Grain and Oilseed Market Outlook

March 13, 2023

Since our February commentary, markets for grains and canola have reacted to bearish news and moved downward, while US soybeans' expected low stocks/use ratio for soybeans kept them much closer to their recent tops.

Bearish Fundamentals

Several factors are producing this bearish tone:

- **Ukraine and Russian Exports**

  Discussions are happening about extending the agreement under which Ukraine exports grain and sunflower out of its southern ports. The UN and Turkey both talked as if there is certainty it will be extended for three months effective March 18. These sentiments fed the bear since late February. On Friday March 10, the Russians unexpectedly announced they had not been in any negotiations and weren't necessarily sure about extending it.

  Things are not settled yet. Russia claims that the agreement is not symmetric because Ukraine can export, but Western sanctions against Russia inhibits both the flow of Russian grain and fertilizer exports as well as their financing. They want concessions on both.

  At this writing (March 13) Russians are in Geneva discussing the agreement. Mixed signals are coming out of the negotiators about progress. Ukraine wants to extend the agreement to more ports. More Ukrainian ports and relaxed sanctions against Russian product could give more downward price pressure. Obviously, failure to make progress would be bullish.

- **Crop Prospects for 2023**

  As the winter progresses, ever more information is available about 2023 crops. European Union winter conditions are rated very good. Russia is expecting another large wheat crop – not as large as '22, but above average. Australia is harvesting its third large crop in a row.

  US winter wheat area is up and moisture levels are improved – in November, 75% of the winter wheat area experienced drought conditions. By Feb 28, it was 54%, with the southwest most lacking in rainfall. Conditions appear to have improved further since the February report.

  Changes in crop and fertilizer prices have altered expectations, favoring expanded corn acres over soybeans. This was exacerbated by steadily declining fertilizer prices, which further tips the equation in favor of corn (although recent price movements have reduced corn's advantage). USDA and a number of private forecasters suggest that total wheat acres will rise, corn acres will be up by 2 million acres, and soy will essentially be unchanged from last year.

  Add all of this to a likely 150 million tonne-plus Brazilian soybean crop being harvested now and a 125 million tonne corn crop later in the season, together with slow US wheat soybean exports, and US corn exports down 40% from last year. Finally, China appears to be taking major steps to materially increase its soybean and corn production.

Actions of the Spec Funds

When large speculators have large open positions, their actions can impact the market. Analyst Karen Braun watches this closely. She points that the Funds have very high long open interest in corn, soy meal and beans, and are building a large net short in wheat.

My concern is with corn and soy. Accumulating the large open positions helped drive or keep prices up. If corn and soy prices turn down, the Funds may make them worse by "running for cover" by selling off those positions in an attempt to limit their losses. This may have already started for corn.

The Bullish Factors

Taken together, the foregoing means that markets may be looking at a very fat bear!

Of course, it won't all happen this way: crop prospects seem to dim almost daily because of Argentina's drought. India, which was expected to have a bumper wheat crop is facing hot, dry conditions just as harvest approaches. India's prospects turned around quite quickly, while Argentina's drug out over several months. Clearly, many things could go wrong in all th3crops that will be harvested later in the year.

In addition, the all-important stocks/use ratios are low. Following USDA's March report, that lowered estimates of bot Argentina's soy crop, and US carryover, the S/U for soy is down to 4.8%.

Soy complex prices could soar if anything goes wrong.

Corn's S/U ratio increased to 9.7%, taking some pressure off corn prices. Wheat's ratio at 29.9% was unchanged. While it is a large number, it is relatively low for wheat, so volatility could return.

