



What's the Next Move for Corn and Soybeans?

By Chris Lehner (Sept 29)

While farmers hoped that all summer grain markets would rally, holding onto old crops and doing little or nothing at all for new crop sales, speculative traders moved markets lower with spreads and cash buyers aggressively widening basis.

The direction has been obvious!

Throughout the summer, the cash basis has clearly pointed the long-term direction of the market and what was going to happen at harvest. It became even clearer over the past couple of weeks with the uptick on the futures. As soybeans and corn moved off of their August lows, cash buyers in many locations widened the basis, attempting to slow and in some areas stop remaining old crop movement and to discourage new sales off the combine.

There are several agricultural websites where it is easy to find cash basis and local prices. But, if you know farmers, give them a call. It doesn't take long after you get an earful of four letter expletives to realize what's happening to the cash grain markets. Farmers know how their own crops have grown this summer, but remained hopeful the reports of poor growing conditions elsewhere were true. Yes, there were problem areas, but there are many farmers in the "fair" locations that hoped nobody visited to see what they were growing.

Concentrating on U.S. conditions and the hyperbole that went with too many reports meant pushing proven facts out of reality. One of the most important facts, is that Brazil's crops, corn and soybeans with every monthly report, verified huge record breaking crops. Another fact and nobody doubted it, especially U.S. farmers who knew U.S. ending stocks and the carryover from 2016 was larger than the year before. Also, nobody wanted to talk about in 2017 the stockpiles in China where in 2016 they made the news week after week.

With U.S. farmers storing 2016 crops and hoping for rallies for old and new crop, there has been extremely little hedging or forward contracting. With the wide basis, farmers also hoped it would contract. If banks allowed it, farmers have rolled operating loans. As I have heard several times, interest is still cheap. But I don't wonder why they call and ask what I think markets will do. Some are opening new accounts, but others want to hear if I have changed my thoughts and if markets will rally.

Throughout the summer of 2017 speculative traders have been able to move markets without hedgers getting in their way. Corn and soybeans have been moving with inter and intra market spreads. Both corn and beans are bear spread and the most obvious trade, as I have reported in the past has been ratio spreading, buying one soybean to selling 3 corn.

Also, the ratio spread shows if a farm in South America had to decide what to plant for 2018, more than likely due to just the futures prices by themselves, they will plant soybeans. When simply using the price of the futures, often the ratio of 2.5 corn to 1 soybean is used.

During the spring and summer of 2016 and again in 2017, speculative traders spread 3 corn to 1 soybean.

If you sit in front of a screen throughout the day, as brokers and professional traders do, and watch the bid/ask volumes, or how the corn and soybean prices tick up and down, the past few days have made it easy to see the spreads moving.

From mid-June and though last week, 1 soybean gained on 3 corn. It now appears, the spread has reversed, or traders are taking profits and stepping aside. After all, profits close to 200 points are worth taking. But with soybean yields larger than expected, and with the wide basis on soybeans, to me it appears traders are profit taking and reversing.

It is also likely that corn yields may not be as big and it is likely that Brazil will plant more soybeans than corn. Plus, with the buildup of the corn ethanol industry in Brazil, increasing corn exports, and more cattle going to feedlots, the demand for corn is growing.

The first chart below is 1 November 2017 soybean to 3 December 2017 corn and the second chart is 1 May 2018 soybean to 2.5 May 2018 corn.

BUYING 1 NOVEMBER 2017 SOYBEAN AND SELLING 3 DECEMBER 2017 CORN



CHARTS AS OF 10:30AM CENTRAL TIME 9/28/17
eSignal Interactive, Inc.

On June 7th the spread buying 1 November soybean and selling 3 December 2017 corn had November soybeans - \$2.71 $\frac{3}{4}$ under 3 December corn. On September 22nd, the spread narrowed to soybeans - .76 $\frac{1}{4}$. As I write on September 28th at 10:30AM central, the spread is at -.98 $\frac{3}{4}$.

BUYING 1 MAY 2018 SOYBEAN AND SELLING 2.5 MAY 2018 SOYBEANS SPREAD



The spread on September 22nd had 1 bean plus .75 ¼ cents over 2.5 corn. Of course, there are many price considerations from the cost of planting to the basis to what is actually needed to list just a few items when making plans to plant. But using the first step, planting soybeans is now more profitable than planting corn.

Trade strategy: Sell 1 soybean and buy 3 corn. It is a trade you may want to consider. Now, the risk would be a new high. Since November is just a month away, I would suggest months in 2018.

Give me a call to talk about this and other trade strategies. I want to hear from you. Call me at 913.787.6804 or email me at 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.

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