

# Wet Midwest Spring and (video) How To Use Commodity Spreads So Your Portfolio Does Not Go Upside Down

by Jim Roemer | May 2, 2022 | Members



**The stronger dollar and rising interest rates do not normally bode well for most commodities, but it is the stock market that is taking the biggest hit right now. This report focuses in on commodity spreads, the easing of the Plains wheat drought, and potential corn planting delays and more. Using spreads in this crazy global, chaotic, environment can often mitigate commodity trading risks... similar to shorting out-of-the-money call options in order to preserve profits in your stock portfolio.**

## **In this Report:**

Video: What are commodity spreads?

A look at historical May commodity spreads

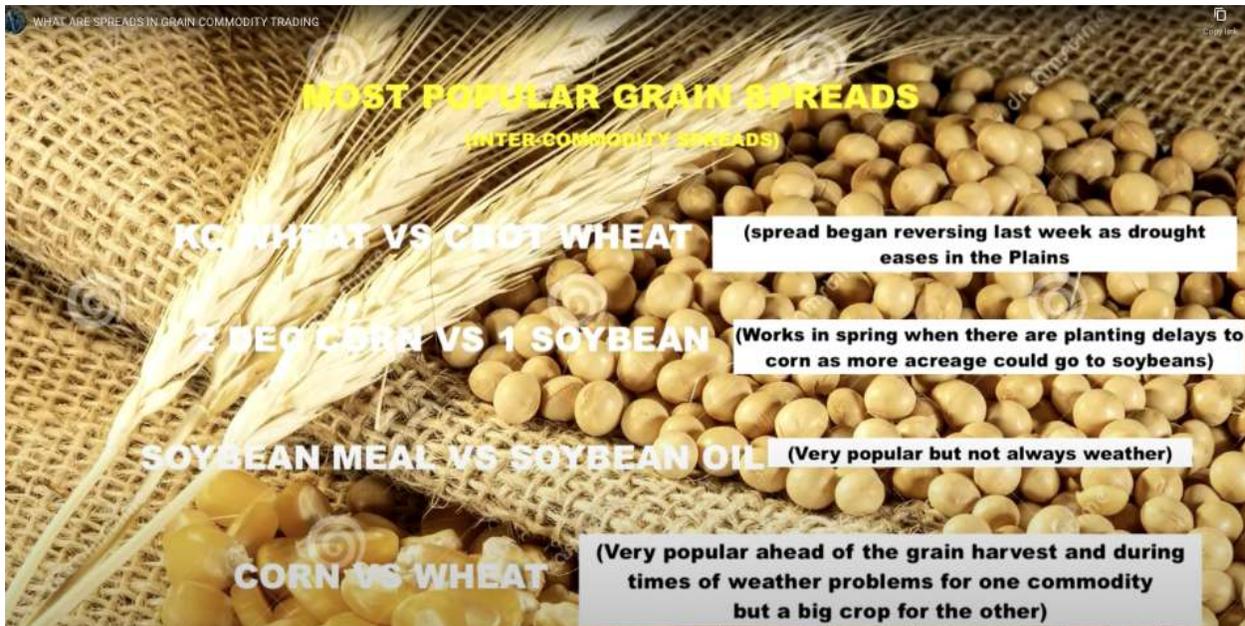
Extreme global weather continues

Wet Midwest Weather and a look at the big spring 1993 and 2008 bull markets in corn

How I called the easing of the Plains wheat drought quite early, but market could rally back due to upcoming crop ratings

Wet Australian weather

# What are commodity spreads? (VIDEO)



[CLICK HERE to watch above video about using commodity spreads to hedge risk](#)

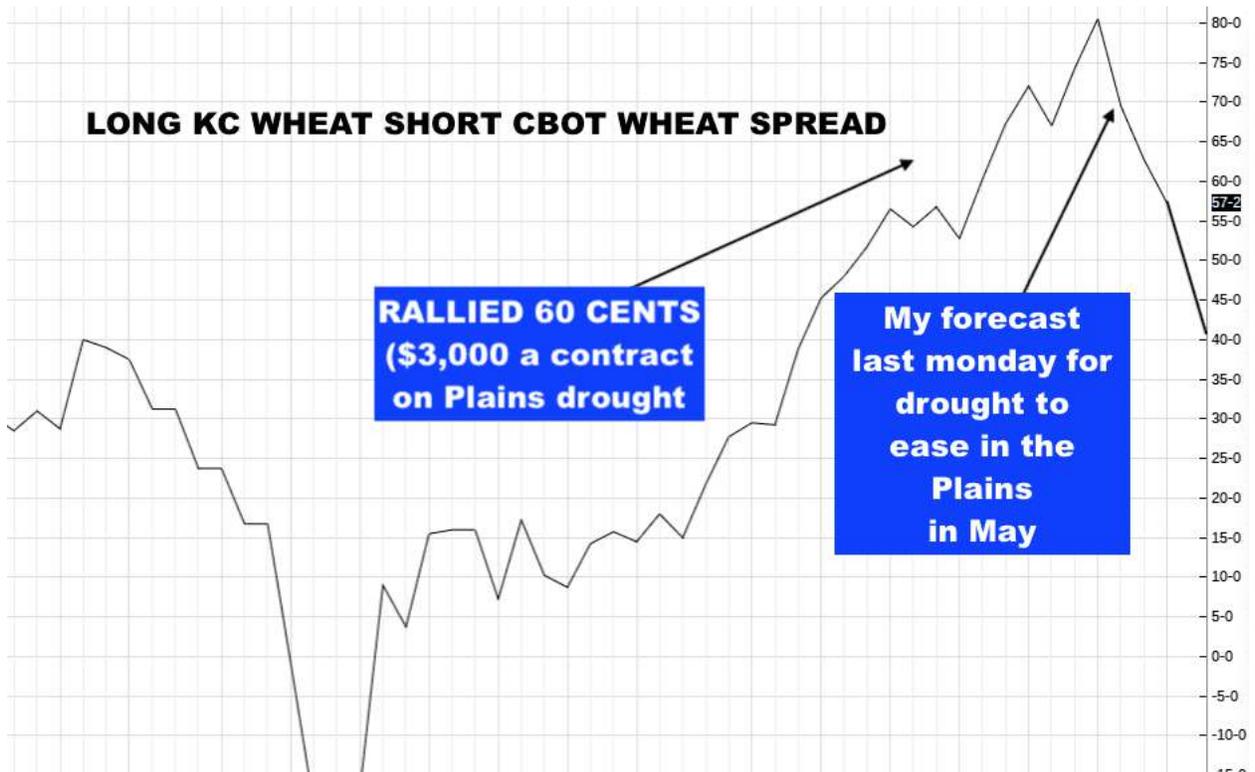
# A look at historical May wheat spreads

