Grain Markets Are Acknowledging Reality – And Trying to Understand It!

Larry Martin (Larry.martin6673@gmail.com) 519 623 8622

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A prominent US market analyst called the May 12 USDA report a "bearish game changer". It acknowledged that US exports are weak, the US is competing with huge crops of corn and soy in Brazil, as well as huge wheat crops in Russia (partly stolen from Ukraine) and Australia. It raised US old-crop inventory, forecast a record US corn crop, and a very large soybean crop. This was done with record US corn acres and essentially the same soy acres as last year, along with very strong yields (181.5 bu. for corn vs 173.3 year earlier and 52 vs 49.5 for soybeans).

Stocks/use ratios are key to understanding pricing. The important metrics from that report are: corn's ratio for 2022/23 corn rose from 9% S/U for corn to 10.7% and then to 15.3% for 23/24. That's equivalent to adding 21-days of supply to the inventory. The soybean ratio went from under 5% to 7.6% for 23/24. It can't be surprising that prices dropped both because of the extra supply, but also because of the reduced risk of a shortage.

The wheat numbers were said to be a bit more bullish with world S/U going from an estimated 31.9% to 30.3%. These are low ratios for wheat, but not scary low – and wheat can't get too far out of line with corn, barring a real shortage in some class (as seen by the fact that Kansas City wheat is stronger than the other two because of the stressed HRW in Kansas and Oklahoma).

After the report, markets moved on down as expected, but with some choppiness as new bear and bull news came in. This was where reality finally set in: markets had focused over much on the drought in Argentina, and ignored the consistent message about a huge crop of both corn and soy in Brazil, as well as flagging US export demand in general and by China specifically. "Managed money", the so-called hedge funds, accumulated exceptionally large net long positions in corn and soy and even relatively large net longs in wheat. Those houses of cards collapsed after the report, with corn and wheat now net short and beans on the way as the margin calls on those net longs began to pile up. This normal lemming-like behaviour contributed to both too high highs, and potentially low lows.

The dust seems to have settled on the post-report reaction and markets are at support levels that suggest they are trying to decide which way to go next, as we will illustrate below. The drivers of the current sideways action are several.

On the bear side,

- Brazil's corn crop is even bigger than originally expected: initial forecasts in the 123 MT area have been raised to 125, then 127. I haven't seen recent revisions on the soybean side, but it sounds like the final will be around 155 MT.
- Russia's wheat crops, both this year's and last year's appear to be huge, though one report says that as much as four million tonnes of Russia's crop were "stolen" from Ukraine.
- China's imports of soybeans from both the US and Brazil are down because of its policy to replace meal in livestock rations with its plentiful supply of wheat, as well as to increase its domestic production of soybeans.
- This led to China canceling more orders from the US for imports of oilseeds and grain.

- The Ukraine export agreement was renewed for two more months.

