**November 27, 2016** **# 00108**

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**Attached are our 2017 Target Zone Charts and Summary Analysis Report**

## DECEMBER 2017 CORN

**$2.75 to $3.50 - $3.50 to $4.00 - $4.00 to $4.50**

While the Lower Third for December 2017 corn should be set at $3.00 - $3.50, due to excessive and growing world stocks, the rising U.S. dollar, the potential fall in wheat prices, rising world corn and wheat stocks and the odds favoring higher grain production in 2017, we opened the down side for old crop corn futures through 2017 by another 25 cents per bushel.

Here are the issues for corn. Stocks are over 2.4 bb. That number is too much for OLD CROP CORN FUTURES to overcome in 2017. The USDA already jacked up corn exports for 2017. The most they could take that number up in 2017 is another 100 mb, mostly from ethanol, pushed up by the EPA, increasing the RSF. At 2.4 bb, 100 mb less doesn't do a thing. We note that the weather trend around the world is for wetter. While crop losses have occurred from too much rain in areas, most countries end up with greater production, proving the motto that rain makes grain. We see the wetter trend continuing around the world in 2017. IGC raised world corn production for 2017 by 7 mts, setting a new record high. On the positive side for price, U.S. is projected to reduce corn acres. While that alone likely will not take price out is this year's trading range, it will increase Fund activity later in 2017 and thus, increased price volatility.

With growing stocks and more than likely good corn production from South America, Africa and the U.S. this coming year, the upside potential for corn will be limited in 2017. Moving up from 1.8 bb carryover last year to 2.4 bb this year, old crop corn will struggle to stay between $3.40 to $3.60. Last year, the mean price for most of the year was $3.75, with price running about 15 cents either side of $3.75. Price has been working to hang near $3.50. Price has not been able to clear $3.59 in December 2016 futures. Until price is given a reason to move higher, it won't. With no crop issues likely anywhere in the world for net 2 months, if not much longer, price will work its current range, with a sideways trend to be considered a win for now. Our concern for corn is wheat and the U.S. dollar. Having broken to the upside, the rollover count takes the dollar to $107, which is another 6% gain against grains. That would be a 20 cent value reduction in the U.S. price of corn. While that alone might not bother corn prices much, it will work against the U.S. wheat price much more. That becomes a problem for corn prices; in the corn/wheat spread. A rising dollar lowers wheat prices, which works against higher corn prices.

While we're negative corn prices for another 4 months because the trade will be focused on South American production, that attention will turn to U.S. planted acres its production for 2017. We suspect that turn can occur as early as mid-February, while definitely by March 31 of 2017, with the USDA's Planting Intentions Report. With lower U.S. plantings already projected in the U.S. for 2017, the question is how many less. With trend yield that we currently project for the U.S. for 2017, we'll need a 4 ma cut and trend yields to maintain carryover stocks at last year's level of 1.8 bb. Another positive is with that cut, a weather scare <u>would have the potential</u> of taking <u>December 17</u> futures up to the $4.50. With such large old crop stocks, commercials will have <u>no reason bid up the price of old crop corn past $3.80, with maximum upside to $4.20</u>. Something would have to change in the supply/demand equation to get past $3.80. Raising the price a few pennies at a time will draw out sufficient bushels to keep commercials happy. Any issues like less production, because of less acres and weather problems, only takes bushels away from 2017/2018 carryover stocks; not from this year's carryover stocks. While we recognize reduced acres will allow weather concerns to increase price volatility next summer, our long term weather modeling has trend yields forecasted, once again, for the U.S. If the U.S. dollar continues to rise through 2017, trend yields would maintain corn prices, with a lower bias, within the same trading range as were posted this year; $3.00 to $4.50. The reason prices would not fall below $3.00 would be because carryover for 2017/2018 would be back to this year's number of 1.8 bb. Know that if we can't reduce U.S. corn carryover under 2.2 bb for 2017/2018, corn prices in the fall of 2017 could easily fall under the $3.00 mark.

## <u>NOVEBMER 2017 SOYBEANS</u>

**$7.50 to $8.60 - $8.60 to $9.70 - $9.70 to $10.80**

This year, we could have easily added another dollar to "stupid" in soybean futures, but it is our belief, there is already a dollar of stupid in the current price, with another 25 cents possibly arriving shortly. By adding other dollar that would have the high end of our Upper Third price projection pushed up to $11.50. As the fundamentals are just too far out-of-line with current prices, patience is required to let Funds find their way back to reality. Be aware that a number of projections have $10.64 in January soybean futures as the Funds next upside price target.