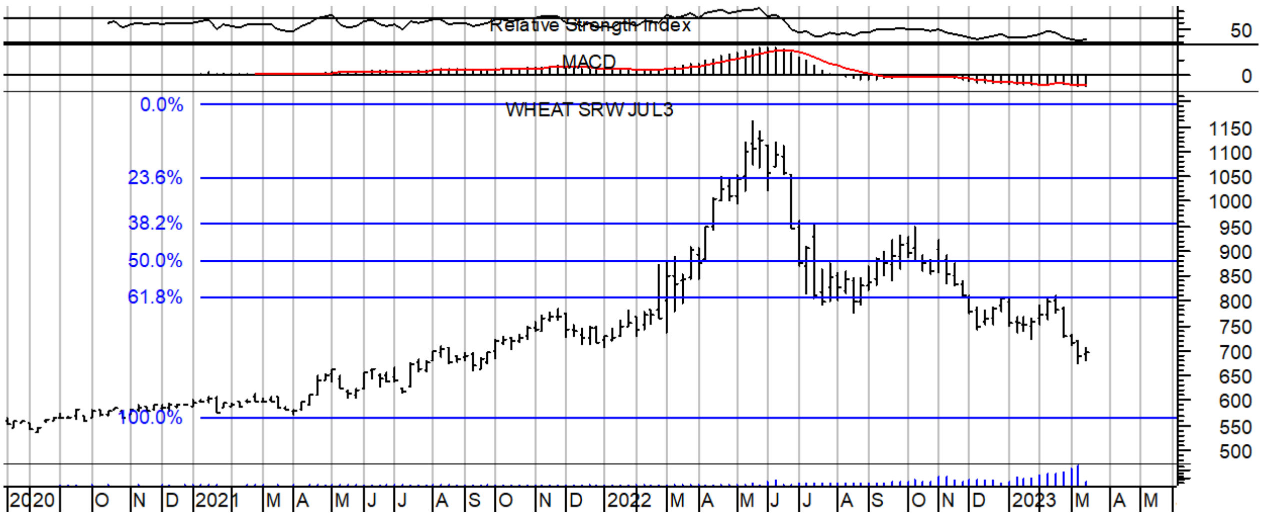
The Charts

The discussion above underlines our approach to pricing: don't ask whether the market is going up or down and how much. Wrong question! Right question: where should we take action?

Last month, most of the charts were range bound. We pointed out where to take action in case prices broke out. They did break out and the actions to date provide some relief from down side pressure.

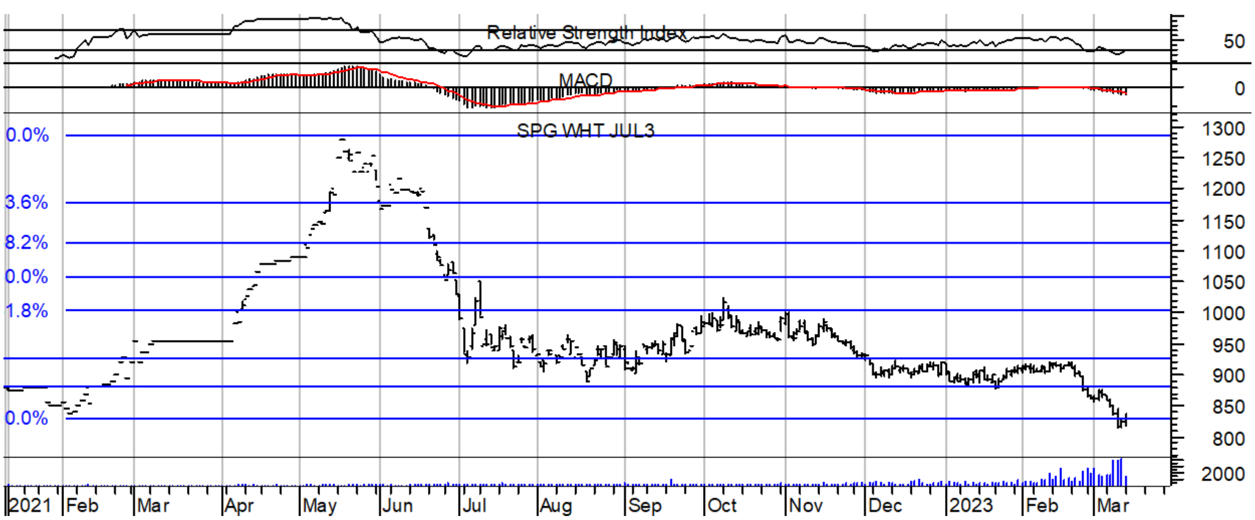
Chicago wheat broke downward last week. Using the charts, we have been covered since just below either $9.50 or $8.80.

We would now move our stop down to the appropriate level above $8.08 (the 62% retracement). If the market stays down for a few more days, we would move it down to closes above $7.07.

