

Crop Marketing STRATEGIES

Bullish November Fundamentals; Using Weekly Charts & Technicals

The Nov. 10 USDA National Ag Statistics Service (NASS) Crop Production and World Agricultural Supply and Demand Estimates (WASDE) reports pegged the U.S. 2020-'21 ending stocks at 1.702 billion bushels. That is a decrease of 465 million bushels from the October estimate of 2.167 billion bushels. The average U.S. corn yield declined by 2.6 bu/A to 175.8 bu/A. Exports increased 325 million bushels to a record 2.650 billion bushel. The average cash price increased by \$.40 to \$4.00 per bushel for the marketing year.

For soybeans, the USDA sees the U.S. 2020-'21 ending stocks at 190 million bushels. That would be a decrease of 100 million bushels from the October report. The average U.S. soybean yield declined by 1.2 bu/A to 50.7 bu/A. Demand remained the same, but the average cash price increased by \$.60 to \$10.40 per bushel for the marketing year.

Also, USDA projected U.S. and world soybean carryover stocks at seven-year lows. These reports sent both corn and soybean futures prices to new contract highs on active fund buying. It is estimated that commodity funds are long about 270,000 contracts in corn and 200,000 in soybeans. With funds already near record long in both futures markets, a new source of futures buying could be of concern.

Global Supply/Demand Issues

China's voracious appetite for soybeans was known. The bigger surprise this fall has been their corn purchases. They're rebuilding their hog herd after African swine fever and weather issues left them with a domestic grain shortfall.

It is estimated that China has already purchased around 17 Million Metric Tons (MMT) (669 million bu) of U.S. corn for 2020-'21 and will likely buy more. Purchases to date put China in line with Japan as the world's second-largest U.S. corn importer, behind only Mexico as the top-buyer.

In the Nov. 10 report, USDA also slashed its 2020 corn crop estimate for Ukraine by 8 MMT (315 million bu). The 28.5 MMT crop would be the country's smallest since 2012-'13. USDA also decreased 8 MMT off Ukraine's 2020-'21 corn export forecast.

The Brazilian state-owned National Supply Company (Conab) estimates Brazil's 2020-'21 soybean crop record 135 MMT, a slight increase from last month. The Brazilian crop statistics agency increased its planted acreage forecast and slightly trimmed yields. The Brazilian corn crop forecast was cut by 300,000 metric tons (MT) to a still-record 104.9 MMT on a slight reduction in full-season corn planted acreage.

Using the Weekly Charts

Market technicians such as Jim Wyckoff works with those that trade commodity futures. He encourages the need to pay close attention to the longer-term weekly and monthly continuation charts for nearby futures. History shows that strong-trending markets tend to gravitate toward historical highs or low prices depicted on these historical charts. Longer-term charts also tend to weed out the sometimes distracting "market noise" that can be seen on the shorter-term daily charts.

The weekly corn futures chart below shows a strong bull market is in play. The next upside target for the bulls is the 2015 and 2016 highs that were notched just below the \$4.40 area. The nearby December corn contract traded at a high of \$4.28 on Nov. 11. Note at the bottom of the chart the Moving Average Convergence Divergence (MACD) indicator. Note the MACD's posture is nearing the same levels of the indicator experienced in both 2015 and 2019. According to Wyckoff, this is an early clue that the latest rally could be nearing its peak sooner rather than later. Once the blue line of the MACD starts to turn down on the weekly chart, that would be a solid clue the corn market has topped.

Weekly Corn Futures Chart



Source: www.jimwyckoff.com, Nov. 17, 2020

The soybean futures market saw a strong upside price movement that began this spring. The next upside price target for the powerful bulls is pushing prices to the 2016 high of \$12.08½, basis nearby futures. The nearby January soybean contract traded as high as \$11.78¼ on Nov. 17.

While the steep price uptrend is presently firmly in place on the weekly chart, note that the Relative Strength Index (RSI) has moved into overbought territory (above 70). The last time the RSI was this high on the weekly chart was the summer of 2016.

Weekly Soybean Futures Chart



Source: www.jimwyckoff.com, Nov. 17, 2020

Conclusion

USDA's November crop reports featured bigger-than-expected cuts to U.S. corn and soybean crop estimates and domestic and global ending stocks. Both corn and soybeans rallied sharply, putting in nearby futures contract highs. After the reports, corn futures struggled to sustain buying and pulled back. The reports signaled the need for higher corn and soybean prices to slow demand and attract more acres for this next year. But with funds already near record long in both markets, a new source of speculative buying may be needed.

Be prepared to sell more of your 2020 soybean crop with the inverted futures carry along with a strengthening basis driven by exports. Consider pricing some of your 2021 new crop soybeans as they trade over \$10 per bushel in the November '21 soybean futures contract. Some processors and elevators "took protection" on their soybean purchases, thus limiting the futures price offered by a few cents.

Corn futures prices should remain strong this winter with great demand both domestically and for export. The lack of large futures price carry and strengthening basis could trigger corn sales but might not occur until January. Consider pricing some 2021 new crop corn as December '21 corn futures trade more than \$4 per bushel.