Until Funds are dislodged from their belief that U.S. stocks are going to fall from their current level of 480 mb to under 200 mb, support in futures will be maintained. Until Funds are dislodged from the belief South American soybean production is going to be damaged from a currently, non-existent La Nina event, soybean futures will continue to trade above real market value. The beginning of this realization of no new demand coming in should begin arriving in next week's USDA's sales numbers, to come out on December 1, the first day of a new month. *(Make a note on that date, please. It might be important.)* Hope of a weather problem in South America can linger for months. The USDA report on January 12, 2017, will increase U.S. beans stocks again, accelerating the downtrend in soybeans that will likely be seen with the high of this rally topping this coming week, or the week following.

This marketing year is a perfect fit where November 2017 soybeans set their pre-harvest price high in the November/December 2016 time frame, with lower prices to follow throughout the year. From a news source that has fingers in many places around the globe, they have said the Funds do have it all wrong and U.S. stocks will not fall like they are forecasting. Yes, it's great to have one with much more resources than us to agree with what we have been detailing for the last few months. It's another situation where patience is the only asset one has when stupid runs beans much farther than fundamentals say is at all possible. We are adamant in this writing that price is in the Upper Third of this coming year's trading range. Every effort needs to be taken to lock down the profits offered.

With the EPA raising the RFS mandate on Wednesday, they added a new dynamic to soybeans. Soy oil raced to limit up Wednesday, with meal falling over $8/ton. On Friday, soybeans were again caught between the spreads; this time with meal higher and soy oil lower. Technicals are targeting $10.40 to $10.64. More numbers hit the $10.64 area. That is where we're targeting, as well as with timing, as this month ending next Wednesday. With information on palm oil difficult to come by, it will be difficult to forecast what influence it will have on soybean prices. With its affects coming through soybean oil, we can just track that. History shows this rally should have topped soybean oil. China came in and purchased U.S. soybean oil this week. Now one has to watch crush and how well our soybean oil stocks hold up in front of "possible" increased demand. When crushing beans for its oil, soybean meal stocks will rise, becoming a drag to the soybean price. History shows weaker meal prices take a greater toll on the soybean price than will rising soybean oil price support soybean prices. We'll get to see first-hand if history is telling us the truth!

The Lower Third of price falls into place with good yields, little to no increase in demand from our current high levels, trend production in South America and the U.S., and a continued rise in the U.S. dollar. All these things are what Ag Masters is forecasting. We know weather patterns can change. Our long term weather modeling called the summer in the U.S. correctly, as was our forecast for trend to above trend yields. For the record, we'll note that most others had it wrong. Our long term weather modeling calls for the same in South America over the next 6 months. Right now, all things are perfect. Seldom do any weather issues hit their crops before January 15. With that in mind, price between now and then only has to deal with export sales and palm oil/soy oil prices. Monthly soybean crush reports will need to be watched, too.

One of several bearish components is increased soybean acres in the U.S. Informa last estimate is forecasting a 4.9 ma rise in the U.S. With trend yields, that would take U.S. bean stocks over 600 mb. That projection is based on Ag Masters being right on demand not drawing down U.S. stocks; opposite of what all others are saying, along with trend yields in both the U.S. and South America in 2017. Another bearish factor is World Ending Stocks trending even higher, now projected at 81.5 mmts. U.S. ending stocks at 480 mb is the largest in many years. Then this week, the IGC showed their upgrades for the US, Brazil and Canada, forecasting 2016/17 world soybean output 4 mts higher, at 336 mts, some 21 mts above the previous season's outcome and an all-time peak. With total use seen unchanged from October, the rise in forecast global availabilities results in an increase of more than 4m t in carryovers, to nearly 38m, an expansion of 11% y/y.

We underlined that total use was seen unchanged from October. That was done to highlight that increased demand has already been accounted for in USDA's export projections. Remember that the Funds are arguing for a 200+ mb reduction in U.S. carryover in the next 9 months. Ag Masters says no, not unless trend line yields are not achieved. While we may not be right, we do load up the facts, history and our accuracy in forecasting weather trends. That does place the odds that our forecasts will be more accurate.

