

Bottom Line

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Weekly Update

Over the past couple of weeks we have seen the corn market creep higher, some 28-cents higher; this is in stark contrast to the fundamentals of the market. There is no shortage of corn in the US or in South America! The problem of supply stems from the fact that the US farmer is in no need of selling. He has done well the past few years and had presold some of this year's crop at higher levels, so he is very patient right now. This trend is making for a stronger basis, not necessarily the futures. All the while, South American farmers are waiting for some good weather to get their corn combines rolling. They will have a larger crop than they have had in some years, in fact double last year's production. Exports off the US coasts have not been all that great, certainly not bullish. The gigantic bean harvest that is progressing slowly, about 27 percent complete as of this week, in South America should weigh heavily on the market in the next 90-days. In this, meal is the weak sister in the 3-legged bean market. The Obama administration says they will enforce the bio-diesel mandates this year and that means a lot more vegetable oil being used for that purpose; in turn this should mean a lot of meal on the market. Crushers are trying their best to keep sales in the spot to 30-day category as the nearby still holds a premium to the differed, basis levels are dropping in the Midwest due to this. Cash and futures should both erode in the coming months. This should put additional pressure on the corn and wheat markets.

Now is the time of year when Chicago traders think the farmer is still making up his mind on what to plant or how many acres to plant. Right now the revenue per acre favors corn considerably as well as some natural rotations in many areas. Remember, that some 6.2-million acres of winter wheat never got planted and that 3-million acres of CRP acres are coming out this year, adding to potential plantings. Early indications from some of the government offices would tell us that farmers will only plant about 3-5 million of those potential acres; weather willing I think they will all get planted. The market will be very sensitive to the perceived production of next fall; any hint of a threat to plantings and the market will get bullish quickly.

The severe winter weather across the Midwest and East Coast has many calling for the flood potential to be similar to that of 2008. (Anybody remember that year???) With this thought outside money may attempt to blow another bubble and capitalize. Farmer field work is nearly non-existent in the Midwest. Southern states are moving as well as the West Coast but the big production areas are under snow with a warm dry spell on the way. Another note of caution should be summer weather. If we are in Mid-July and the forecast calls for an extended hot and dry period, well let's just say I will want to be on vacation and not near a phone!!!

The past few weeks worth of market rally has been supported by the outside markets of the US dollar, crude oil, gold and the stock market. Every day the dollar is not stronger (let alone a down day) the grains view as supportive. The dollar index is still near 80.5 pushing towards 81, the highest point in nearly a year. Everything I read tells me that the dollar should remain strong for awhile. Even though the US economy is poor, foreign economies are in equal or worse shape.

There is a lot of saber rattling going on between the US and the Chinese right now. China says it is going to restrict some of the money flow out of the country by putting some additional pressures on imports. China has raised a key interest rate in an effort to curb their own financial difficulties. There are weekly rumors of bean shipment cancelations from the US to China and increasing shipments from South American supplies to China.

Dennis