May 2022 Spreads										
	Seasonal Strategy	Entry Date	Exit Date	Win Pct	Win Years	Loss Years	Total Years	Average Profit	Avg PPD/ Days	
5529	Buy Jan Soybeans(CBOT) - SF3 Sell Aug Soybeans(CBOT) - SQ2	5/2	6/11	93	14	1	15	682	17/41	
5530	Buy Dec Copper(CMX) - HGZ2 Sell Jul Copper(CMX) - HGN2	5/3	6/16	93	14	1	15	303	7/45	
5531	Buy Oct RBOB Gasoline(NYM) - RBV2 Sell Oct Crude Oil(NYM) - CLV2	5/6	5/28	100	15	0	15	1306	57/23	
5532	Buy Sep Wheat(CBOT) - WU2 Sell Sep Wheat(KCBT) - KWU2	5/9	7/15	100	15	0	15	849	12/68	
5533	Buy Dec Soybean Meal(CBOT) - SMZ2 Sell Sep Soybean Meal(CBOT) - SMU2	5/12	6/23	93	14	1	15	414	10/43	
5534	Buy Feb Live Cattle(CME) - LCG3 Sell Aug Live Cattle(CME) - LCQ2	5/12	7/12	87	13	2	15	780	13/62	
5535	Buy Aug Gold(CMX) - GCQ2 Sell 2 Oct Platinum(NYMEX) - PLV2	5/17	7/11	93	14	1	15	5413	97/56	
5536	Buy Apr Lean Hogs(CME) - HEJ3 Sell Oct Lean Hogs(CME) - HEV2	5/18	7/10	93	14	1	15	1279	24/54	
5537	Buy Nov Soybeans(CBOT) - SX2 Sell Aug Soybeans(CBOT) - SQ2	5/19	6/10	100	15	0	15	600	26/23	
5538	Buy Jan Crude Oil(NYM) - CLF3 Sell Jan NY Harbor ULSD(NYM) - HOF3	5/22	7/17	93	14	1	15	1155	20/57	
5539	Buy Dec Live Cattle(CME) - LCZ2 Sell Dec Lean Hogs(CME) - HEZ2	5/22	7/19	93	14	1	15	1140	19/59	
5540	Buy Nov Soybeans(CBOT) - SX2 Sell Dec Wheat(KCBT) - KWZ2	5/26	6/10	87	13	2	15	1614	101/16	
5541	Buy Sep Swiss Franc(CME) - SFU2 Sell Sep Japanese Yen(CME) - JYU2	5/26	6/29	87	13	2	15	1605	46/35	
5542	Buy Sep Australian Dollar(CME) - ADU2 Sell Sep Canadian Dollar(CME) - CDU2	5/29	6/15	87	13	2	15	763	42/18	
5543	Buy Jan RBOB Gasoline(NYM) - RBF3 Sell Jan NY Harbor ULSD(NYM) - HOF3	5/29	7/15	93	14	1	15	738	15/48	

Source: Moore Research Center

Above are some historically popular spreads for the month of May. Many of these are not weather-related for the moment. The spread that has the most weather in it has been in July KC wheat vs. July CBOT wheat.

Notice how, for 15 years in a row, some of the spreads (e.g., soybeans and gasoline-vs.-crude oil) have worked every time. While there is no guarantee these trends will continue, gasoline prices outperforming crude, for example, would get more of a boost if the Russia-Ukraine war continues.



A brutal diesel shortage is behind the squeeze in New York ULSD futures, with inventories in the US East Coast at the lowest in 26 years. But it's a global diesel problem, as I warned in this [@bopinion](#) column more than a month ago



[bloomberg.com](https://www.bloomberg.com)

### The Oil Price Rally Is Bad. The Diesel Crisis Is Far Worse

Diesel is the workhorse of the global economy. And prices have surged in recent days to an all-time high.

8

38

125



Globally, the situation with diesel, crude oil and heating oil will greatly affect these energy spreads in the weeks to come.

## Extreme global weather continues

Flooding in the deep southern U.S., record April snows a week or two ago for the Dakotas, a recent one-in-20 years for South American grains, a near-record U.S. tornado season, record India heat, and the mega-drought out West. These are just a few of the many weather extremes. Some of these will have important implications for commodities in the weeks and months ahead.

For example, even though the Indian heatwave is lower than their wheat crop, it is India's sugar, cotton, and other crops whose weather will have an important summer and fall impact. By the way, record April heat in India does NOT necessarily mean a terrible monsoon and higher sugar prices. I will discuss more of this in due time.

[Click Here for Tornado Video—Just incredible what happened last weekend.](#)



Last Updated 2 days ago

# Temperatures break monthly records in India as heat wave scorches region

Reuters

1 minute read



1/4

Workers use their helmets to pour water to cool themselves off near a construction site on a hot summer day on the outskirts of Ahmedabad, India, April 30, 2022. REUTERS/Amit Dave



**Parts of India recorded their highest average temperatures on record in April**, and the scorching weather is expected to stretch into May, authorities said on Saturday.