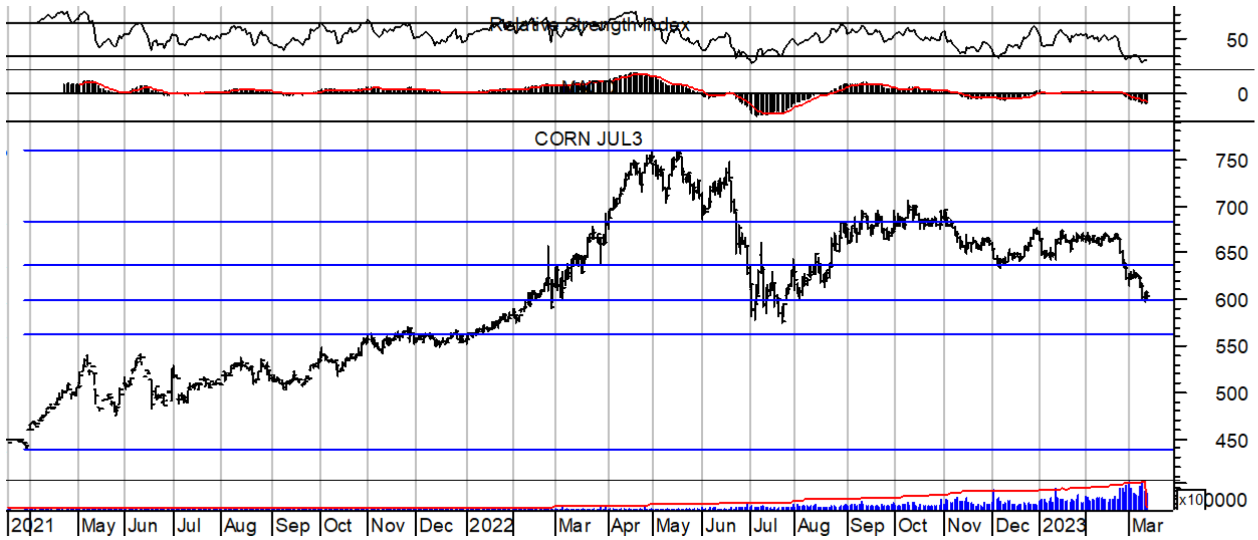


There really is no clear support on this chart until the base at $5.71, though there are some candidates from back in June and July of 2021. If any develop, use them as points to take profit. $5.71 is certainly one if the market comes down to it and moves sideways.

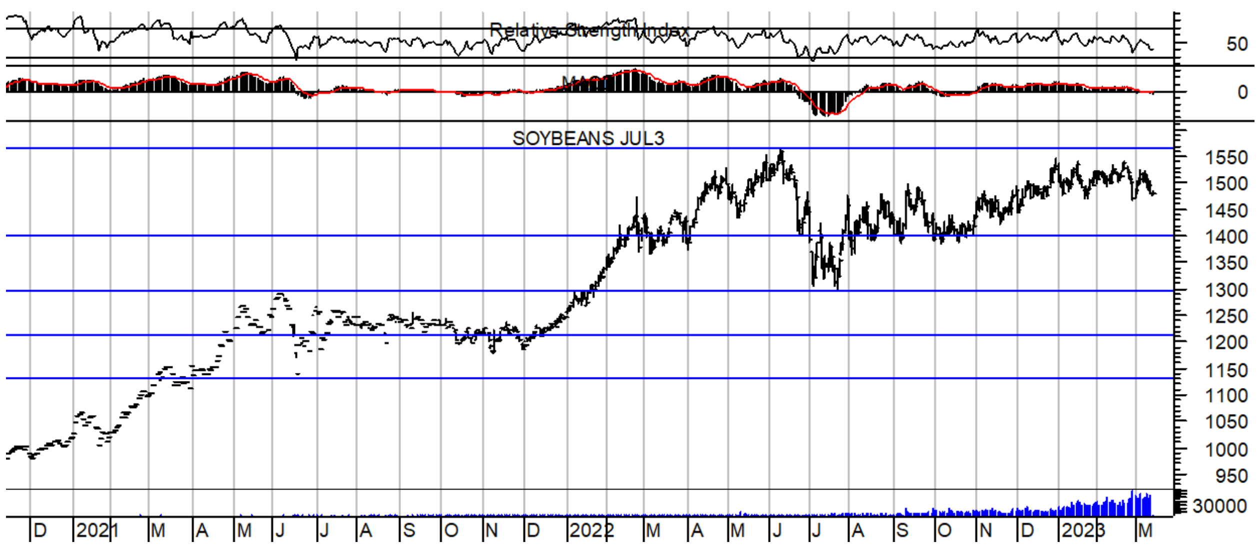
The spring wheat chart is even weaker than Chicago, as it has traded below the Fibonacci base at $8.31. The chart signaled to take action just below $10.00, $9.25 or $8.81. Stops should be above $8.81. It is trying to make up its mind whether it will keep going. Consistent sideways action signals to take profits here. If it goes down, we would be short and move the stops to above $8.31. We would need to use a continuation chart to find the next level of support.



