Why A Stall in The Corn Rally?

Last week's corn trade did not feel like a traditional weather lead rally much less one that is on the back of what could become the worst weather event to impact US production. Watching social media, it is no secret that stress levels are running high in the farmer community that is not helped by watching the markets level off/turn lower – with a flashy story like Mexico back at the table, how can they be lower?!

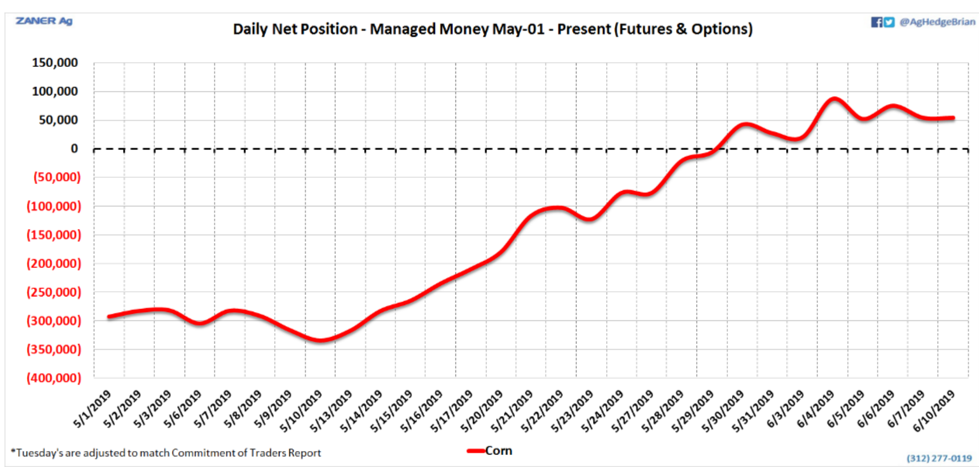
First off, producers need to learn how to cut out the white noise. Maybe it is as simple as finding someone new to follow online or just shutting off the radio. Crop Progress, Crop Conditions, WASDE – the USDA plays its role in the onslaught of white noise and their frequency leaves the market with something fresh to stress over every week. So -- we must keep in mind that just because these reports are routinely talked about does not mean they are important.

Who's Is the Market?

When looking at who comprises the market the CFTC releases every Friday a report called Commitment of Traders. This report is as of Tuesday and breaks down what kind of trader is holding a position. Those considered Commercial are those who at some point have physical possession of the commodity – producers, elevators, end users, etc. The Non-Commercials are those who have no intentions of ever handling the physical commodity – general speculators, investment groups, etc.

Looking at the Non-Commercials first. The average Joe speculator may or may not know corn from soybeans. These traders are looking at charts and often chasing the flashy white noise stories. Take the Mexico story line from last week. Some claimed the market was lower on Mexico tension – now that a deal has been reached, why is it not higher? That was a good enough reason for many to take their profit in front of the weekend. Their goal was achieved and will now wait for the next trade. Mexico tension may have caused them to exit, but the passing of this news doesn't change the chart set up if they are (most likely) basing their decision on the charts.

The Funds



The other heavily followed group of Non-Commercials are Managed Money. Their record-breaking buying spree over the last few weeks was definitely a factor in helping to move prices higher – but, they cannot do it alone and if Commercials don't agree, an arbitrage opportunity arises for them and in turn, stalls the move with fundamental pressure. That fundamental pressure was not found immediately in corn and the market rapidly moved higher.

This rally – for a period of time – had both Commercial and Non-Commercials moving together. Weather was enough to scared Managed Money out of their once record net short position, but also caught the attention of the Commercials and the calendar spreads were quick to tell that story.