India and neighboring Pakistan have been suffering from extreme heatwaves this year, melting pavements, forcing school closures, and triggering health and fire alerts.

Northwest and central India recorded average maximum temperatures of 35.9°C and 37.78°C (96.6°F and 100°F) respectively in April, the Director-General of the Indian Meteorological Department told reporters.

---

## Megadrought Threatens California Power Blackouts This Summer

Low hydropower means more gas, and possible blackouts.



The Oroville Dam spillway at Lake Oroville during a drought in 2021. *Photographer: David Paul Morris/Bloomberg*

The **western drought** has caused Lake Meade, the most important lake that supplies millions of people with water in the southwest, to see the lowest water levels since 1971.

## Wet Midwest Weather, Cool Soil Temperatures for Corn Planting and a Look at the 1993 and 2008 problems

Soil temperatures in much of the Midwest have been too cool for corn planting, especially in the northern Plains where two major blizzards hit the Dakotas and parts of Minnesota.

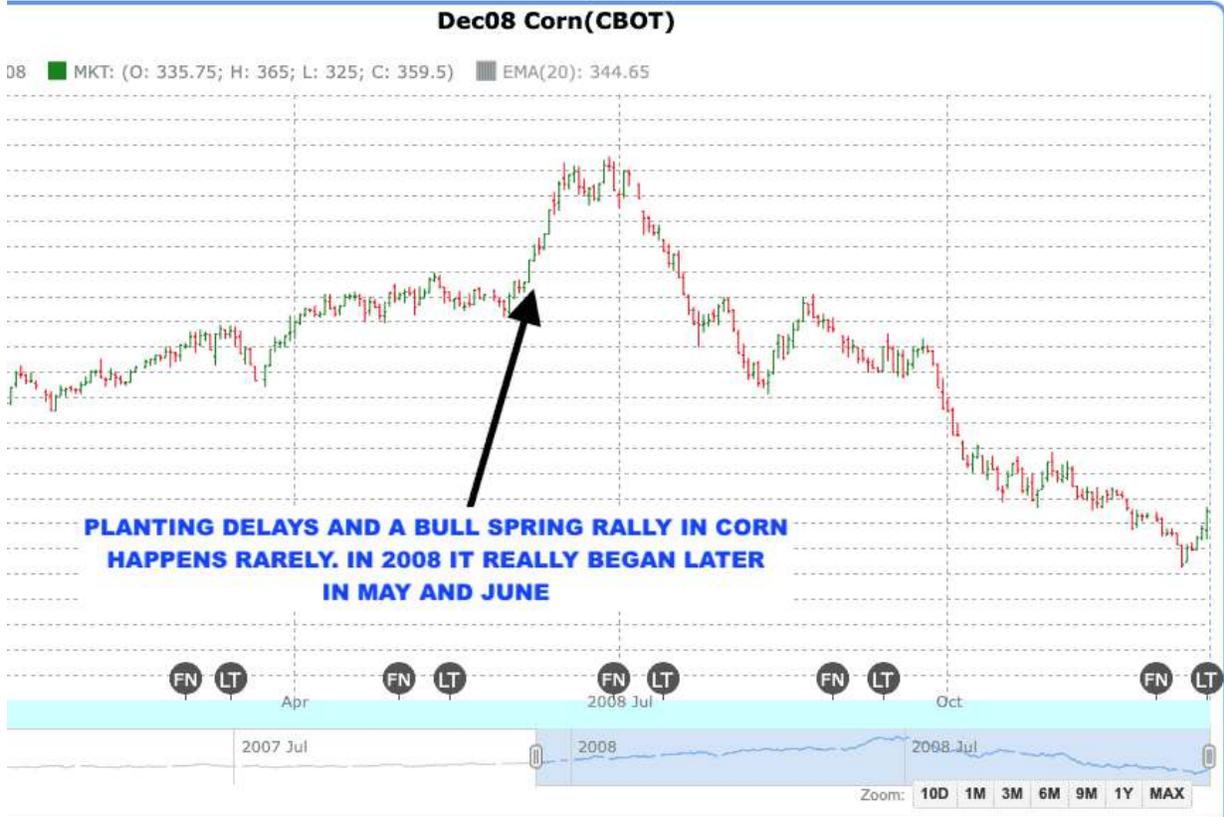
The weather patterns look wet for the Midwest well into Mid May. If it lasts longer than this, than this would potentially be bullish new crop corn and bearish new crop soybeans. (This might lead to some farmers to shift acreage allocations.)

For the eastern corn belt, rains are needed after a dry period recently. In the western and southern belt, tornadoes, severe weather, and flooding could potentially impact corn yields in parts of the Dakotas, Nebraska, Iowa, Missouri, Minnesota, and the deep south.

It is rare to see a major wet weather grain rally on planting delays, but it can happen. Most notably was the historic Midwest flooding in May and June of 1993 and planting delays in late May and June of 2008.

