Grain and Oilseed Market Outlook

February 9. 2023

Since our last report in mid-November, corn and wheat markets have both adjusted downward and then moved sideways. Canola has mainly moved sideways. Soybeans went up and then moved sideways again. Sideways is a sign that a market is looking for direction, being satisfied with the current price range, but waiting for some event or set of events that will signal which way from here.

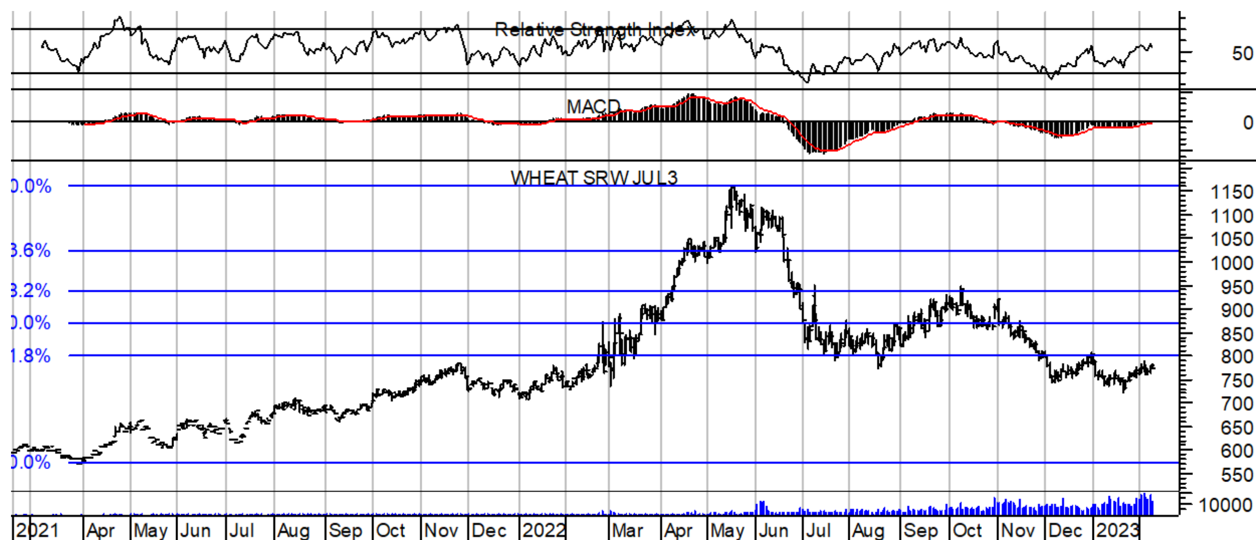
Wheat

The January USDA report added some drama with a surprising increase in US winter wheat acreage, to go along with big crops in Russia and Australia, as well as disappointing US exports so far this crop year. Those factors pulled US prices down, while the continuing conflict in Ukraine and limited rainfall in the US and Argentina kept them from falling farther. USDA's February report didn't change much, though Stats Canada reported a substantial increase in Canadian inventories resulting from the rebound in the 2022 crop.

The July Chicago chart below shows these events: the latest drop occurred in early December. Since then, prices have moved sideways between $7.22 and $8.00, the 61.8% retracement, with the latter providing some mild technical resistance. The divergence between the bar chart and RSI and MACD counters the technical resistance by showing a bullish tendency.

The market is quite sensitive to 2023 crop projections and what causes them to change: the last two days of the chart are up on concerns about moisture in the midwest and then down on snow in South Dakota and an increase in the projected EU crop.

WHEAT SRW JUL 23
(WN3)

