**June 30, 2016** **#1561**

# LOOKING FORWARD WITH A BACKWARD GLANCE

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**Sales Recommendations:** No Sales. Forward recommendations have been 50% on corn & beans for 2016; and up to 25% on 2017. Next MNU will be issued by July 10th.

**Quick View:** All that will matter after today's report will be weather. That is where all have turned their focus. July 12th will see the USDA work in all these numbers. Knowing them, they will not do a straight pass through. If they did, they would just confirm the bearish numbers seen today. What is interesting is that the trade is saying the bean rally is because of long term weather forecasts of hot and dry in August. Apparently, corn has escaped their earlier hot and dry forecast for July. We are sure they will get it right sooner or later. Just to show you their confusion, click here. https://twitter.com/ebertgrainfarms/status/748524302782210049/photo/1

**USDA:** As written, all their numbers were bearish. **Corn** acres were probably the biggest surprise, up to 94.15 ma. While up 7% from last year, it was up nearly 1.5 ma from the average guess. That would add about 250 mb to next year's carryover. Best projection this early would take that to 2.15 bb. Their last projection under the earlier estimate was 1.9 bb. While acres and stocks are both higher, the wrench in this is the 200 mb decrease in this quarters usage over last year's; same quarter. That has to be an adjustment from last quarter for projecting too much demand, likely from increased feeding. We know there are more animals on feed from all sectors. Thus, they are again "managing" numbers from one quarter to the next. Wheat prices have allowed that commodity to become more of a feed grain, cutting into corn demand for feed. That is going to continue for some time, helping to decrease U.S. and world consumption of corn. All this allowed for their numbers to show corn stocks up 6% from a year ago at this time.

**Soybean** numbers were also bearish against trade expectations. Quarterly stocks were up nearly 40 mb over the average guess. Acres came in very close to the average guess, with record plantings in MI, MN, NY, ND, OH, PA, and WI. *(Let's not forget any second planted acres following wheat is not being counted in these numbers.)* Bushels stored on the farm were estimated up 14% over last year and off farm, up 55%. March to May disappearance came in 5% less that the same time last year; everything neutral at best, if not outright bearish. And the trade jacks price $.50 right after the numbers were released? The trade showed us that here is one time their focus is not on the numbers. They are only looking at what might yet be with weather and considering the risk of being short or long; or about the trend in world stocks, which will come out in the next USDA report on July 12th.

**Wheat** acres were up over 1 ma from average trade guesses. Quarterly stocks were as projected. While negative, how negative at current price levels? All wheats managed to close higher today. Winter wheat acres were down 7% from last year. Spring wheat planted acres down 8%. The durum acreage was up 11%. Off farm stocks were projected 30% higher from last year and off farm stocks up 31%. There's little if anything negative left to reveal. On the other hand, there is nothing out there bullish. That is the real rub for wheat. Mother Nature is doing nothing at this time to fix the wheat price problem. Everyone is looking at La Nina to do something. The first salvo in this entire equation occurred down in South America with flooding conditions just before and during harvest. This fall in the U.S., we should be looking at the opposite; should be. If that does occur, that will be our wakeup call to something real behind the cooler waters stepping into our future weather events.

**Corn:** If you look at 2016 December corn futures, it has retraced 100% of its rally; $3.65. This being the end of the month, odds are corn is now done going down – for a while. Tuesday, July 5th, it will all be about weather once again; if not starting tomorrow. Current forecasts have rains and cooler for another week or so. After that, who really knows? Our long term trends tell us we should expect at least 1 or 2 more waves of heat, maybe tied to dryness, this growing season. You see how the Funds have not cared so much about corn. We still see the corn about out of danger from any significant crop losses that would support a fall low above $3.50. Think about that statement. With the increased acres, future summer price rallies will be muted just because of those extra acres. All those who receive at least two inches, either in this last week or by mid-week next week, will have a very strong chance of seeing trend to above trend yields. The only factor that could change that is a significant period of heat and drought. Like every year, some will not have a great crop, while others will have record yields. The net is all we care about when it comes to prices. A "normal" fall low will occur if the crop does not take a hit later this summer. At this time, all is good. Two weeks from now, we'll see if that story still has value.