**Below: the great floods along the Illinois and Mississippi Rivers in June and July 1993**



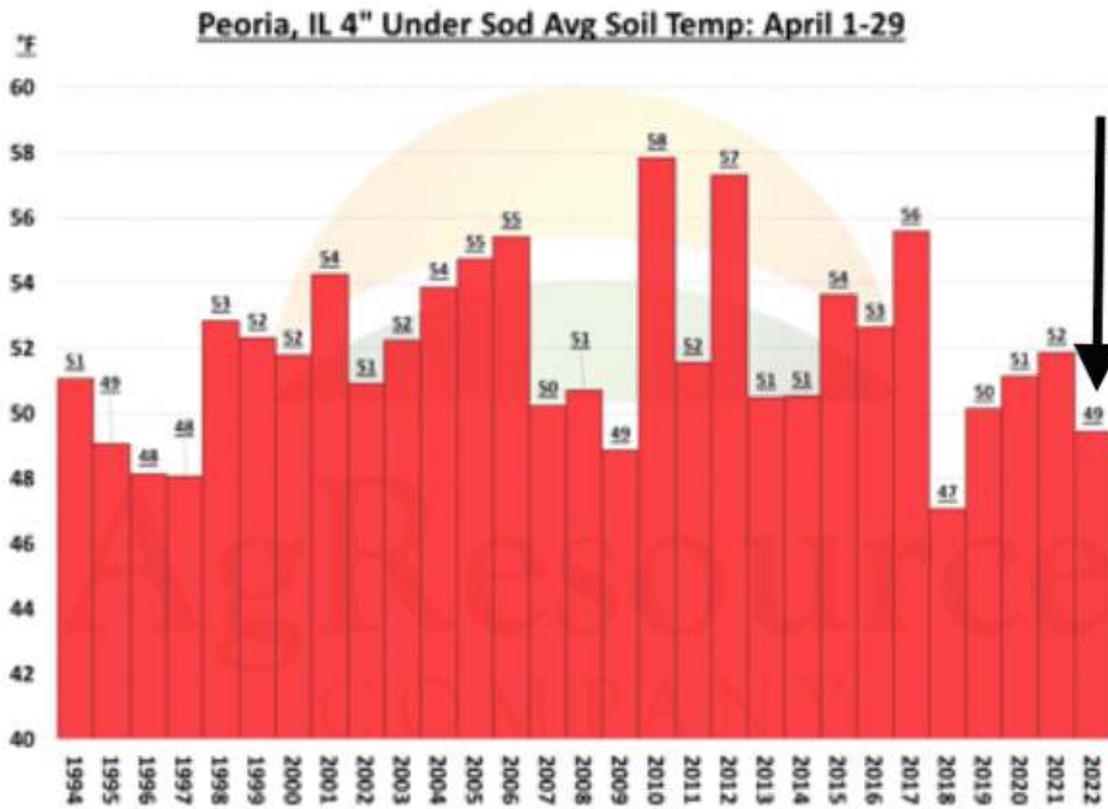




**The two commodity charts above show a spring rally is possible in corn,** but often occurs later in May or June from planting delays. Notice in both cases, however, that grain prices collapsed later in the summer and into harvest. Why? Normal to cool July and August weather still helped yields to be above the trend-line, amazingly enough. The huge late spring rally was a result of millions of acres flooded out or left unplanted.

Another point is the ongoing heat and drought to Brazil's second corn crop. Some rains are on the way, but it is questionable that it will be sufficient. This had helped old crop July corn rally.

::



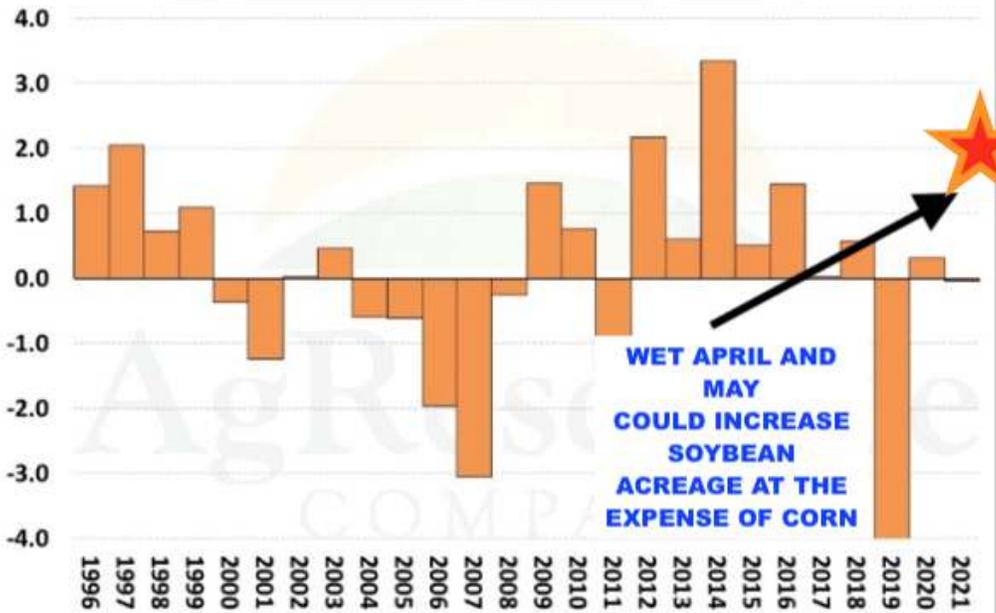
Present soil temperatures are too cool across the Midwest (chart above)

Corn has been outperforming soybeans since the late March planting intentions report (chart below)