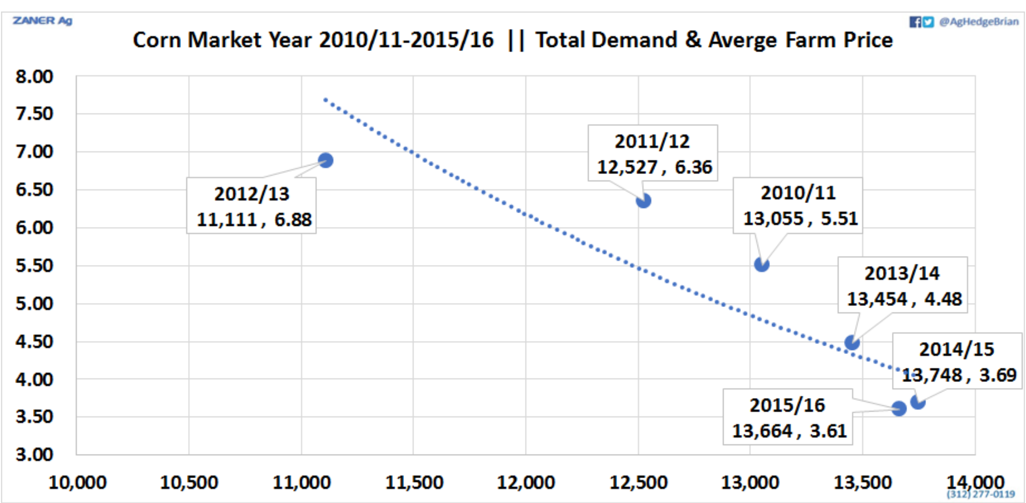
It Is Still Supply and Demand After All

Here one finds the true supply and demand fundamentals of a market. How much (or little) does the market want the grain right now. The greater the carry the market offers, the more the incentive for producers to store corn and sell at a later date because the immediate supply is more than needed. A sharp move in the futures price could spur sales at a time the end users don't need it. The immediate localized fix for too large of an incoming supply is basis and basis come from the spreads.

One month ago, the July19/Dec19 spread stood at roughly 71% of full carry. The Dec19/July20 was at about 83% of full carry. Today, the July19/Dec19 at 63% of full carry still largely represents a market with adequate supply, but not as adequate as a month ago. However, the far greater action has been the Dec19/July20 that is now at roughly 39% - a dramatic difference in the supply outlook. For the market to remain at this level of carry, the producers have no incentive to carry that supply later into the year – leading to commercials need to adjust to ensure later year supply.

The extent of production lost this year will be an evolving topic throughout the summer and spreads will continue to adjust based on conditions within their world. Now that a large change in spreads has taken place, it is time for price discovery. The move that happen in the spreads was overplayed and retracement is taking place on the charts as the market distortion is sorted out by arbitrage; allowing the futures market to settle back and retrace as well. How much was this move over done? How sensitive will demand be?

Exports are forecasted to take up 2.3 billion bushels of 2018/19 crop and 2019/20 projected to account for 2.275 billion bushels. Of the 2.3 billion for this market year, 1.622 billion bushels has been delivered on and higher prices – higher than South American corn will quickly lead to cancelations and ultimately higher beginning stocks. And exports were struggling before the rise in prices – last week's sales and cancelations amounting to a net negative increase for the week is a good indication that the world is not yet willing to buy at these prices. (Keep in mind the US Dollar is at ~97.000 today vs 78.120-84.245 in 2012.)



Ethanol accounts for 5.450 billion bushels which is 37.6% of total demand for 2018/19 was 40% of total demand in 2012 and at a time of much higher crude oil price. This demand line item, like exports, was struggling before the rise in prices.

Coming out of several consecutive years of low prices, demand has expanded into area that typically wouldn't use corn/corn product, but its cheap and it works – this can be a variety of things and is accounted for as Residual demand. Residual demand is very elastic – it will change closely with price and this also will take time for the "on the ground" fundamentals to be sorted out.

This Is Not 2012

These demand aspects at this time of year are the most "known" information the market has – as in terms of we know exports will falter if not competitive with South America – we know ethanol is produced at a loss when corn is above X – we know where the breakeven is for cattle. At some point, the market knows that some of this demand must be rationed if the crop is as bad as appears to be, but we are a long way from harvest and until then, production will remain wildly unknown as South America remains a "check" on the US market.

There is no denying that this crop is in serious trouble – and the markets have likely not yet seen the high. But the US and the World is far from running out of corn and producers must be prepared to take advantage of price opportunities. The American Farmer has proven themselves to produce an excellent crop in less than excellent conditions. Next year could be massive for corn production after a year of lost demand.

