Bubba Trading

TechnoMental Component Report Grains & Meats

11/17/21

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Grains

Soybean, corn, and wheat prices continued to rise after the release of the November WASDE report on November 9. Beans led the way higher on a percentage basis, but wheat has taken the bullish baton with the price of nearby CBOT futures above the $8 per bushel level. Wheat is trading at its highest price since December 2012.

January soybean futures rose 4.95% since November 10 and were at $12.7700 per bushel on November 17. Support on January futures stands at $11.8125, the November 9 low. The beans put in a bullish reversal on the daily chart on November 9, the day of the WASDE report. Technical resistance is at $13.0425, the September 30 high.

Technical resistance at $13.08, $14.79, $16.7725, and $17.9475 per bushel, the all-time 2012 high. Soybeans are at the beginning of the 2021/2022 crop year in Brazil and other growing regions below the equator.

Open interest in the soybean futures market moved 2.90% higher since November 9. Daily price momentum and relative strength indicators were above neutral readings and rising on Wednesday.

The January synthetic soybean crush spread moved 8.25 cents higher since November 10 to $1.8475. The January crush reached a new high for 2021 at $2.0375 on November 16 and made a low for 2021 on March 31 at 71.75 cents. The crush made a higher low at 77.25 on September 10. The level of the crush is a sign of robust demand for soybean products. Volatile conditions in soybean futures translated to high price variance in the crush spread over the past months. Keep an eye on the processing spread as it is a barometer of demand for soybean products. Port and logistical issues in Brazil caused supply shortages. Chinese demand for soybeans and soybean products is critical for the path of least resistance of prices. Soybean planting in Brazil is now underway, and all signs are it has gotten off to an excellent start, weighing on prices. The rise in the crush since early September provides support for soybean prices and signaled a bottom around the time of the November WASDE report. The processing spreads can provide value clues when it comes to bottoms or tops in markets like soybeans.

December corn futures were trading at $5.7525 per bushel on November 17, which was 1.05% higher since the previous report. The continuous corn futures contract rose to a new high of $7.75, which is the chart point for the coarse grain. Open interest in the corn futures market moved 3.78% higher since November 9. Corn's high at $7.75 on May 7 was the highest price since October 2012. While the weather had been the primary factor driving corn prices, energy prices are a significant input for corn as it is the primary ingredient in US ethanol production. Rising oil, gas, and biofuel prices are bullish for corn.

Technical metrics were above neutral territory in the corn futures market as of Wednesday. Support on December corn futures is at the $5.4775 level, the November 9 low. Resistance is nearby at $5.8600 per bushel.

Corn will continue to be sensitive to the price path of gasoline. Ethanol production in the US accounts for approximately 30% of the annual corn crop. The price of the illiquid December ethanol swaps moved 17.65% higher over the past week to the $2.8000 per gallon level. The spread between December gasoline and December ethanol swaps was at 51.97 cents per gallon on Wednesday, with gasoline at a discount to ethanol. The spread moved 43.69 cents lower since November 10 as gasoline edged lower and ethanol exploded higher over the past week. The prospects for ethanol prices are a function of gasoline, crude oil, and corn prices over the coming weeks. Energy gains support the corn futures market.

Nearby CBOT wheat futures rose to a new high at $8.3500 per bushel on November 17, the highest price since December 2012. December CBOT wheat futures moved 2.40% higher since November 10. The December futures were trading at the $8.2225 level on November 17. Open interest moved 5.51% higher over the period in CBOT wheat futures.

Technical resistance on December is at $8.3500 per bushel, the recent high, and $9.4725, the 2012 peak. Support is at $7.6250, the November 8 low. Price momentum and relative strength in CBOT wheat were rising and well above neutral territory on Wednesday.

As of November 10, the KCBT-CBOT spread in December was trading at an 11.75 cents per bushel premium, with KCBT higher than CBOT wheat futures in the December contracts. The spread moved 2.75 cents lower since November 10. The long-term norm for the spread is a 20-30 cents premium for the Kansas City hard red winter wheat over the CBOT soft red winter wheat. The CBOT price reflects the world wheat price, and it is the most liquid wheat futures contract. The KCBT price is often a benchmark for bread manufacturers in the US who purchase the grain from suppliers.

As I had been writing:

"at a discount to CBOT, consumers are not hedging their requirements for KCBT, which is a sign that they continue to buy on a hand-to-mouth basis."