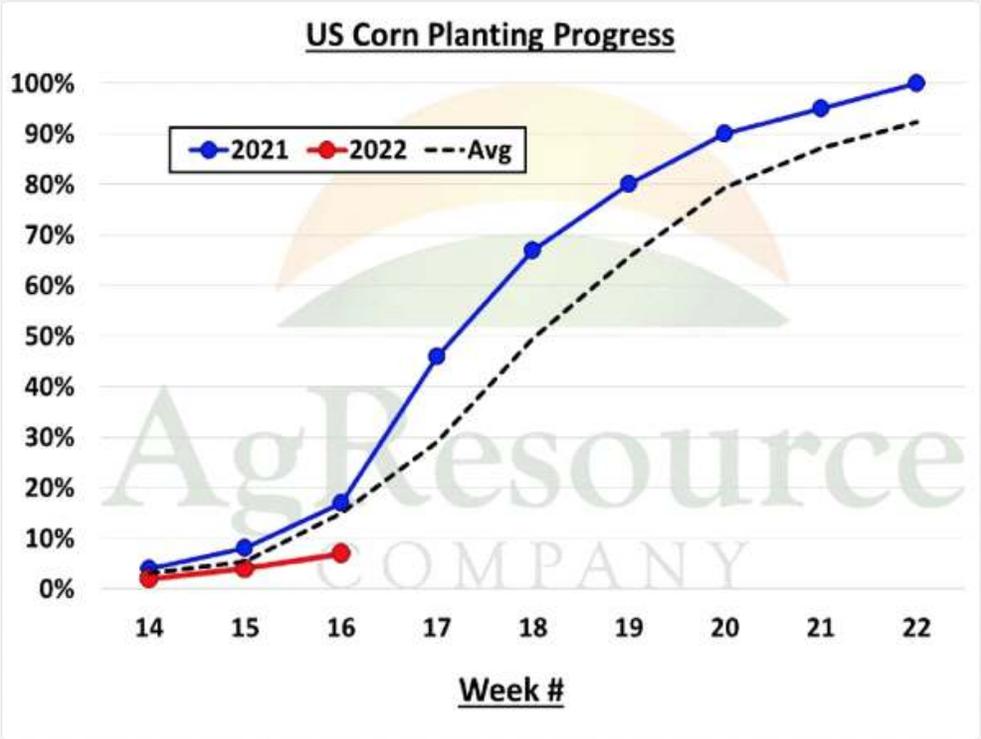


;

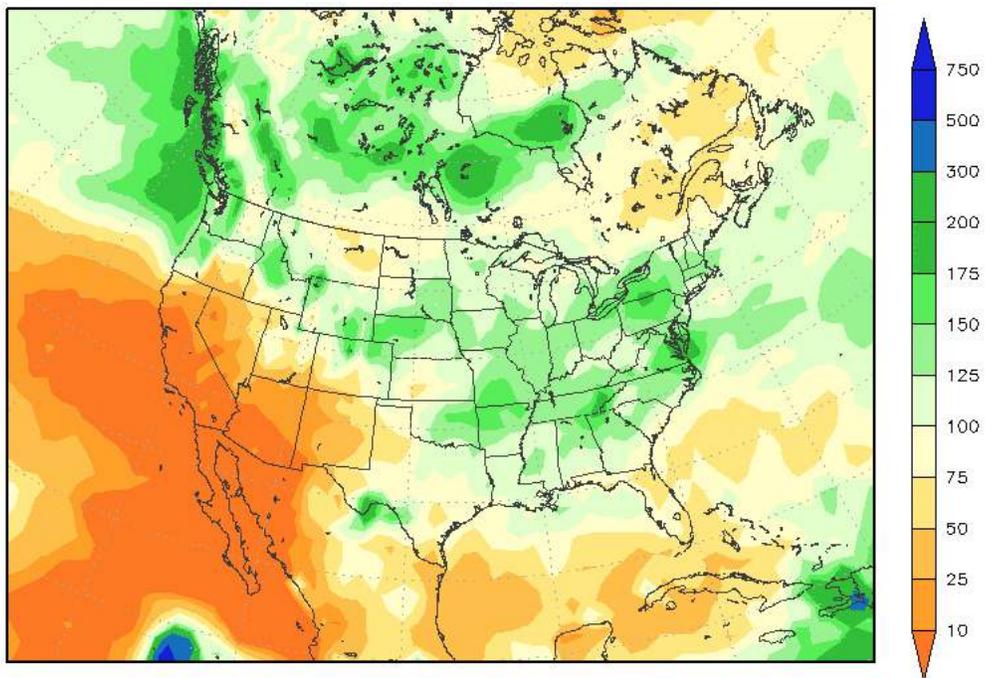
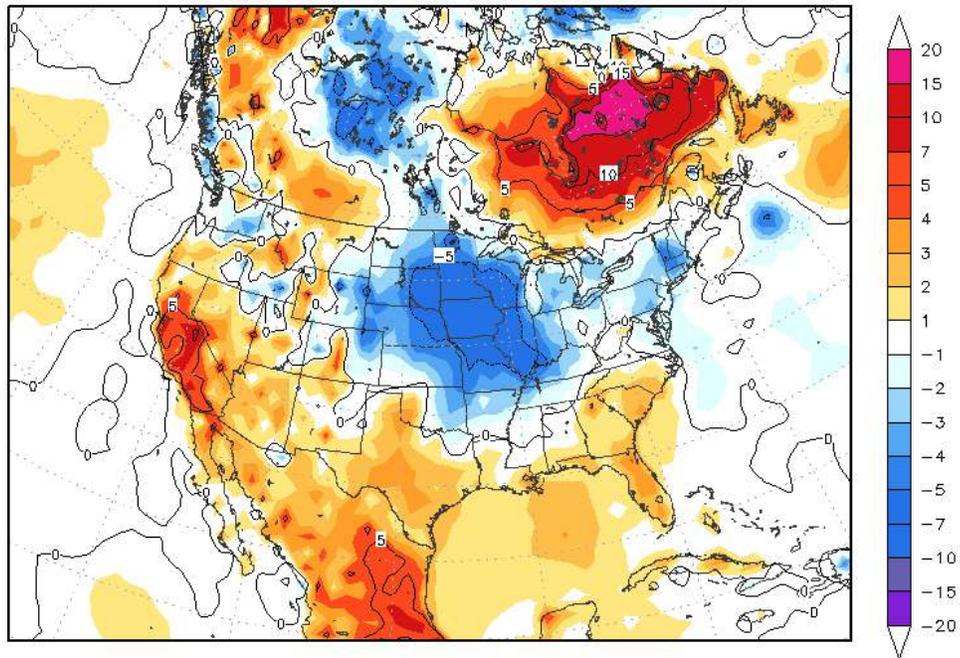
### Soybean Acre Changes In June (Mil Acres)



Corn planting delays continue, while drought areas for Plains wheat shrink (chart below)