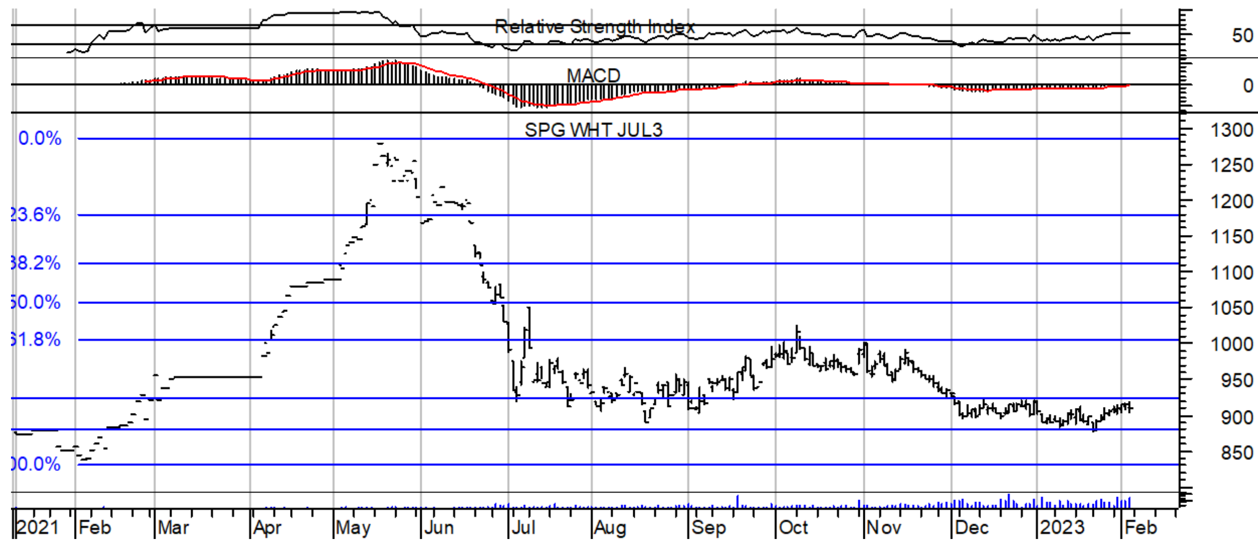


The spring wheat chart has a similar pattern, but is well below the 62% retracement: we put tentative resistance and support planes at the recent highs and lows. Like Chicago, this chart has bullish divergence in spite of recent resistance being met.

What will take these markets outside the ranges they are in? From the perspective of the wheat markets themselves, US weather in March in the US, any changes in the Ukraine conflict, any threat or facilitation of the Europe's or India's 2023 crops, and/or any changes in export demand. Major changes in the corn or soybean markets will spill over to wheat.

With these charts, producers' major risk are moves below the $7.23 level on Chicago and $8.75 on Minneapolis. Likely the best opportunity would be a rally to $9.40 on Chicago ($10.10 Spring). Chicago also has a potential action point at $8.70. One should watch the near resistance plains at $8.00 and $9.25. Failure to move above them could also signal selling action.