Is the Lower Third possible for soybeans? Try on these thoughts. Let's say we aright on our projections and trend yields are achieved all around. Stocks rise and all those producers who did not make sales have even lower prices in the fall of 2017 with even less hope of a price recovery in 2018. Farm sales increase dramatically, with many having to sell farms to pay short term debts and lighten the load. This results in farm prices falling faster. Cash rents are driven down as producers say no to agreements that will drive them further in debt. Producer's inability to "pay up" for input costs forces all prices lower. With everything else coming down, grain prices fall, too. They generally lead the way. Lower prices keep pulling everything down; everything that is overpriced. Isn't most everything overpriced? If soybean prices were tied to fundamentals, where would you be making any profits; if it wasn't for crazy high yields?

## K.C. JULY 2017 WHEAT

**$3.50 to $4.10 - $4.10 to $4.70 - $4.70 to $5.30**

Wheat prices have led this long term slide in commodity values. Due to renewed strength in the U.S. dollar, we have opened the door to even lower prices, moving the Lower Third down to $3.50 to $4.10. While price has trended sideways from $4.00 to $4.25 since the last days of August, we see the rising dollar as a reason for sideway to be the best K.C. July Wheat can do until February of 2017. That being the best, a raising dollar could easily let wheat explore new lows this winter. Wheat's Upper Third allows a scare coming along that would cause shorts to buy back positions. Whereas we don't see any reason for wheat to rally, one always needs to allow for stupid to come into every market. Please take note that you can price your 2017 production for May 2018 delivery 85 cents higher than today's price and $1.40 higher for March 2019 delivery. In some markets, it does pay to look further ahead. Taking a 30% price increase two years out is not a bad place to start making sales.

Like the other grains, wheat has many issues to overcome before any substantial price rise can ensue. World stocks remain at record levels and planted acres for 2017 is projected to remain unchanged from last year's levels. While total coarse grain output is projected to be record large in 2017, little growth is expected in world wheat stocks. Year ago levels stood at 240 mmts. This month, the USDA reported them near 250 mmts. The Money won't get excited until world stocks move under 220 mmts.

That means Australia could come in with a total crop failure and in reality, it would not matter to price. But such a scare would move price into our Upper Third price range. Winter crop conditions for wheat remain mostly favorable, with some dryness noted in the U.S. and cold weather concerns in the EU and Black Sea region.

The trend of normal to above normal precipitation has allowed production to exceed demand in all grains. As long as this weather trend continues, any rallies will be short lived, as weather scares come and go with little loss in total world stocks. All grains will need to see a change in our current weather trends before any substantial rallies can occur. Ag Masters long term weather modeling shows no change through 2017. While weather changes can take place at any time, these shifts in weather trends take upwards to 3 months or more to lock into a new change. This potential shift can be seen in advance. The end results of an actual shift will take a month or two to effect production. From this, you will understand that price can easily hang in the doldrums for months before actually responding to the reality of a weather change. We will note that watching soybeans, Funds are acting in advance of any such shift. In fact, they are acting on last year's weather and not this year's reality. In situations like this, an opportunity comes along to lock in higher prices, knowing you are being handed a gift. These "false" rallies are difficult to forecast when there is nothing real behind the rally besides money flow.

What wheat does not have going for it is the Funds desire to dance on the long side. They are in love with the short side. Wheat sits with the most daunting oversupply situation. More than likely when a real, justifiable rally starts in wheat, it will be a more meaningful and more sustainable rally than what you will find in markets where Funds are betting on what may occur vs what is occurring. But for now, wheat has no hope of any rally until February, when wheat starts coming out of dormancy. If U.S. wheat growing areas pick up additional moisture between now and then, any spring gains in wheat prices will also be limited. Our current weather modeling has rains developing in the southern and southeastern growing areas. We can't yet forecast these rains coming to our wheat growing areas or to our western grain belt. Normal would say yes they will.

What we want all our wheat growers to take away from this are two things. First, the U.S. dollar is a significant negative to wheat that needs to be respected. Second, knowing this, looking ahead to lock in some higher premiums through March of 2019 would be a wise thing to do. Yes the odds would suggest something would occur that would take wheat up a dollar, at least. But…if you start at a board price of $5.00 on some of your crop and later can lock in $6.00 on more of it, that is sure a lot better than the $4.10 price that is offered today.

If you have any questions, thoughts, or believe we missed some key facts, please drop us an email. You will receive a quick response, if not a phone call!

Best always,

<u>**Ag Masters**</u>