Where are Grain and Oilseed Markets Headed in 2024?

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The world seems to be in an even more uncertain position than usual: war in the middle east threatens to expand; war rages on in Ukraine; and civil war in Sudan has killed millions with millions more on the brink of starvation. From a human perspective, the ongoing uncertainty about interest rates, and economic growth in Canada, the US, China, and the EU seem less monumental. Nevertheless, they as well as the wars, are causing uncertainty in the grain markets.

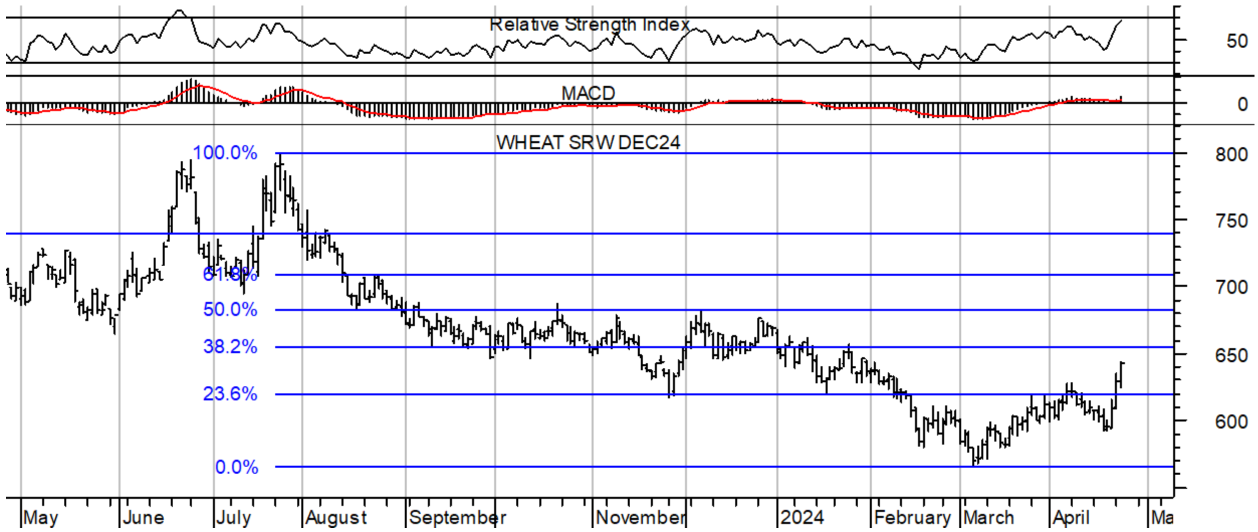
Added to these macro issues is recent growth in grain and oilseed stocks, and a current major disagreement between USDA and Brazilian grain and oilseed agency Conab, on the size of this year's corn and soybean crops in Brazil and Argentina: USDA forecasts much larger crops than does Conab and other organizations.