The spread had not traded at a premium for KCBT wheat in years, which was a sign that consumer hedging was increasing as wheat prices continue to make higher highs making them nervous. The potential for a continuation of even higher prices could cause consumers to increase hedging their requirements. Consumers tend to panic when the price moves higher. The KCBT-CBOT spread edged away from long-term norm over the past weeks. Keep an eye on the spread as it could be an excellent barometer of hedging activity and panic buying by consumers over the coming weeks and months. Deteriorating US-Russian relations could also impact the wheat market over the coming months.

Spring MGE wheat was at $10.2700 per bushel on the December contract on November 17, down 19.25 cents over the past week. The spring wheat suffered from adverse weather conditions, creating shortages.

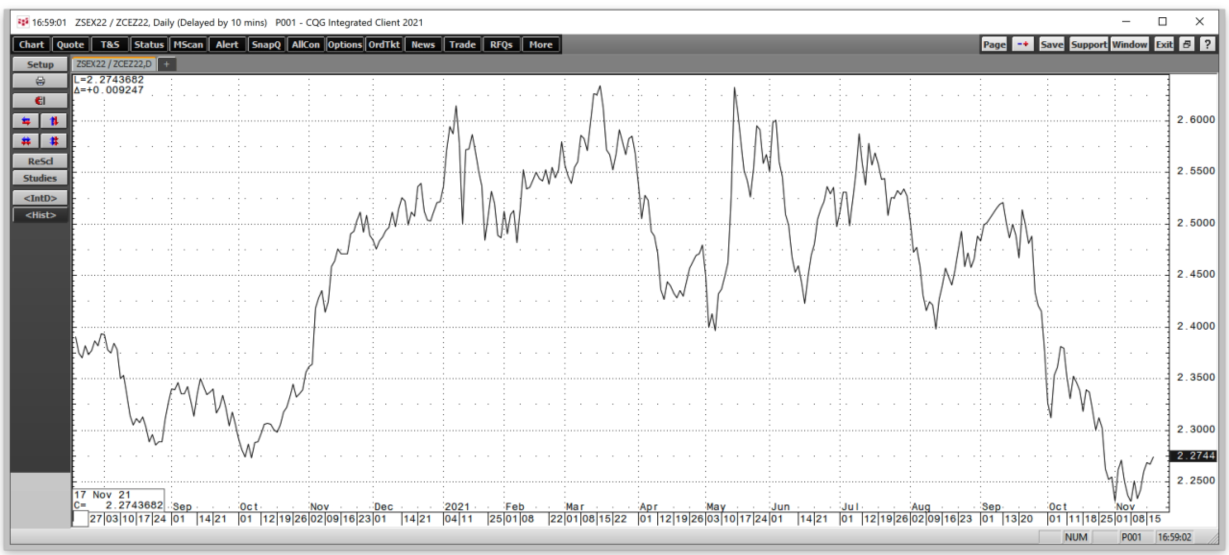
I expect elevated volatility to continue over the coming weeks as the 2021 crop year heads towards the fall harvest. I had been a buyer of grains in the futures and ETF markets over the past months.

Over the past months, I have written:

"From the 2008/2009 lows through 2012, the prices exploded higher in the aftermath of the global financial crisis, which could be a model for 2020 and the coming years."

As always, the weather conditions determine supplies and are the most significant fundamental factor each year. Bull market corrections can be severe. I will be following trends in the grain sector during the harvest.

At the end of the 2021 US crop year, farmers will relax and refresh, but they will be watching the action in the 2022 new crop corn-soybean ratio, which is a guide for planting next spring. When the ratio is below the 2.4:1 level, they tend to plant more corn than beans. When it is over the long-term 2.4:1 level, soybeans offer a better financial result.



Source: CQG

As the chart of soybeans for delivery in November 2022 divided by corn for delivery in December 2022 shows, the ratio below the average at the 2.2744:1 level on November 17 compared to 2.2338:1 on last week's report. The spread moved 0.0406 higher as deferred corn futures underperformed the 2022 new crop soybeans. The ratio has moved towards the long-term average on the downside, but remain below, so farmers are more likely to plant corn instead of soybeans during the spring planting season in the US. The recent decline in the spread makes sense because of corn's role in ethanol production. Keep an eye on the spread over the coming weeks and months as it is an excellent value indicator telling is if beans or corn are historically expensive or cheap.

As I have written over the past weeks:

"The grain and oilseed price action continues to tell us that food prices will remain elevated into 2022."