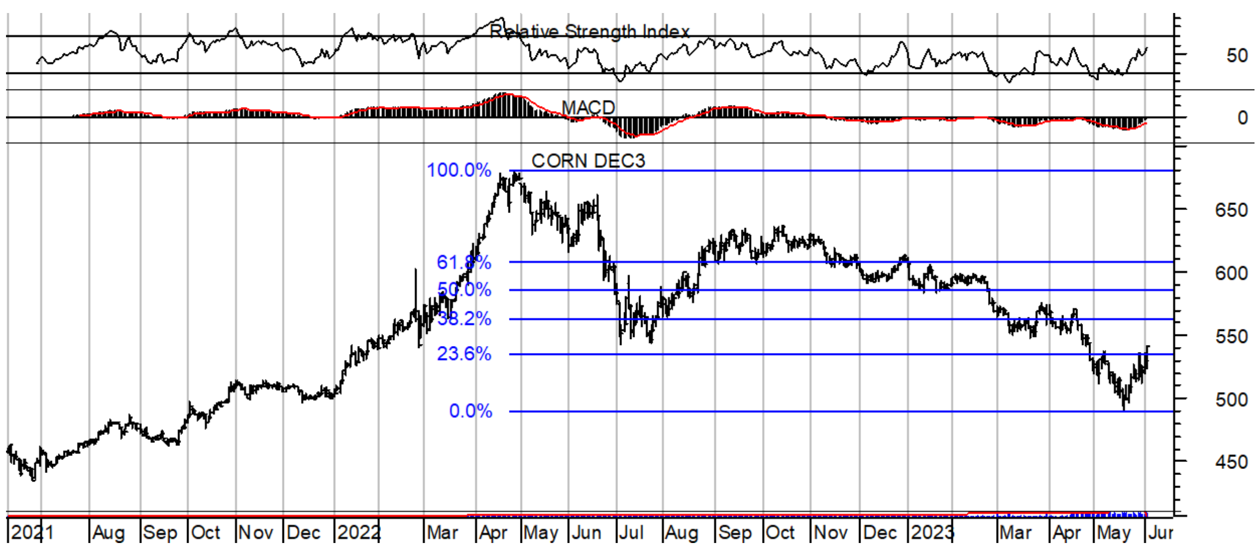
On the bull side,

- Concerns are growing about drought in the US midwest.
- Heavy rains are affecting China's wheat crop, so there is concern that China will need to resume imports of soybeans, meal, and corn.
- Despite the agreement on Ukraine, Russia appears not to be allowing it because they want more market access for their grains and fertilizer.
- The US Congress passed legislation to raise the cap on borrowing, thereby sidestepping a default on paying US bills that could have started a world-wide recession, thereby ensuring demand for products.

The sideways action is clear in the charts below through June 2 as markets try to figure out which of the bullish or bearish scenarios will win out. In all the charts we include Fibonacci retracements from the recent lows to the peaks of the 2022 rallies.

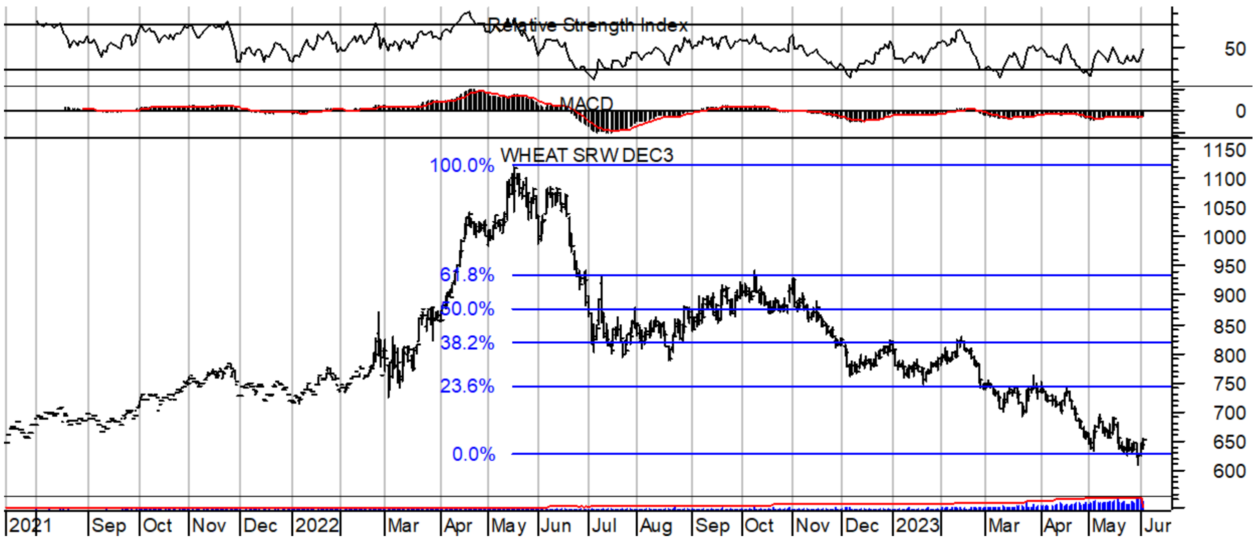
December corn made a new low at $4.90, then bounced back to penetrate the 23% retracement at today's $5.41 close. If the rally continues, the next levels of resistance are the 38% at $5.61 and between $5.76 and $5.86. These levels would give producers chances to sell at more favourable levels. In any event, we would be covered below $5.41 or $5.00

