be another factor impeding the export market.

The August 31st low of 344 ¼ in the December can be retested in the next two weeks with all of the bearish fundamentals involved. The funds have a net short position, but the market is currently lacking a catalyst for the shorts to become nervous and start to cover. Producer selling has been quiet so far, but it is questionable to expect a recovery off of that. The wheat market has stabilized, but the global supply surplus should keep a lid on any start of a rally, which will also impact corn. As shown below, corn demand has come down and this should be a warning to the trade. The bulls are looking for a lower supply because of growing conditions, but in fact, it was the demand that had been lowered in the latest report. As harvest picks up in the coming weeks, we should get a better picture of the crop we have and the supply should be close to the USDA's latest report. Seasonally we see pressure continuing for a couple weeks before a correction ensues in October.



My many years of trading futures markets does make a difference. Feel free to call or email me if you have any questions at 312.242.7908 and patrick.garrity@archerfinancials.com.

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