--- Brian

ZANER Financial Services

Brian Grossman

Market Strategist -- Agricultural Hedging

(312) 277-0119 -- Direct Line

(312) 277-0150 -- Fax Line

bgrossman@zaner.com

@AgHedgeBrian

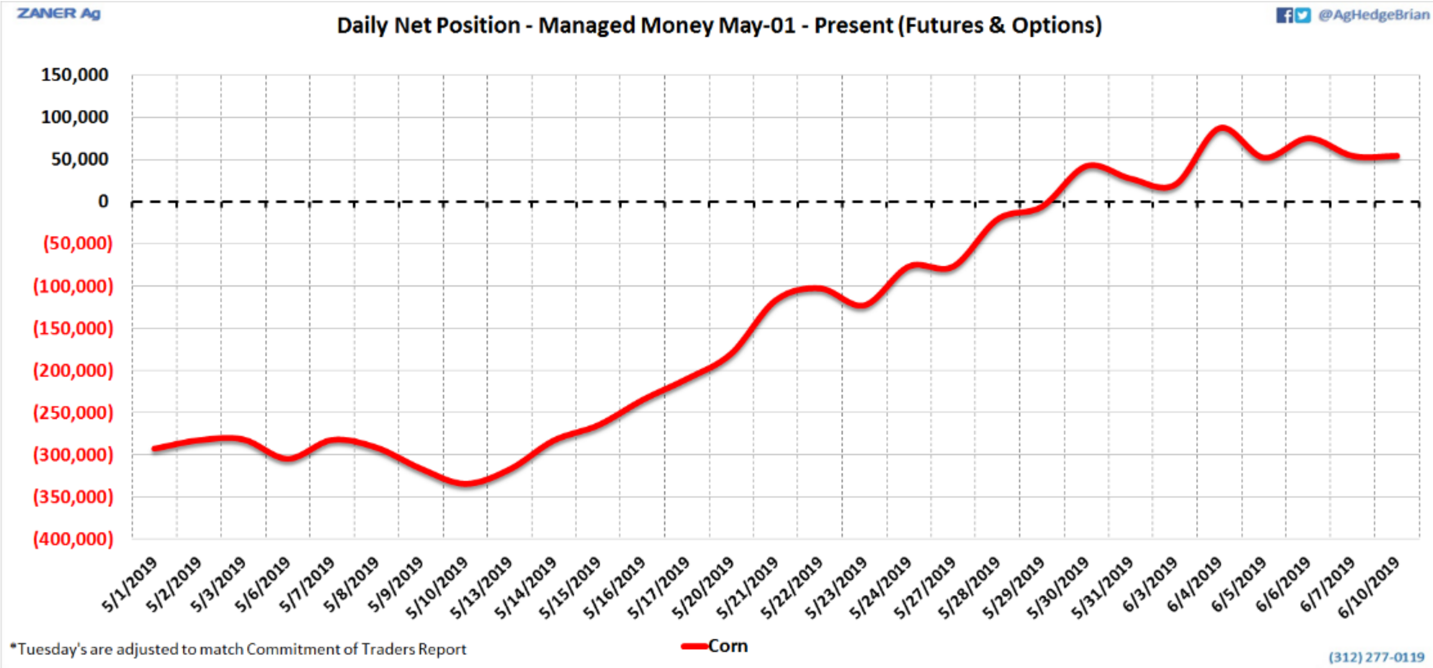
www.zaner.com

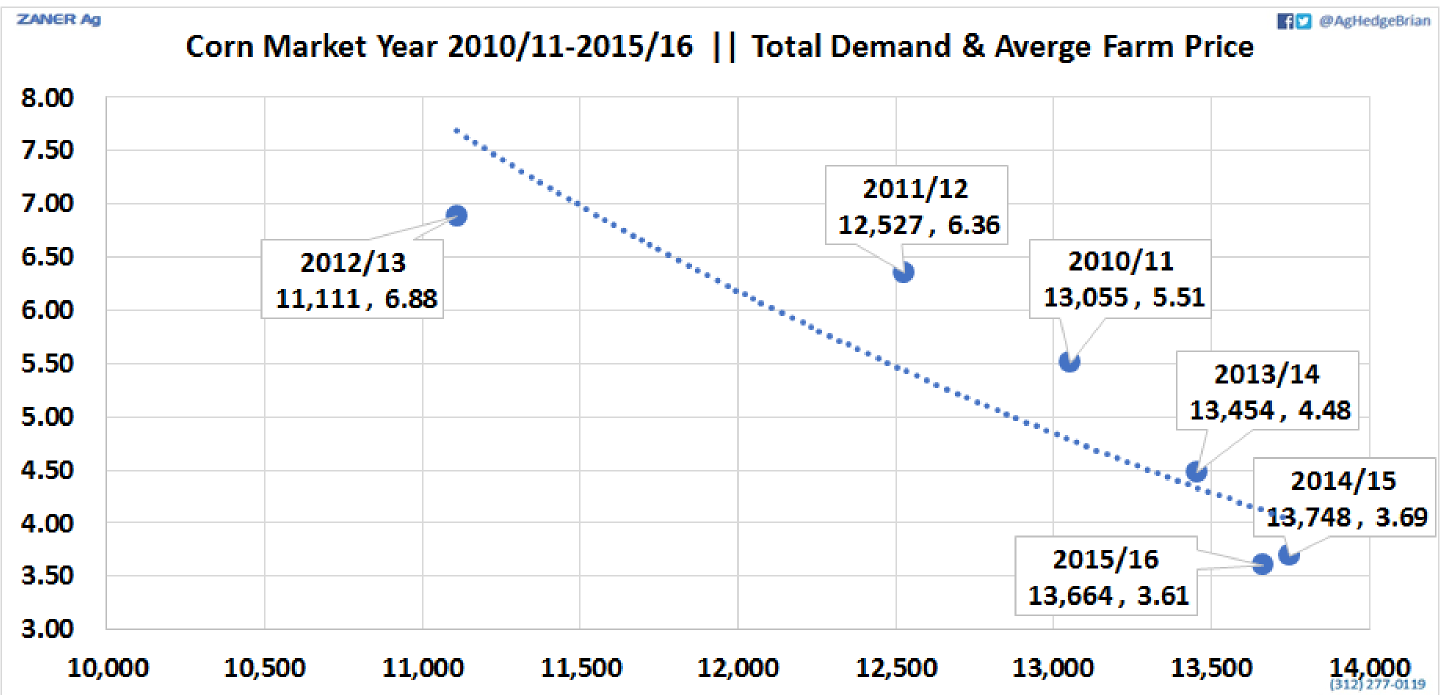
Abbreviations & Conversions:

