February 26, 2016 **#1540**

LOOKING FORWARD WITH A BACKWARD GLANCE

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Sales Recommendations: None. We have been pushing how hard for how long. The story won't change for another 4 months. Last week we said, ***"As beans have little upside potential, you can price a percentage of new crop November bushels at $8.90, if you need to catch up or make some sales. That would put old crop March at $8.80."*** The rally came and went; now down over 30-cents from Monday's high. That's the last rally in grains we'll be looking to recommend sales. We'll now be looking to re-own all sales in June. Our next MNU will be issued by March 6th, 2016. Forward sales should be up to 50% on corn and beans for 2015, and up to 25% on 2017. Those who can re-own can be more aggressive.

Quick View: As stated last week, ***"Markets are flat, working sideways, but also building a wedge from which we believe price will eventually break lower. Sales need to be made against downtrend lines."*** We texted this week, ***"As warned, prices broke down. Beans break uptrend support, as does corn. Meal prints new contract low close."*** Chicago wheat printed new contract lows, also breaking major support at $4.50, with March closing today at $4.432. Oats hammered lower, where trading over $2.00 last week, fell over 30 cents, down to $1.70 today. Do we worry where oats goes so goes grains? Wheat's new low close will continue to pressure corn prices. Banker forced grain sales to pay bills, as reference several times over the last few months, has been sighted for this week's break in prices. Major support is not far away for corn and beans; $3.50 and $8.50, respectively.

Corn: The Outlook Forum didn't give anything good to corn this week. Projecting ahead, they came up with 1.977 bb carryover, compared to todays of 1.890 bb. They did this with about 90 ma and a yield of 168 b/a. That 90 ma was up about 2 ma from last year. The average guess was 89.7 ma. Export sales continue to kill this market. This week's sales were short of last week's again. Cumulative sales are at 63.5% of USDA's forecast vs. the 5-year average of 75.5%. The IGC raised their 2015/16 global crop size to 969 mts vs. 959 mts. They also see a 1% expansion in corn area in 2016/17. We'll be looking to re-own all past corn sales around June 22nd, give or take 6 trading days; if conditions warrant.

Beans: We felt the 3 ma reduction in wheat acres would most be felt by beans. Not so by the Outlook Forum. That had the acre push going to corn, reducing bean acres from last year's 82.7 ma to 82.5 ma. This reduction, using a yield projection of 46.7 b/a vs. last year's 48 b/a, increasing crush by 20 mb and exports by 135 mb, gave them an ending stocks number of just 450 mb, compared to an earlier estimate near 515 mb and today's carryover number of 450 mb. Some might wonder why beans are going down on these numbers. We'll argue that no one knows what the acres will be yet. Also, forced selling by those who did not make early sales is pressuring prices, short term. March should see corn and bean prices flat lining into the USDA's March 31st Plantings Intentions Report. That's after prices go down to test current lows. History suggests these lows will hold through March. Long term trends in all grains remain lower. Remember our long term deflationary trend. South American bean production can be as much as 6 mmts above current estimates. Look for 1 to 2 mmts being added to our monthly USDA reports. That will keep a negative tilt to prices for the next 3 months. It also changes the trend of decreasing world stocks. That has been supporting a 4-month uptrend in November 16 futures, until yesterday. Cumulative bean sales are at 91.3% of USDA's forecast, compared to the 5-year average of 92.4%. Will be looking to recommend re-ownership of all past bean sales around June 22nd, give or take 6 trading days; again, if conditions warrant.

Wheat: Ending stocks for wheat for 2016/17 came in at 989 mts. That was a bit positive seeing how the trade had estimated 1005 mts, up from 966 mts this year. India production was lowered about 8 mts and Ukraine down up to 4 mts. The market is leaning very bearish, with Funds holding record shorts in KC wheat futures. New life of contract lows in Chicago and KC wheat this week emphasize this point. Rains are forecasted to reach the major growing areas in the U.S. in the next two weeks; perfect timing for the crop. Cumulative sales stand at 83.8% this year vs. the 5-year average of 86.3%. We'll stay bearish to wheat, as well as all grains, as U.S. weather is improving and more competition from Argentina and the EU. EU export licenses for soft wheat were up 3.9% from the previous week. The IGC raised their 2015/16 global wheat size up 1 mmts, to 732 mts. Technicals remain decidedly bearish wheat prices, as do the fundamentals *(Supply/demand balance sheets)*. Breaking $4.50 in lead month, Chicago futures, opens the door to $4.00. Some support will be found around $4.40.

Corn vs. Beans: Though more acres will go to sunflowers, canola and other small grains, the big question is if the majority will be going to corn or beans. If you pencil for potential return, that crop that has the best chance of breaking even for most producers is corn. Beans do cost less to put in. Those producers who have financial problems may opt for beans. But if you want to have a chance of breaking even, you'll be forced to plant corn. That gives you the best chance. Going to soybeans, for most, will guarantee a loss of income this year.

Set Aside: A producer asked about our government creating a paid set aside, due to low prices. We say no for many reasons. Many already took advantage of our paid set-aside. It's called CRP. Depending on your county, prices ranged over $300/acre for a 10-year deal. A set-aside is a double edged sword. We cut acres to raise prices and the higher prices that may come raises prices to foreign nations that have lower production costs. They end up increasing acres, keeping prices low. It is no different than what is happening in the energy sector. Our bigger issue today is our currency trends. Again, look at the future prices for the Brazilian real for the next 10 years. If that sharp downdraft holds true, their competitive advantage, which is already very large, will continue to grow. That will keep them increasing acres; killing our markets here.

Energy/Fertilizer: Seasonal timing for a low in fuel and fertilizers has just past. Did you book anything? Fuel prices at the pump jumped 10 cents here this week. We recommended getting some coverage, at least 25%. Most fertilizers moved lower again this last month. MAP and UAN32 saw a 5% price fall over last month so far, with anhydrous sliding around 7%. We have yet to recommend purchasing any fertilizer. Looking at the price chart, it appears prices are falling even faster. We'd like to see that trend stop first before buying. Missing the low by a week surely isn't a bad thing if you have to wait another 4 weeks before price either stops moving lower, or worse, turns higher? It's something to think about. Here is a longer term thought. If you can own crude oil under $20/barrel, how many of your input costs would you hedge and for how long? Consider everything you must purchase that's created from oil: fertilizers, chemicals, fuels, NG. Now turn those dollar costs into actual expenses every year and take that times 5 years. How many dollars of expenses do you need to hedge to offset higher energy costs over the next 5 years? And when and how would you do it? We'll offer suggestions next week.