Grain Market Compass

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Grain markets this month have had their ups and downs as the combines come out of the sheds and fired up. Early bean and corn yields are coming in strong, confirming that big crops will get bigger, and record yields could be real. For most of the month, corn and beans traded sideways, with no fresh news to excite the market.

However, the situation changed with the Fed's decision to cut interest rates, the Chinese government's financial injection into its economy and the persistent dry spell in Brazil, which slowed down planting. These developments, when combined, sparked a short covering rally. As a result, bean prices surged, breaking through resistance levels and corn managed to recover some of its losses.

As I write this, U.S. grains are competitive in the global market and maintaining the needed pace. However, logistical issues are hanging over the grains as we enter harvest. Creeping dryness throughout the Midwest has lowered the Mississippi River levels, meaning less a barge can move at once, increasing the freight cost to float to the Gulf. Another issue weighing on the markets is the rail embargos and backlog of grains into Mexico. The Mexican rail system is struggling to keep up with the increased demand on their rail system, leaving US grains idling on the tracks in Texas. With harvest ramping up in the US, big crops, and space becoming a premium, these factors could slow export opportunities.

When hauling grain to town this fall, examine the grain policies at your respective delivery point. Hefty upfront fees and additional drying charges to stored grain may be more inducive to selling the cash, buying it back or purchasing calls to avoid storage fees, additional shrink/drying and stopping interest at the bank. For example, at a nearby commercial grain elevator in northwest Iowa, their initial fee is 15 cents plus an additional .0018 per day. When I use 8.5% interest at $3.85 cash, it's an additional 3 cents in interest. The market would need to recover 23 cents to offset the first 30 days and an additional 8 cents each month after. On beans, interest elevates the cost to 27 cents for the first 30 days and an additional 12 cents per month with storage and interest. Instead of paying upfront fees, storage and interest, you can sell the cash, lock in a floor and purchase a March at the money corn call for 19 cents or a soybean call at 45 cents. The disadvantage is that you lose basis opportunities, but in a big crop year, it's hard to argue that it will offset it.

In conclusion, the grain market is likely to face challenges in the form of reduced short positions, large yields and logistical issues. It's crucial that we remain vigilant and seize opportunities to sell or implement strategies to secure profits. The market is currently offering a significant carry, and we should capitalize on it for binned grains. However, it's important to remember that commercial space is expensive, and interest rates are not favorable.

Contact me for information on how to receive daily grain comments, recommendations and producer strategies. We can help you whether you are a buyer or seller of corn and beans.

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