# TOO COOL AND WET FOR MIDWEST AND DEEP SOUTH CORN AND COTTON PLANTING (maps below)



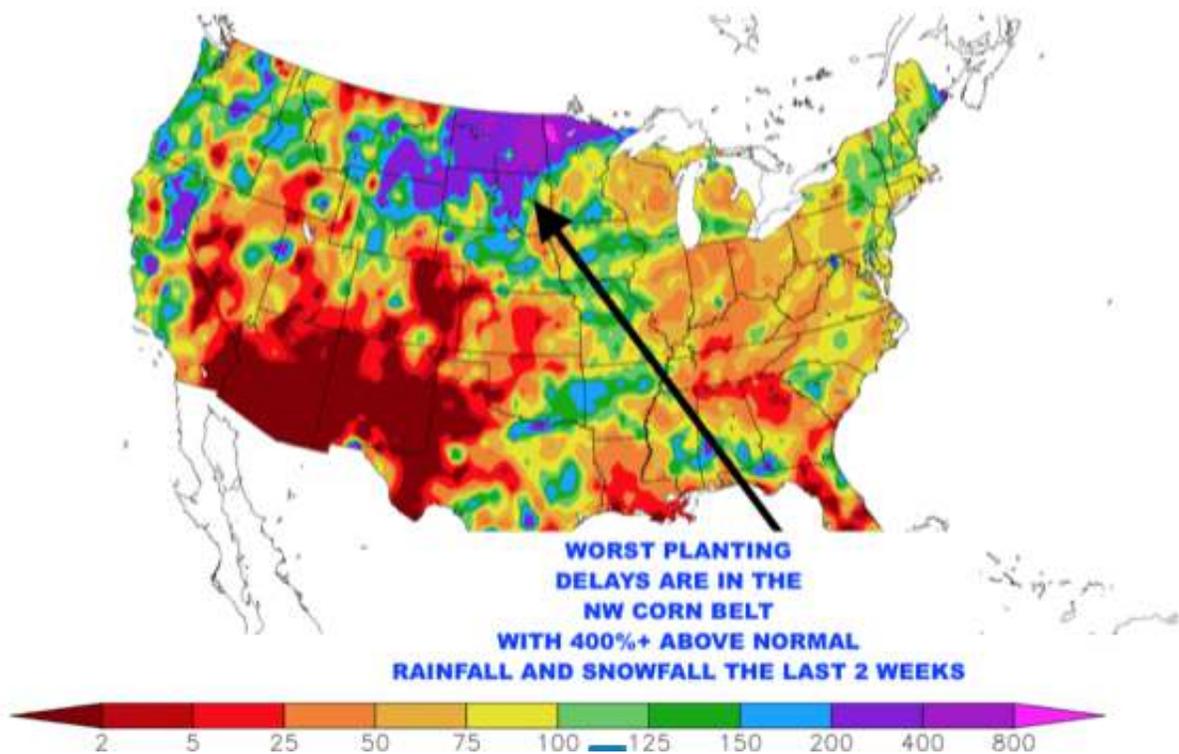
© 2022 The Weather Channel and Weather.com

Init: 12z Sun 01 May 2022

The two maps above show the continuation of cooler and wetter than normal weather for Midwest grain planting for the next two weeks and the easing of the Plains wheat drought.

The collapse in wheat prices is due to drought easing rains in the Plains and generally good conditions in Europe. In addition (Russia-Ukraine war aside), this has helped to drag down corn prices. Rains are needed in the central and eastern corn belt, so, currently, there are not yet any MAJOR weather problems for a large area of U.S. corn. Therefore, there has been some profit-taking at these high prices.

Percent of Normal Precipitation (%)  
4/17/2022 – 4/30/2022



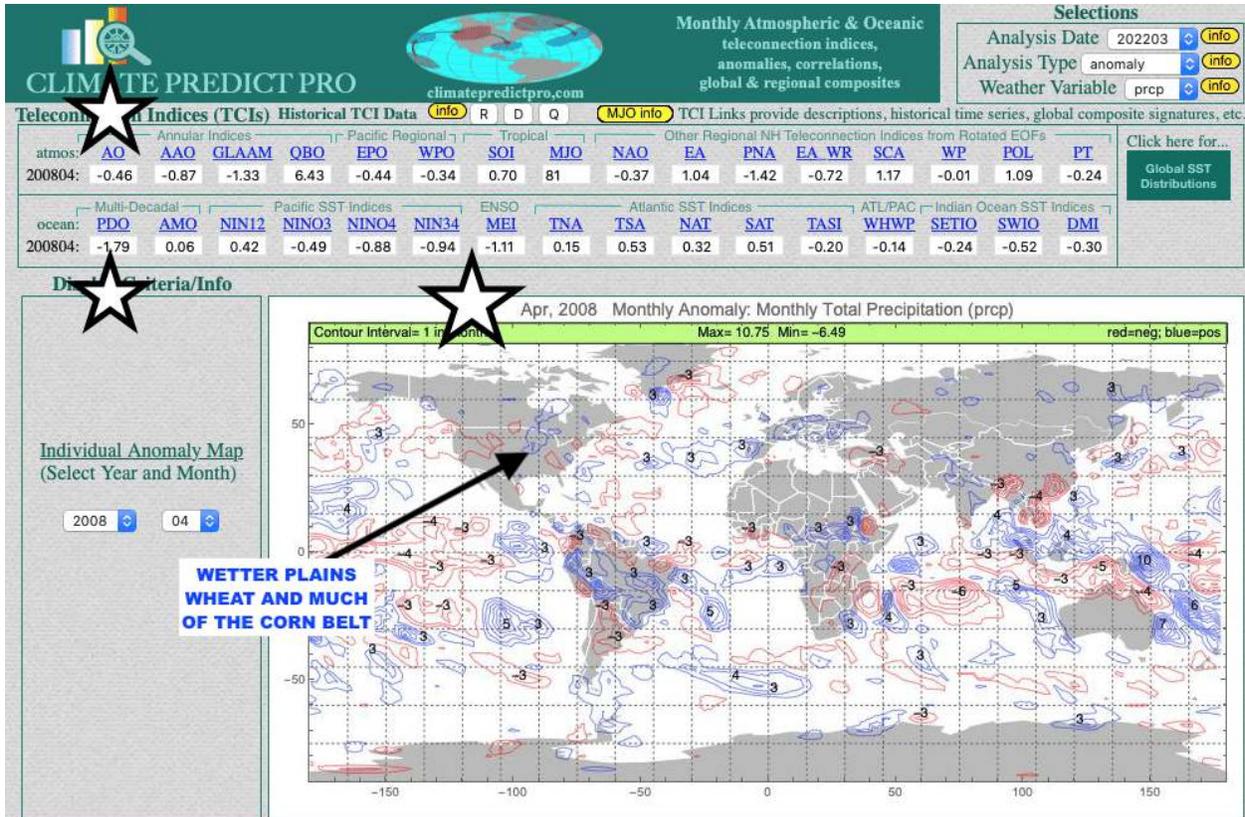
## How I called the easing of the Plains wheat drought quite early

