What's Next for the Grain Markets?

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Chicago grain futures markets declined through August. Then they rallied into October based on improving fundamental and technical factors, before nosediving again. Currently, both the "bull bag" and the "bear bag" have factors in them that could determine the next trend. In this paper, we examine both and provide some suggestions on how to determine which way they will go from here.

What Drove Prices Down?

All three of the March 2025 corn, soybeans and wheat charts made contract lows in late August as seen below. For example, corn futures fell from the U$5.70 area in December to U$4.00 by the end of October, as can be seen below, updated to December 6.

Several factors drove prices down, including:

- Very large 2024 US corn and soybean crops
- Better than expected soy and corn crops in Brazil, and recovery of the same in Argentina
- Relatively large wheat crops in Russia, India, and Australia
- Poor export demand for the US.

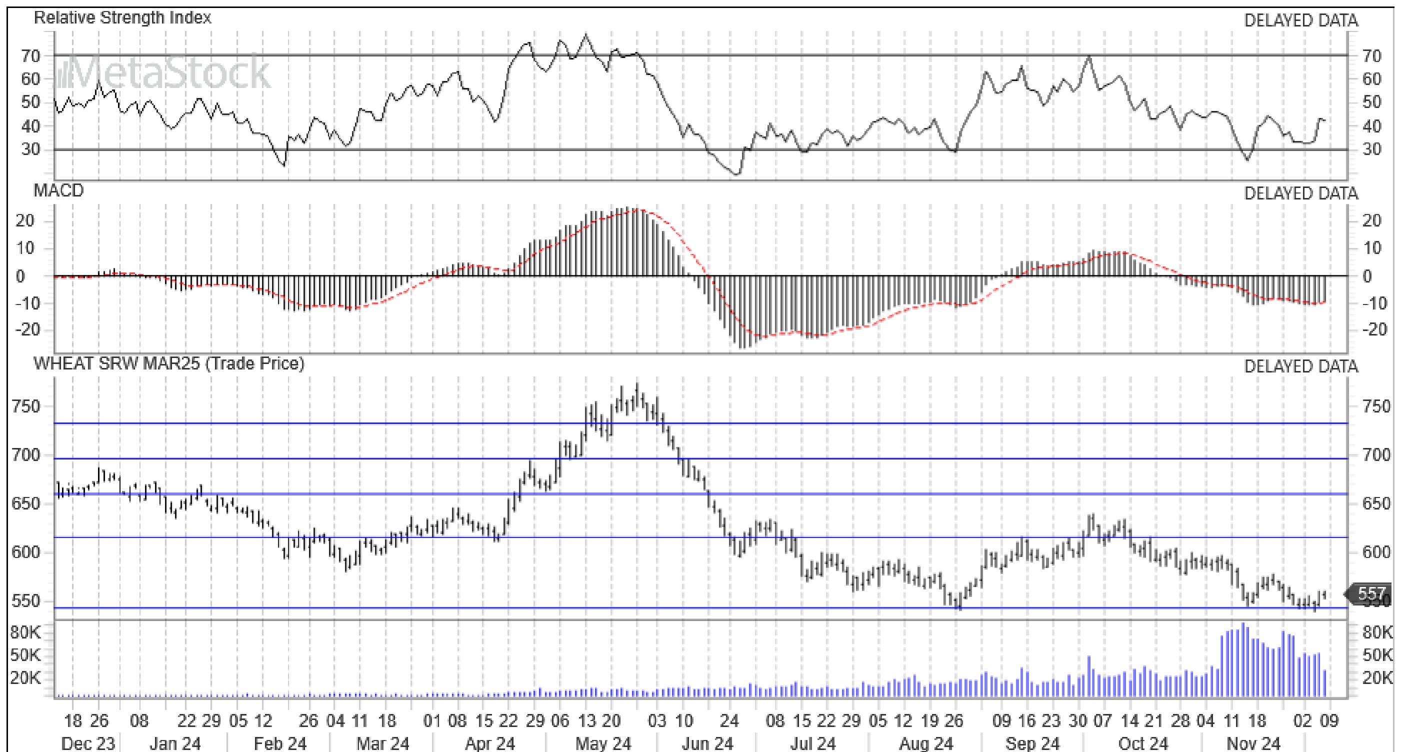
So-called hedge funds in the US were convinced by these factors that prices were too high. They helped them fall with sometimes record net short positions in futures. At their peak, funds were net short over 350,000 contracts in corn, a record, and over 170,000 contracts of soybeans.

Since August

After late August, all three rallied; and all three moved into sideways channels, but corn is at the top of its channel while soy and wheat are near the bottoms. Four major factors that contributed to the end of the downtrends were declines in USDA's estimates of 2024 domestic soybean and corn yields in their November World Supply and Demand Estimates (WASDE); a steady erosion of estimated EU wheat production and quality because of weather conditions; early concerns (before planting) that weather in Brazil could reduce the 2025 soybean crop; and the funds covered most of their short positions.