Prices remain appreciably higher in October 2021 than they were in October 2021. It costs a lot more to eat this year, and the demand is likely to rise with the population, which is not bearish at the current price levels. Wheat is the world's most political commodity, and rising prices and the potential for shortages should send shivers down the spines of worldwide leaders. In the early 2010s, high wheat prices triggered the Arab Spring that began as bread riots in Tunisia and Egypt. Political change swept across North Africa and the Middle East as governments failed to plan for bread shortages. At over $8 per bushel, the temperature is rising. Moreover, since Russia is the world's leading wheat exporter, President Putin has influence in the oil and wheat markets, increasing his status on the world's stage.

Meats

Live cattle futures edged slightly higher since November 10, while feeders posted a more significant gain. Lean hogs also moved to the upside since the previous report.

December live cattle futures were at $1.322250 per pound level, up 0.17% from November 10. Technical resistance is at $1.32625 per pound on the December contract, the November 12 high. Technical support is at $1.28250 per pound level, the October 22 low. Daily price momentum and relative strength indicators were above neutral territory on Wednesday. Open interest in the live cattle futures market moved 2.65% higher since the last report. The disconnect between cattle prices in the futures market and consumer prices at the supermarket created dislocations in the market in 2020. Beef and pork markets are now in the heart of the offseason. Live cattle made higher lows and higher highs from October 2020, reaching a higher high on August 24 when prices turned lower, reflecting seasonal forces. The $1.30 level is a pivot point for nearly live cattle futures.

January feeder cattle futures rallied since November 10, posting a 1.45% gain. November feeder cattle futures were trading at the $1.58925 per pound level with support at $1.56800, the November 12 low, and resistance at the $1.63075 per pound level, the high from October 12. Open interest in feeder cattle futures moved 3.05% higher since the previous report. Sometimes live cattle prices lead feeder cattle prices, while at others, the opposite occurs. Price momentum and relative strength metrics were above neutral conditions on the daily chart on Wednesday. Feeders will be sensitive to corn prices over the coming weeks as feed impacts production costs. Higher corn over the past week did not weigh on the feeder cattle futures.

December lean hog futures moved to 76.175 cents per pound on November 17, which was 0.63% above the level in the previous report. Price momentum and the relative strength index were on either side of neutral territory on November 10. Short-term support on December hogs is at the November 10, 73.700 cents low. Technical resistance on the December futures contract is at 79.475 cents, the October 18 high. Hogs reached 71.775 cents on October 27 when they turned higher after making a higher low. Open interest moved 0.28% lower since November 9. Hogs and cattle prices have been at elevated levels during the offseason for demand.

African Swine Fever continues to be a concern in China. If ASF continues to kill Chinese pigs, we could see an increase in the demand for US pork, which would push lean hog futures higher over the coming weeks and months. China is the world's leading pork-consuming nation. The Chinese own the leading US hog processing company, Smithfield Foods. A Chinese company purchased the Virginia-based company in 2013. Smithfield could divert some of its pork and pork products to China if shortages develop over the coming weeks and months. China has faced substantial challenges with pork supplies over the past years. Rumors of AFS cases in China continue to support pork prices as we enter the offseason for demand in the US.

Meanwhile, bottlenecks at supply plants caused by COVID-19's variants could cause price distortions as supplies of live animals rise, and meat available for consumers falls.

The long-term average for the spread between live cattle and lean hogs is around 1.4 pounds of pork for each pound of beef. The December spread moved lower towards the long-term average over the past week as live cattle far underperformed the lean hog futures.

Source: CQG

Based on settlement prices, the spread was at 1.73580:1 compared to 1.74370:1 in the previous report. The spread fell only 0.790 cents as live cattle, and lean hog futures edged just marginally higher over the past week. The spread edged towards the long-term average of 1.40 over the past week, which is the historical fair value level for the meats. The December cattle-hog spread hit the high at 1.9475 in August 2020. The spread made a low at 1.4474:1 on June 10, 2021. As we are now in the offseason for demand, the spread is above the historical norm and moving towards the August 2020 high.

Cattle are historically more expensive than hogs on the December contracts as the spread is above the 1.4:1 level. Soybean and corn prices will continue to impact cattle and hogs over the coming weeks and months as they are the main ingredients in animal feed products. The live cattle and lean hog futures are rolling to February futures contracts. The COW ETN is illiquid but can be an acceptable substitute for those who do not venture into the futures arena. I remain neutral on the meats, but bullish and bearish factors pull them in opposite directions. Meat prices tend to decline in the fall, but nothing is ordinary about 2022, given the inflationary pressures and rising number of delta variant cases that threaten to cause new supply chain bottlenecks. I will follow the developing trends over the coming weeks and months.