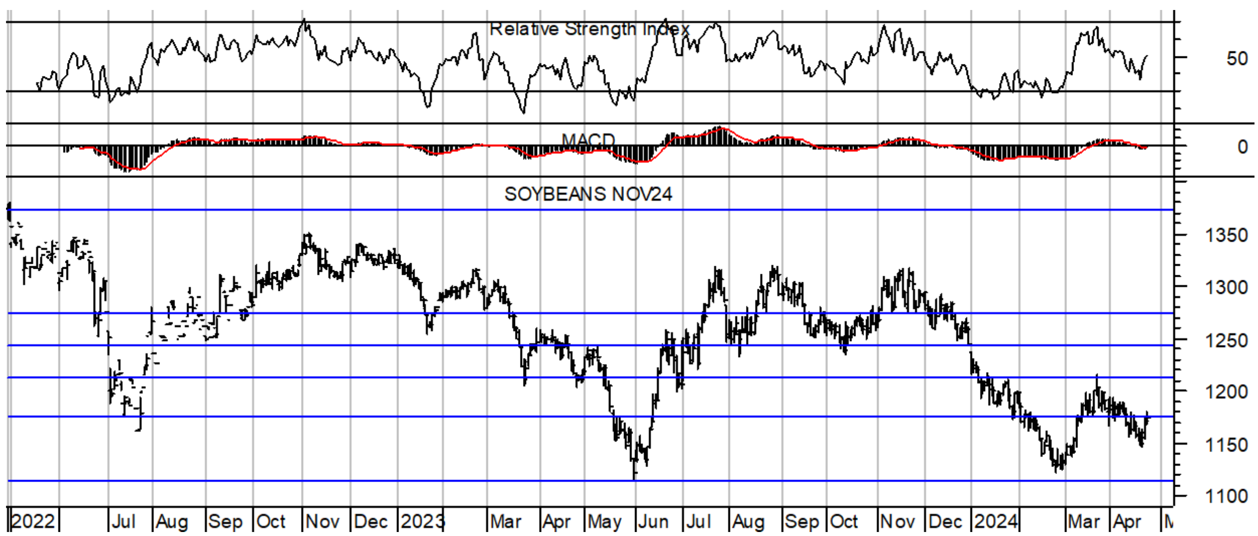
Below are the December corn and wheat charts and the November soy and canola charts as of the close on April 23. Note that they have some things in common: they all bottomed out in late February or early March. They all recovered to or close to the 23.6% retracement (canola to the 38.2%). They all trended downward recently, before recovering in the past week back to the 23.6 or 38,2. And they all have values of MACD around zero.

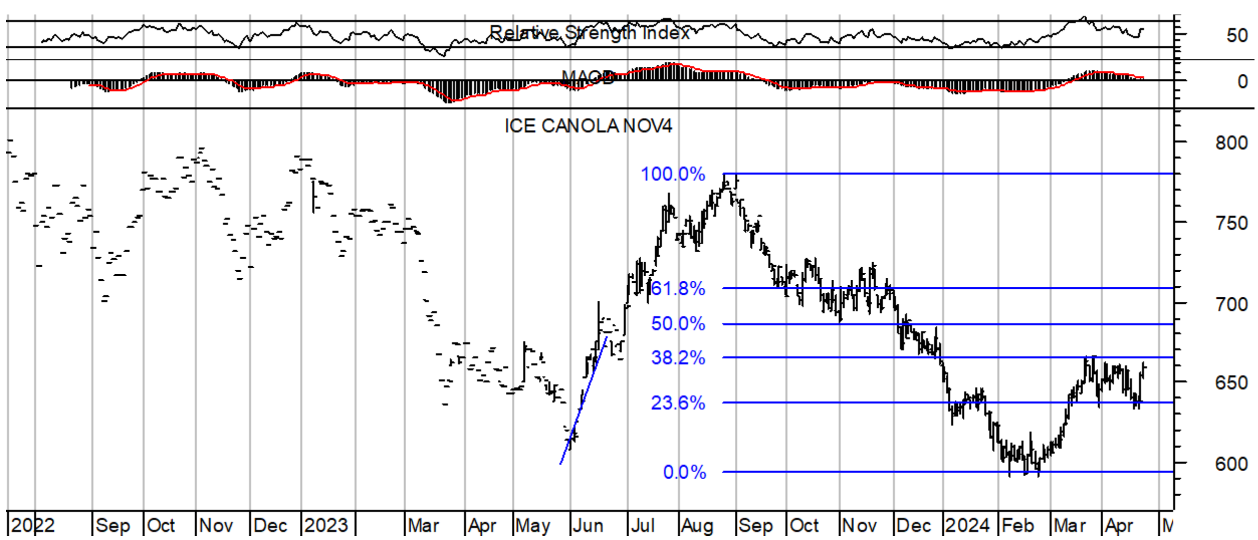
The significance of the zero values of MACD is that they are signaling strong sideways trends for all four commodities. This usually means that markets are happy where they are, given the known supply and demand information, or that they are waiting for a clear sign about which direction they should go next.

My bias is the latter. The sideways action in March/April occurred despite very heavy selling by the so-called hedge funds, which still hold large net short positions. So, a lot of commercials and others have decided the markets already dropped enough and they aren't letting the funds have their way.