The Chicago wheat contract (SRW) is below, also through December 6. Like corn, it rallied until the beginning of October, even penetrating the 23.6% Fibonacci retracement, but then fell back, testing the contract lows. Corn stayed nearer the 23% recently, and tested it during the December 6 session. Wheat's weakness after early October came largely from improved weather that increased soil moisture in the US midwest, continued weak US export demand, and improved outlook for Russian weather. The US and Russian factors were seen to affect the 2025 crop because of improved soil conditions.

Soybeans are a different story. As with corn and wheat, soy bottomed at the end of August and rallied



strongly into October, before falling back. The big difference is that soy prices rallied almost to the 38% retracement. This was largely due to weather in Brazil that caused seeding to be late thereby threatening yields of the crop to be harvested mainly in February and March. Also, the funds covered a large portion of their shorts.

Then it rained in Brazil, seeding happened, and traders became concerned about a large Brazilian drop. US export demand stayed disappointing into October. So, soybeans fell back, following meal prices, which

are shown for March below soybeans.

Meal actually made new lows as supplies are plentiful and demand for livestock feed is constrained, at least for the beef industry, because of continuing herd liquidation. As the final chart in this series shows,

soybean oil offset meal by continuing higher on strong palm oil prices and the expanding markets for vegetable oil

as an energy substitute. It rallied all the way to the 50% Fibonacci retracement in early November before dropping back through the 23%. This is, in part, following a weak crude oil market, which has plenty of supply and weak Chinese demand, as well as weakness in the increasingly well-supplied natural gas market.

What's Next?

We've just shown that all three grains developed sideways channels bounded on the bottom by the end of August lows, slightly above the 23% retracements for corn and wheat and just below the 38%

retracement for soybeans. The fact that wheat and soybeans were supported at the contract lows is also significant. It implies that traders have not seen market evidence to realize prices lower than support.

Also note that from a technical perspective, we have solid bullish divergence on all three: when they made their August price lows, the MACD and RSI for all three were not at their lows. MACD and RSI are indicators of momentum: when the lows were made, they didn't have much downward momentum compared to

earlier periods when prices were falling. This is often the case when markets are about to change directions.

There are some market fundamentals to go along with the technicals that could support a rally in prices:

- US soybean and corn export sales have been strong for at least five weeks and domestic crush of soybeans was record high in both October and November. These are indicators of stronger demand than was seen earlier. They should lead to reductions in the stocks-to-use ratios for the two products when USDA releases its December WASDE report on Tuesday.
- If they do, it will be the third month that Stocks/Use ratios have declined, which is bullish for grains. The big question about exports is, of course, what Trump will do on trade policy after January 20, whether the surge in exports is simply buying ahead because of tariff fears, and how many of those sales will be canceled.
- Concerns are again being raised about drought in Brazil and its potential to reduce the soy and corn crops. Current estimates are in the 172 MT range for soybeans and 135 for corn. If a drought does occur, forecast lower numbers than these will be positive. Timely rains will not be!
- Reports out of Russia suggest that grain growing regions in that country have been hit by poor weather that could affect its 2025 crop. In addition, Russia increased their minimum export prices, increased their export tariffs, and lowered their export quotas a couple of times recently. These factors have fed a small bounce in the past few days.

  (Note that this is the second time this year the market "killed" the 2025 Brazilian and Russian crops, as was the 2025 US winter wheat crop just after it was planted because of a shortage of soil moisture. Of course, it rained in the midwest and now the market is expecting a bumper crop. That US winter wheat crop usually gets "killed" again when arctic air moves south in January or February. So, we need to take all of these factors with a large, cynical, grain of salt.)

- But these are the factors that people are talking about currently and upon which pricing decisions are being made. As indicated earlier, the funds moved to a small net long position in corn and have stayed net long for several weeks. For soybeans, they remain net short, but the position is minor and not affecting the market much. They are net short wheat and those positions are increasing, but still relatively minor at under 70,000 contracts.

What to Watch For

This report identifies several chart points that will likely indicate the directions and, potentially, the limits of the next set of trends.

- All three products have major support at those October lows. The charts identify the prices for each; eg $4.02 5/8 for corn. A breakout below those numbers should be considered to cover for producers. Where we are now on wheat and soy is a good place to cover for end users.
- All three have resistance as identified above. The 23% and 38% retracements are shown on the charts. The rally tops for corn and wheat in October were at $4.52 ¼ and $6.28 3/4. If you are interested in using Minneapolis or Kansas City wheat, they topped and bottomed on the same dates, so the equivalents can be found on the appropriate charts.

A breakout above or below these ranges isn't terribly likely until market fundamentals do change. So, in the short-term, protecting against the tops for producers, and against the bottoms for end users is likely a prudent strategy. But the fundamentals will change. They always do. So, a longer-term strategy should be based on what you do in case of the breakouts.