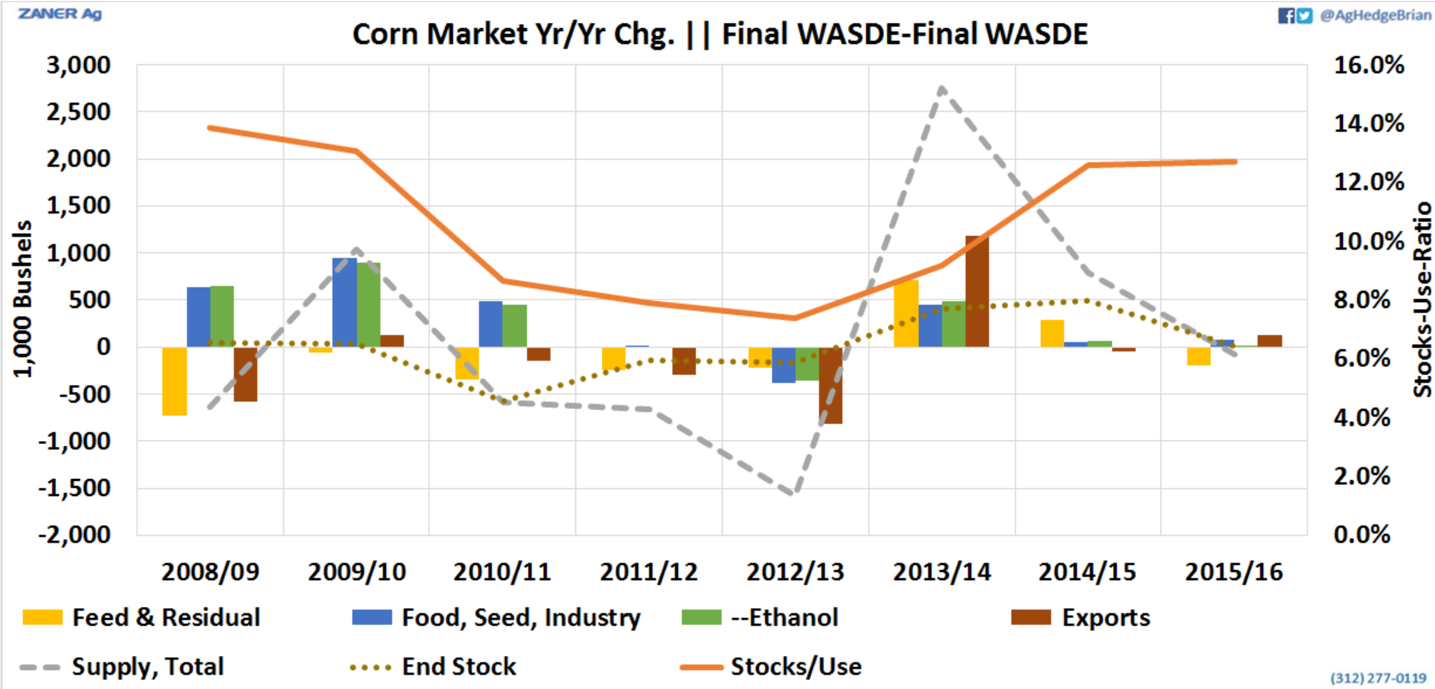
MT	= Metric Ton
TMT	= Thousand Metric Ton
MMT	= Million Metric Ton
1 MT of Wheat/Soybean	= 36.74 bushels
1 MT of Corn	= 39.36 bushels

Jan – “F” | Feb – “G” | Mar – “H” | April – “J” | May “K” | June – “M”

July – “N” | Aug – “Q” | Sept – “U” | Oct “V” | Nov “X” | Dec – “Z”


ZANER Ag
Daily Net Position - Managed Money May-01 - Present (Futures & Options)
@AgHedgeBrian
150,000
100,000
50,000
0
(50,000)
(100,000)
(150,000)
(200,000)
(250,000)
(300,000)
(350,000)
(400,000)
5/1/2019
5/2/2019
5/3/2019
5/6/2019
5/7/2019
5/8/2019
5/9/2019
5/10/2019
5/13/2019
5/14/2019
5/15/2019
5/16/2019
5/17/2019
5/20/2019
5/21/2019
5/22/2019
5/23/2019
5/24/2019
5/27/2019
5/28/2019
5/29/2019
5/30/2019
5/31/2019
6/3/2019
6/4/2019
6/5/2019
6/6/2019
6/7/2019
6/10/2019
*Tuesday's are adjusted to match Commitment of Traders Report
Corn
(312) 277-0119


ZANER Ag
Corn Market Year 2010/11-2015/16 || Total Demand & Averge Farm Price
@AgHedgeBrian
8.00
7.50
7.00
6.50
6.00
5.50
5.00
4.50
4.00
3.50
3.00
2012/13
11,111 , 6.88
2011/12
12,527 , 6.36
2010/11
13,055 , 5.51
2013/14
13,454 , 4.48
2014/15
13,748 , 3.69
2015/16
13,664 , 3.61
10,000
10,500
11,000
11,500
12,000
12,500
13,000
13,500
14,000
(312) 277-0119


ZANER Ag
@AgHedgeBrian
Corn Market Yr/Yr Chg. || Final WASDE-Final WASDE
1,000 Bushels
3,000
2,500
2,000
1,500
1,000
500
0
-500
-1,000
-1,500
-2,000
16.0%
14.0%
12.0%
10.0%
8.0%
6.0%
4.0%
2.0%
0.0%
Stocks-Use-Ratio
2008/09
2009/10
2010/11
2011/12
2012/13
2013/14
2014/15
2015/16
Feed & Residual
Food, Seed, Industry
--Ethanol
Exports
Supply, Total
End Stock
Stocks/Use
(312) 277-0119