The corn market said to take action in early October just under $6.68. It would have us short now and would have stayed short or taken profit once just above $6.40, then reentered just below $6.80. Our stop loss would be just above $6.13 and we would have decided on the next places to re-enter if we get stopped out.

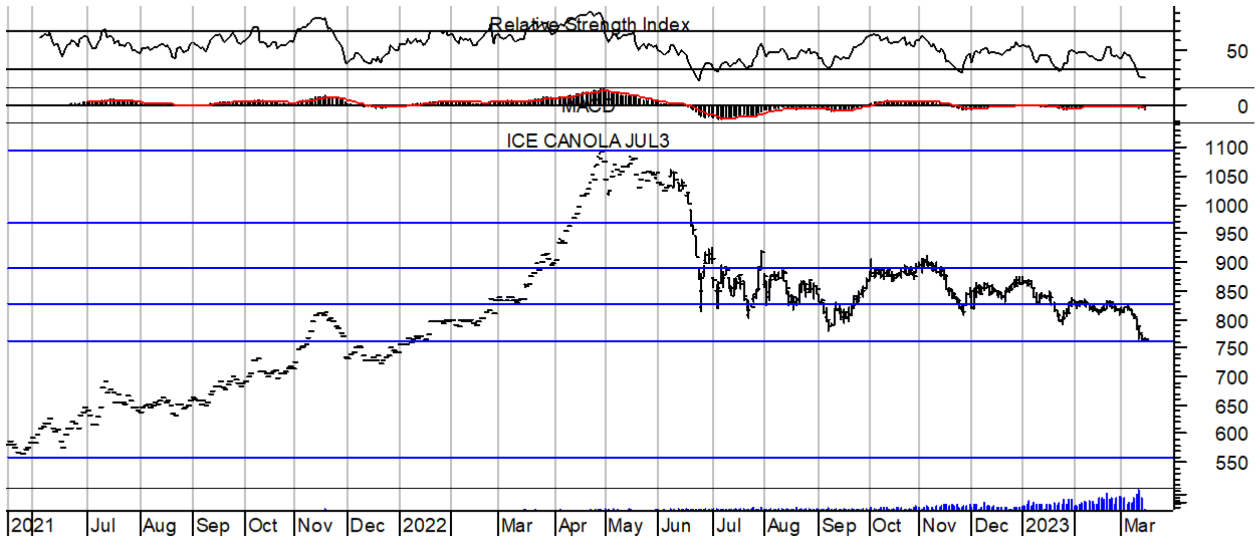


As discussed above, soybeans have stayed up in price, but have essentially traded between $14 and $15.46 since mid-August, with the range becoming narrower. The chart has indicated being short as a seller of soy just under $15.46, with a stop loss just above the contract high. It would direct us to have decision rules for taking profit just above $14, or $13 if the market breaks out.



Canola futures prices are more affected by soy oil than meal and, since canola futures are traded in Canadian funds, they are affected by the US/Canadian exchange rate.

Most recently we would have taken action in early November just under $890. For all intents and purposes, we would still be short now with a stop just over $790, deciding whether to take profits or wait until the next break to the down to the downside or until the stop is triggered.


Relative Strength Index
50
MACD
0
ICE CANOLA JUL3
1100
1050
1000
950
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