December Corn



December wheat made lows at $6.30 then moved sideways, which is the base for our Fibonacci, until it is taken out. If the bull forces prevail, there is potential resistance at $6.95, $7.41, $8.70. These are possible points for action going forward. We would be covered below $6.30 barring a continued rally.

December Chicago Wheat



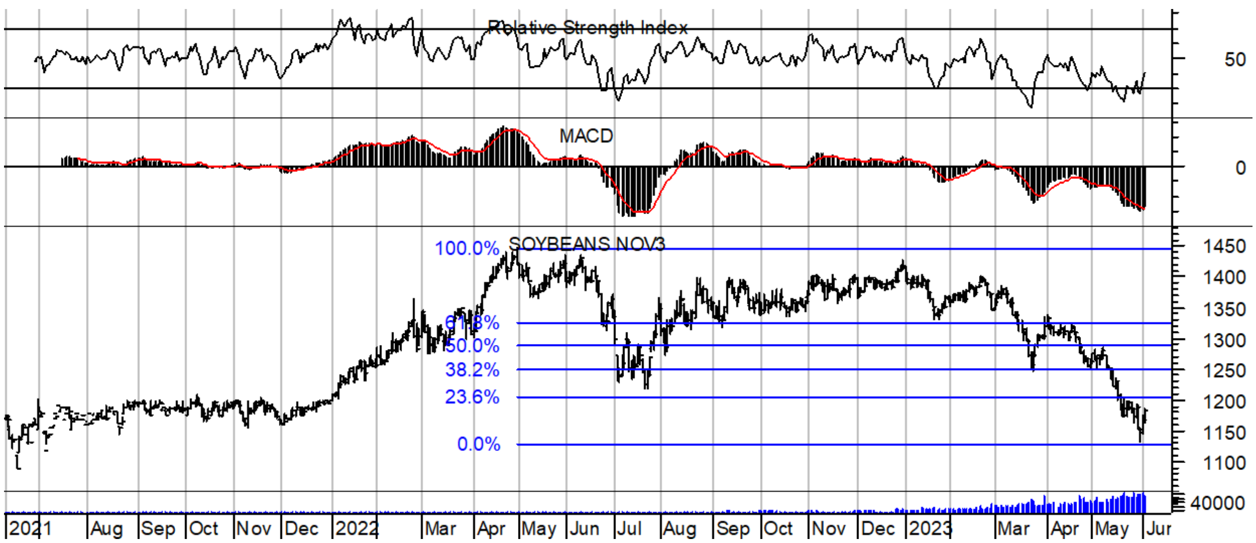
Minneapolis wheat has a similar pattern as Chicago, with the base support at $7.82 and potential resistance at $8.67 and $9.09. The latter two would be potential action triggers, but with risk protection at $7.82.

December Minneapolis Wheat

November soybeans fell almost $3.00 from their fall peak, especially since the end of March when reality finally became clear. The $11.30 low was made last week, so is still a very tentative base for the

Fibonacci retracements, but it lines up nicely at all four of the retracements: $12.03; $12.50; $12.86; and $13.25. All of these are possible action points.

November Soybeans



The November canola chart is a little harder to read than soybeans because it follows soy oil more than meal, and because it also has the C$ in it. The C$ has spurted up lately, taking canola down. As a result, we haven't moved the Fibonacci base line from $652. It now becomes resistance, along with $670, $725, and $771, the potential action points.

November Canola