The wheat market can watch weather and crop conditions, not only in the Plains, and Midwest but also in Europe and Russia. This can be a ton to follow and to try and gauge. However, the big news stories of late have of course been the Plains drought and the Russia-Ukraine war with concerns about less exportable wheat.

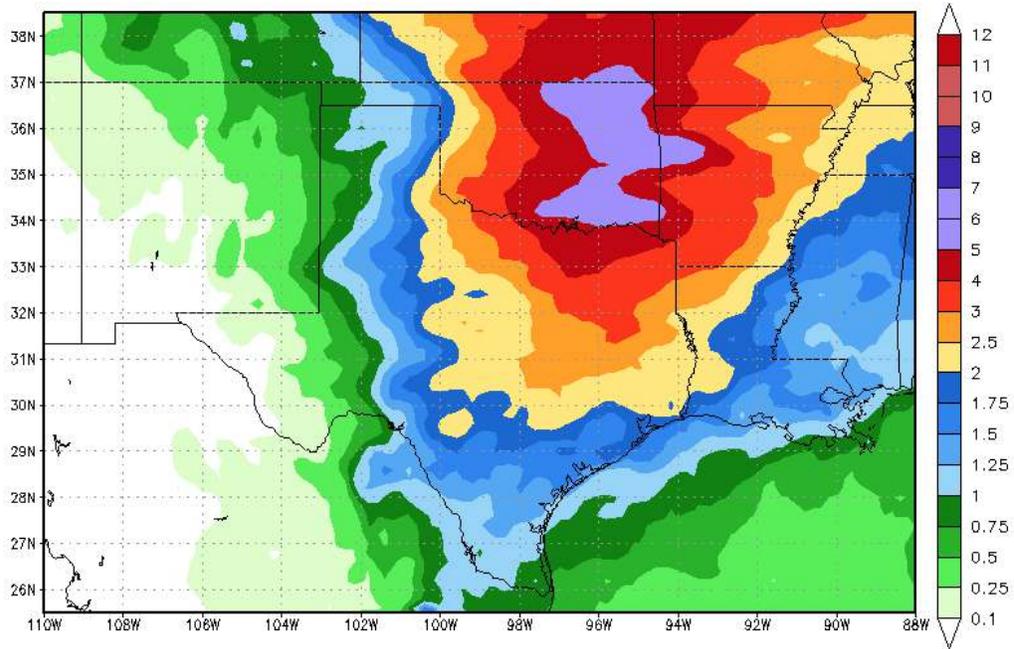
Wheat prices collapsed on Friday and early Monday. Those of you who saw my quick update Friday may have profited before the major collapse in prices a few hours later. Look for wheat prices to possibly be higher Monday evening on another friendly weekly crop condition report, due to recent dryness.

However, big-time rains up to 2-4" in parts of the Plains this week should mean that modest rallies can be shorted in wheat, in my opinion. The one caveat is still the war and also whether flooding in the Midwest may eventually damage the CBOT soft red wheat crops in parts of Illinois and the deep south.

Climate Predict shows my forecast a week ago before the mini-collapse in wheat. Last Monday's prediction that the drought would ease in the Plains and wet Midwest was based on a similar La Niña event, a negative Arctic Oscillation Index that resulted in a cool April, and also a negative PDO index.