**Beans:** Like everyone else, we're saying "What the h---?" It's not often price immediately tells us the USDA's numbers don't matter. But we know they do; just not today. Yes, it might be an end of the month thing. It also might be spreading between corn and beans and wheat and beans. Sell either of those and buy beans. And it could be the world view looking at world stocks and telling the market they still want more bean acres. Are they telling the wheat producer go ahead and plant beans immediately after harvest as you still have a shot at $11.00 cash for new crop beans? Yet, this price rise could all be about betting on that which they keep putting front and center? The bean crop is made in August and that is going to be a very hot and dry month. Funds have decided soybeans are their play this year. The unknown remains unknown in beans until the week of July 13. If the two week forecast still contains no heat, no drought, price will stutter, and not move higher without reason. Price will find support on speculation, until that time. For now, it is the tale of 3 cities. Corn and wheat are out of it. The Funds could really care less. And if they are spreading, that also says they remain negative on those two and selling them as a spread reduces their risk and or cost of buying the beans. From the technical side, July beans did not put in a new high close, but it did post a reversal higher. Meal failed to continue its rally, sliding slowly lower since the 12 o'clock hour. Beans are most likely to challenge their old highs. Price should fail, solely based on the top we believe has been set in the meal. It still all comes back to weather. Numbers don't lie. There is nothing bullish in today's numbers. The Money just has other visions about future possibilities; hope and prayer.

**Wheat:** One of the most negative things any market can have when it comes to price, is when we lose an export tender to another nation. Our wheat price will normally take a price hit of $.10, if not $.20. What is worse to price is if a nation rejects a shipment. Egypt rejected a U.S. wheat shipment last week. Look what happened to price since last Thursday. While price started its freefall to $4.00 in K.C. wheat Tuesday last week, this news only added to the price fall after support gave way. This $.50 cent price break would be normal from May 15 through July 1 under a normal yield situation. Though normal, price held well because of beans strong rally. Hope was that major support at $4.50 would hold. That hope was fading, as price kept testing values below $4.50. Seasonality and or fantastic yields adding to ever increasing world supplies, was just too much for this market to bear. Sadly, $4.00 is just a psychological number on K.C. wheat's 25 year chart. $11.00 was nothing more than psychological support in July soybean, but that price held on its last price break. Yes, we are digging up anything to find a reason for wheat prices not to move any lower from here.

**Weather:** This last week into this week, saw many scattered showers, as well as many heavy downpours. Those receiving 2+ inches rain have seen the moisture join subsoil, finally allowing roots to penetrate to deeper levels. The heat and dryness in the middle of June caused much stress, reducing yields in some locations. We did get the hot and dry that all have been calling for. It just did not last, as they had been calling for. Our weather model has never shown any "Dome of Doom", a thought that has permeated the trade this year. It seems they needed to have some story, other than then facts, to support the rise in prices (beans). Yes, Argentina weather was the cause. But the effect was reduced exports of meal and beans. Just-in-time inventory management caught meal users by the short, forcing them to buy the board to protect future purchases that had to occur yesterday. Now that the weather story has been so built up, price action in beans suggests they will run with it all year. Two weeks ago, this time frame was projected to be hot and dry. We have below normal temps coming at us now and scattered rains, with some extremely heavy rains in some areas. As long as Chicago sees rains on the map every day, prices will struggle on any higher moves. Heat will have to come in to get some support to prices. Hot & dry will need to come back to have any chance of challenging this month's highs.

**South America:** This year's short fall in corn did get our corn market jacked up, for a bit. While price has fallen back to what was value, longer term, their issues could add some support into the rest of this year *(still can't get wheat out of our heads on this)*. The USDA had cut their forecast for Brazil's corn from 77.5 mmts to 75 mmts. Using the same demand numbers, Brazil's carryout falls to 4.342 mmts, their lowest ending stocks since 2006/07, leaving a stocks/use ratio of 5.4%, lowest since 2001/02. Adding in Argentina's corn, the combined supplies are the lowest since 2006/07; a stock/use ratio of 5.55%. Knowing their import needs have increased, our USDA may still be underestimating their demand from the U.S. This demand should come at us over the next 6 months, through our harvest, reducing carryover stocks for 2016/17. This is important, when you see their projection for 2016/17 U.S. carryover was only 1.9 bb, but now with today's new acre numbers, should be closer to 2.15 bb. Then we add in this week some frost/freeze and flooding on some of Brazil's corn. Then we add in the fact that just 3 months ago, U.S. stocks for 2016/17 held high end projections of 2.5 bb. From demand due to South American's short falls, thinking that we'll be picking up export demand, our stocks number for 2016/17 will be the determining factor for our prices in 2017. Just thinking out loud, any production shortfall off trend will reduce next year's stocks by 85.5 mb (94 ma X .91). A 3 bushel reduction off trend takes carryover back down to 1.8 bb. Price has rallied to $4.40 each of the last two years with this same carryover. That all said, even at 1.9 mb carryover for 2016/17, with all the additional Fund activity, with a La Nina in 2017 likely causing more crop stress, one has to be thinking a minimum of $4.00 cash on any remaining sales of 2016 corn, as well as for any corn produced in 2017. *(Why do U.S., world wheat stocks and its current price cause us pause? Sorry, that is corn's bigger problem today. Corn will never really be "free", as long as wheat stocks are so great.)* $4.00 cash corn will not be seen this year without a real production loss in the next 60 days. That price will arrive later in 2017. Once price reached this level, we would have the facts necessary to determine if sales are warranted or if higher price lie ahead.