MACROFUND

MACROFUND RESEARCH

Website : www.macrofund.com
Email : research@macrofund.com

May 13, 2024

QUARTERLY CORN REPORT

Good News | ~~Bad News~~

Corn Will Be the New Go-To Trade:
Corn may surpass copper as the go-to commodity for gauging economic sentiment as Dr. Copper loses its key commodity status. Due to sanctions in Russia and stockpiling by Chinese EV companies, copper is experiencing an unusual rally. In contrast, corn remains a reliable barometer of economic activity, insulated from geopolitical fluctuations and integral to the food and energy sectors. This positions corn at the foundation of the economy, unlike copper, which has become an instrument of manipulation.

Corn Sentiment Is Incredibly Bearish:
Corn sentiment remains bearish, characterized by significant stockpiles, flat ethanol demand, and only modest increases in global demand. This is balanced by production increases in Brazil, China, and the EU, offset by decreases in the US and Argentina.

Forward Curve Indicates Rising Prices:
The forward curve unusually indicates rising prices from July 2024 to July 2025, deviating from typical seasonal declines and signaling an anticipated price increase.

Brazil is Reshaping the Corn Trade:
Brazil's emergence as a major corn exporter is reshaping market seasonality, influencing global supply dynamics.

Production Costs Are High and Rising:
In the US, we project that high and rising production costs, estimated at $870 per acre, will significantly reduce US corn acreage compared to the 2015-2020 average.

Weather Uncertainties Are Significant:
Recent severe weather events have introduced significant uncertainties, which could potentially disrupt planting schedules and yields in major corn-producing regions.

Geopolitical Risks:
Increased US military aid to Ukraine suggests an escalating conflict with Russia, with potential NATO involvement that could impact key agricultural markets. Despite the low likelihood of enforcing a no-fly zone or direct attacks from NATO soil, continued military support, including the provision of weapons and ammunition, is anticipated.

Noteworthy is the training of Ukrainians by Denmark and The Netherlands in NATO countries — to fly F-16s, underscoring increased involvement and potential regional instability.

Market Vulnerabilities:
The market's sharp response to the May 10 WASDE report, which revealed unexpectedly low stockpiles, highlights the sensitivity of corn prices to supply shocks. Notably, option volatility remains low at approximately 24.7% for December given the magnitude of recent price movements, suggesting that the market may not be fully pricing in the potential for further disruptions.

Federal Reserve Policy Projection:
We predict that the Fed will cut rates this summer due to economic events, market liquidity needs and potentially unreported balance sheet weaknesses in banks. Any rate cut in this still-inflationary environment would likely be very bullish for corn.

Risk Premium Adjustments:
Due to ongoing geopolitical uncertainties, including the election and the war in Ukraine, we expect a modest risk premium to gradually rise in forward corn prices.

Trade Ideas:
Position for Upside Breakout: Buy backdated corn futures (back months) and call spreads. We anticipate a trend reversal, evidenced by bullish anomalies, particularly the unusual movements in the curvature of the September and December 2024 futures contracts. Additionally, implied volatility that peaks at 28.71% in September suggests a significant market move in Q3.