Spring Wheat July 23



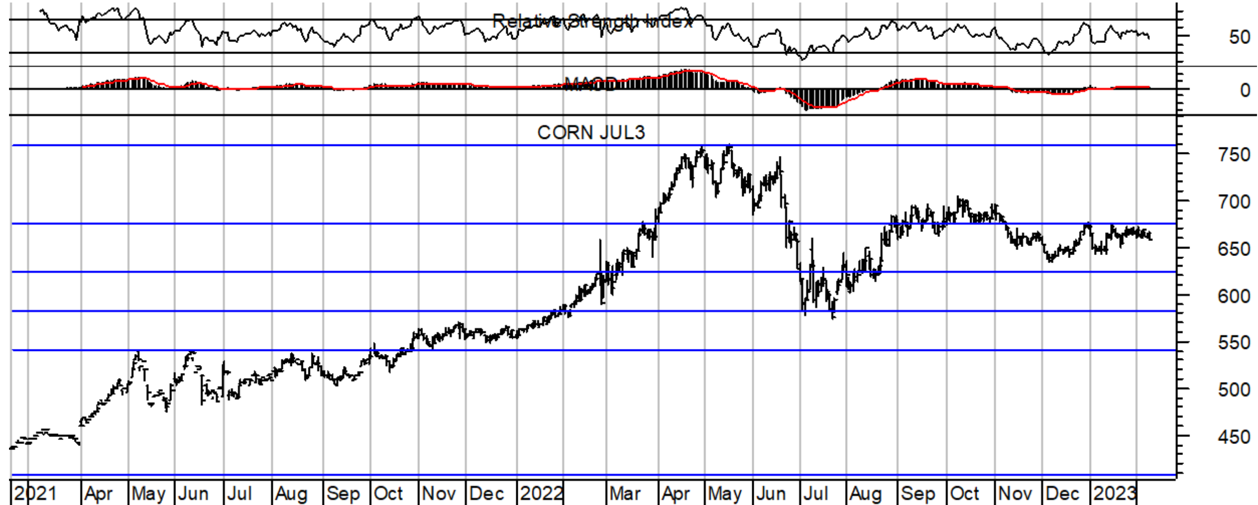
Corn

USDA's February report contained little change, though it did increase projected corn carryover by about the same amount that it dropped its projections of ethanol production, which has been lagging all year. Offsetting this to some extent is that USDA finally acknowledged the drought in Argentina, reducing their expected crop to 45 million tonnes.

The July corn chart below shows that all three of the 23.6, 50 and 61.8 Fibonacci retracements are potentially significant. The 23, at $6.74 and the 50, at $5.84 are the major ones. Prices below the latter one constitute the major risk for producers.

Recent forecasts call for a 2.2% increase in US corn acreage, as the soy/corn price ratio and rapidly falling fertilizer prices cause US producers to favour corn expansion over soy currently. Expansion, normal weather and an apparent large crop in Brazil, as well as continued lagging Chinese export demand, all could be the cause of a potential increase in the US stocks/use ratio above USDA's current 9.0% level. Also, the so-called hedge funds have an extremely large net long position in corn which could drive prices down if/when they decide they're wrong and sell it off.

CORN JULY (CN3)



Soybeans

The soybean market is the wild card because of uncertainty about Brazil's and Argentina's crops and low stocks in the US. Central and Northern Brazil are having too much rain, which has delayed harvest. Argentina is having too little rain, which is affecting production. Most observers have the Brazilian crop at 151-154 million tonnes compared to last year's record of around 125. USDA dropped their estimate of Argentina's to 41, offsetting the fact that they also dropped domestic crush and added that to inventory creating a stocks/use ratio just over 5%.

The combination of a huge potential Brazilian crop, the very low stocks/use ratio, and China's imports are the reasons for beans being the wild card. These are exacerbated by the funds holding a very large net long position in soymeal.

China's imports are behind last year, mainly affecting Brazil so far because of its late harvest. But if China doesn't pick up, Brazil's crop does materialize at or above the expected range, and the funds start to liquidate, US prices could drop substantially because of the fragile stocks position of the US. Of course, the opposite could also occur!

On the July chart below it is clear that the potential support around all three of the top Fibonacci retracements ($14.50, $13.65, and $13.00 are important. Below the $13 area is very risky, especially for people who are highly leveraged. They can provide a roadmap to actions that can be taken to manage risk.

Canola

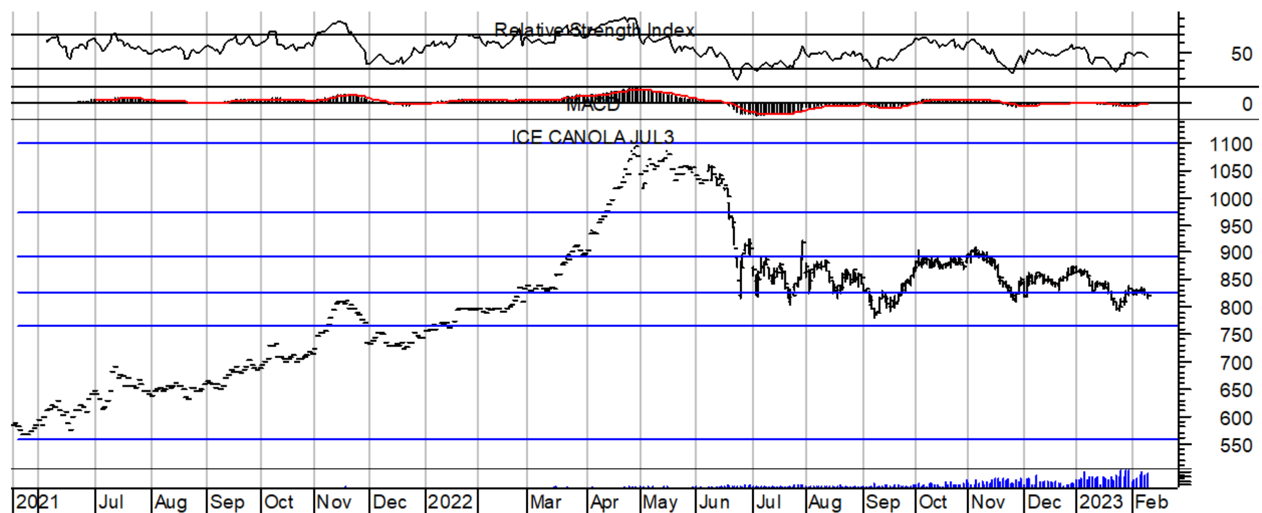
Because of its relatively high oil content, canola is a little more closely related to the soy oil market while beans are a little more related to the meal market. Soy oil, unlike meal, has trended sideways to down in accordance with the much larger palm oil market. Soy oil prices on the July contract have dropped from $.70 in November to $.59 currently, just above a significant support plane at $.58. Canola is also affected by the Canadian dollar since it is traded in Canadian funds instead of US.