Nothing provides more uncertainty than the USDA/Conab standoff. In its April report, USDA put Brazil's total soy production for 2023/24 at 155 Mil. Tonnes, corn at 126 Mil. and Argentina corn at 55. Conab says 146.5 and 111 for Brazil and the Rosario Exchange cut their Argentina forecast to 50.5.


Relative Strength Index
MACD
WHEAT SRW DEC24
100.0%
61.8%
50.0%
38.2%
23.6%
0.0%
50
0
800
750
700
650
600
May
June
July
August
September
November
2024
February
March
April


Relative Strength Index
MACD
SOYBEANS NOV24
50
0
1350
1300
1250
1200
1150
1100
2022
Jul
Aug
Sep
Oct
Nov
Dec
2023
Mar
Apr
May
Jun
Jul
Aug
Sep
Oct
Nov
Dec
2024
Mar
Apr


Relative Strength Index
MACD
ICE CANOLA NOV4
100.0%
61.8%
50.0%
38.2%
23.6%
0.0%
50
0
800
750
700
650
600
2022
Sep
Oct
Nov
Dec
2023
Mar
Apr
May
Jun
Jul
Aug
Sep
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Dec
2024
Feb
Mar
Apr

Actually, USDA cut theirs to 51 a few days after their official April release. All are citing rains washing out crops as well as promoting insect and disease damage. Rosario expects the actual may be reduced even more.

The outcome of the soy and corn crops in Brazil could have major effects on prices; almost 10 million tonnes of both in the world's largest exporting country will affect world stocks and prices.

Other bullish factors:

- Continuing dryness in the Prairie provinces threatens production there, though many have pointed out that they never lost a crop in April.
- USDA reduced estimated US corn stocks by 50 mil bu in its April report. But that drops the stocks/use ratio to 14.5%, way too much for price appreciation.
- US winter wheat ratings are down, but only to 55% good/excellent, much higher than last year. Similarly, soft wheat conditions have slid all winter because of poor weather, especially in France.
- Record US soybean crush in March, but not as much as market analysts expected.
- Ukraine expects slightly lower grain and sunflower acreage in 2024 (but more soybean acres). Now Russian bombs have destroyed grain storage and its contents in the Odessa region.
- Chinese demand for US grain and soy has been limited by both an expected large Brazilian crop and China's push to get closer to self-sufficiency.
- Indian wheat stocks are limited and India put a partial ban on wheat and other exports as aresult. Recall that in each of the past two years a late monsoon and summer temperatures approaching 40C reduced the Indian wheat crop.
- The large net short positions of managed money in corn and soybeans can cause a short-covering rally.
- On April 21, USDA released a surprisingly low crop condition report on winter wheat, with 50% of the US crop in good to excellent condition, with rumors of dry conditions in Russian growing areas.

On the bear side, there are also a number of factors. By far the most important is the build up in grain stocks. Despite dropping US stocks by 50 mil. bu. in the April WASDE report, the forecast stocks/use ratio is 14.5%. This compares to 9.9% at the end of last crop year, and below 7% during the recent high priced years. That's 53 days of supply, making it burdensome.

While the soybean stocks/use is not nearly so bad, it was 6.1% at the end of last crop year and around 4.5% during the high-priced years. This is why the South American numbers are so important: they will signal how much competition the US will have for international markets and in which direction those stock/use ratios will adjust going forward.

In addition, palm oil prices have been under pressure most recently because of concerns about increased production and weak demand in Malaysia and Indonesia. That is putting pressure on soy oil and canola markets.

Conclusion

When markets are stuck in sideways patterns like these have been, the usual expectation is that they will trend in the direction of the break-out. Clarification of the situation in Brazil is the most likely short-term factor to cause a break-out. But the slightly bullish data from the past few days made wheat break out, soybeans are on the edge, and the other two are knocking at the door. A break-outs to the top will likely head for the next Fibonacci retracement.

In the longer term, production and demand will continue to move the markets. There is much more to come.