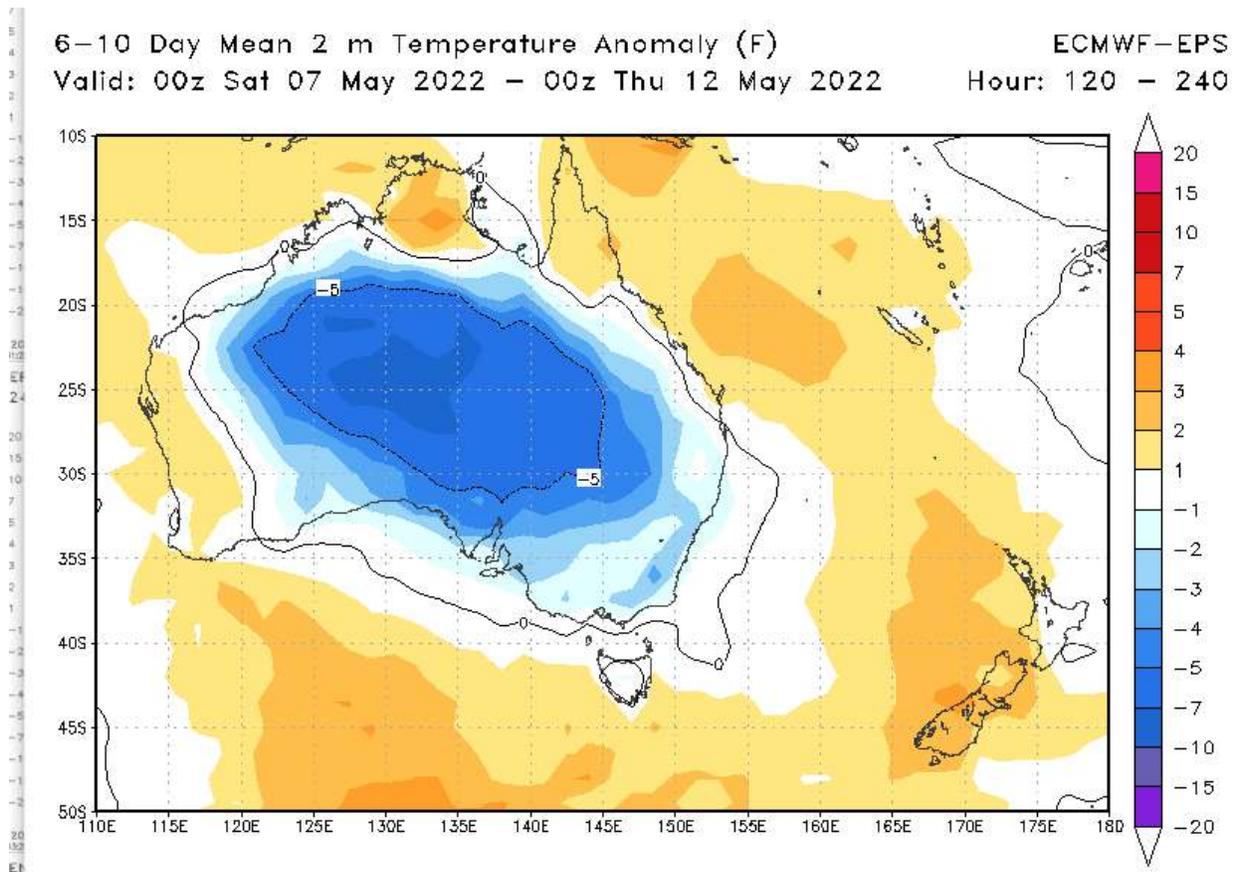
You can see how models turned a lot wetter like I expected for the Midwest and Plains over the next 1-2 weeks.

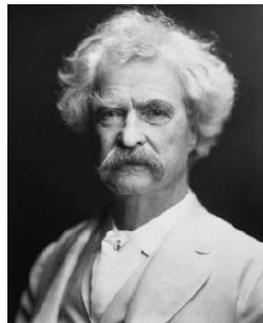
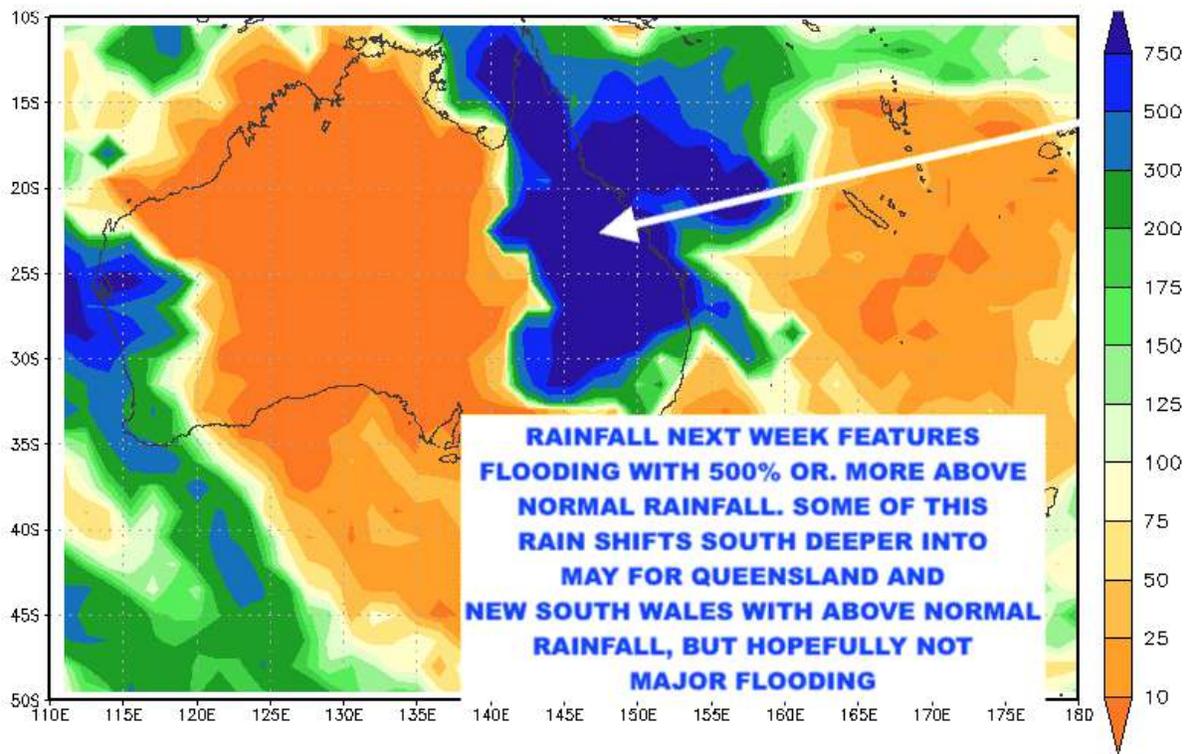


**Rainfall projections in inches, next 2 weeks**

# Quick Look at Australian Weather

La Niña and the Indian Dipole going neutral to negative means above normal rainfall and even some flooding in some areas the next week or two. This has sort of been a long-term trend since last fall in some areas. Cool, wet weather will be the rule for next week or two.





"In the Spring, I've counted 136 different kinds of weather inside of 24 hours."

~ Mark Twain

Thanks for reading,  
*Jim Roemer & Scott Mathews*



*bestweatherinc.com*