The July chart below shows that canola has traded mainly between the 38% and 50% retracements since June ($830 - $910). Most recently it has hovered around $830, currently $821.

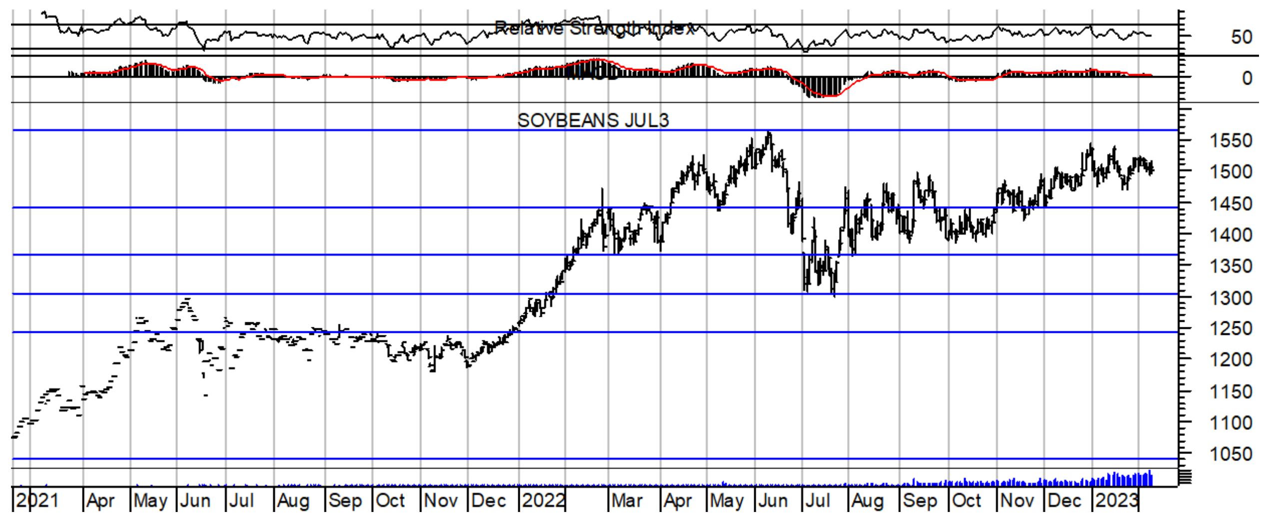
Canola will generally follow the oilseed market, so the risks above affecting soybeans as well as those from soyoil will be important. Indonesia is currently affecting its export policy and both Indonesia and, especially, Malaysia have faced labour shortages that reduced palm oil production. There is also the ongoing fracture between the two exporting countries and the EU's movement away from using palm oil in bio-diesel production.

As with the other commodities, these factors could take prices considerably higher or lower. We see the $780 area as the area below which producers have the most risk. The chart can be useful in adopting ways to protect it, while taking advantage of a possible increase in prices.

ICE CANOLA JUL3
(RSN3)



SOYBEANS JUL3
(SN3)



Relative Strength Index
50
0
SOYBEANS JUL3
1550
1500
1450
1400
1350
1300
1250
1200
1150
1100
1050
2021
Apr
May
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Jul
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2022
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2023