January 20, 2017 **#1591**

LOOKING FORWARD WITH A BACKWARD GLANCE

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Sales Recommendations: No sales. Have to key off soybean meal for short term price direction. That remains higher. December corn prints new highs. Next MNU by January 29.

***2017 Sales Recommendations*:** **From 2016:** 2016 crop should be at 50% on corn and 75% on beans. 2017 crop sales should 25% on corn and beans. **January 06, 2017:** Price at least 10% of your 2016 and 2017 wheat production off July 17 K.C. wheat futures from $4.65 - $4.70. Additional pricing levels are found under **"Wheat".**

Quick View: March 17 corn broke above its extremely shallow uptrend line at $3.614. Price took out its October high today of $3.69. December corn printed a new high close for the move, so higher highs are ahead. After a hard 3 days up, soybean and meal prices are consolidating gains/taking a rest. March 17 beans closed above November's high by 1 cent. History says price will at least challenge, if not print new highs. Soybean meal leads, with fall highs getting blown out. Last year's logistical issues, caused by rains in Argentina, became the driving fear, driving money flow. MN wheat posted a daily reversal lower this week, which will cause Funds hesitation to keep pushing price. Its high failed just 5 cents short of last June's high. K.C. July 17 wheat futures achieved our second price objective for sales of $4.80.

Corn: Its short term trend is higher. Resistance is at $3.69 in March 17. Price will need to close above $3.70 to get Funds somewhat interested. The key month all need to watch now is new crop December 17. It posted a new high close, opening the door for higher prices. While fundamentals don't support higher prices, that does not matter when the money decides to come in. This new high close tells them to buy. December 17 now needs to clear $4.00; psychological resistance. If that price level can be overcome, then Funds will be working to move price back to last year's highs, if they can. While some buying in corn is working to adjust for acres in the corn soybean spread, corn having to rise in price and or beans needing to fall in price, breaking chart points creates an incentive to push that trend. If one saw beans being the lift raising our corn prices, we have to understand the bean rally is not the same as last year, as least not yet. ***(Read under beans.)*** Early reports from Argentina have reduced their corn production 2-3 mmts. Brazil's has been upped from 3-10 mmts above USDA's number of 86.5 mmts. South Africa's plantings are projected to rise 31% from last year. EIA numbers from corn crushed for ethanol continues to print a new record, week over week. Record corn grind increases DDG production, building protein supplies. The IGC increased world corn production to 1.045 mmts, up 3 mmts for 206/17. U.S. corn acres are projected to fall 3.5 ma, from 94 ma to 90.5 ma. Let us never forget the big picture, which is very long term. Russia continues to expand acres. Last year, Russia planted more acres than ever. Their land is less expensive, their rent is less expensive, and estimates are they have another 40 ma they can bring into production. A negative that is hitting us now is China pushing their end users to use up their old corn by making ethanol. The DDG market has been hit by this, building U.S. stocks. This is a competitive replacement for high soybean meal prices. This is an offset to issues that may come out of Argentina this year. Export sales in corn good today, up 200% over last week. South America's corn crop will not get here until June. This will be a positive as in each coming USDA report, increased export demand could show up. The last 3 months of our export year could become a big negative. This will play against any possible weather rally, even more so if South America has a great crop.

Beans: Its short term trend is high. Funds are dancing, remembering last year. End users in meal jumped in quick, short covering against future needs. All eyes must be on the meal market, not the beans. From low to high in the last two weeks, meal has gained about 50% more in value over beans. All technical considerations need to be on the meal, as it is the leader. When meal tops, beans top. One can follow resistance points on beans and believe they will hold, but that likely would not be the case. While $350 might have some psychological resistance to price, we see no solid resistance until $400. When the Funds step in, it's a money game. We'll have to wait and watch for whatever technical cues meal can give that a top is being formed. Today, there is none. Fundamentals to this rally are not at all like last year. Spring planting/flooding issues are not the same as crop losses at harvest. Harvest crop losses are non-recoverable. Last year's crop losses were over exaggerated, with high end loss estimates of 10 mmts, 5 times what were the actual end results. From the USDA's estimate, Argentina's final production number came in just under 2 mmts less. Over estimates of losses are coming out pushing the fear. Current losses are estimated from 3 to 5 mmts. Losses will not be close to that on this spring event. Farmers will replant. We are hearing planted acres may end up 1 mmts from initial estimates! We can't forget Brazil's production estimates are now up to 105 to 107 mmts, up from USDA's last number of 102 mmts and last year's production of 96.5 mmts. For March beans, its new high close of $10.75 has technicals pointing to a price push to run stops over $11.00. March meal will target $360. This is a weather driven price rally where meal is leading. Fundamentals don't support this rally, which does not matter at this time. They will matter when the market fails to print new highs after multiple attempts. Bullish news will need to keep coming to keep this rally alive. That fear talk can continue until Argentina's crop is out of danger. They are already talking about the dry forecast causing crop losses in Argentina and Brazil. It's what they do. Argentina, starting January 18, said they plan on reducing their export tax on beans by 0.5% each month for 2 years. Farm Futures has estimated U.S. 2017 bean acres at 90.52 m vs 2016 acres of 83.4 m. 7 ma more is roughly 350 mb more at trend yield. If our 2017 stocks draw down to 350 mb this fall next year's number would come in around 700 mb. Next fall, a beginning carryover exceeding 500 mb would be very price negative from current prices. That potential is easily there, barring major crop losses in South America. Exports sales were nearly triple last week, soybean meal more than double, and soy oil about double the last 4 week average. We look for the seasonal trend in lower exports sales to continue.

Wheat: This last 4 day rain, snow, ice event from Texas to Nebraska was of great benefit to the U.S. wheat crop. MN wheat posted a daily reversal lower. While somewhat weather induced, Funds getting to long, and price right up by last year's highs, commercial traders were also rolling basis bids to May from March, which could have been part of the catalyst behind this turn. This price move is technically negative. With no fundamental reason behind this rally, except for protein demand in the MN market, upside from these highs will be limited. The IGC increased world wheat production for 2016/17 to 752 mmts, up 3 mmts. Wheat will need a big story to push beans so it can get some money overflow. A 4 ma cut in U.S. wheat acres, many that will go to soybeans, will reduce U.S. stocks, even with trend yields. India has suspended their 15% import tax on wheat, as they will need to import up to 6 mmts to meet domestic needs.

Perception of Value: Perception is everything. But to understand value, it's the perception of those with the money that matters. Ten year lows in wheat has Funds seeing value ***(their perception of value, based on how they read today's condition/facts, which can change);*** so they buy as a long term investment. If this is their perception of value, every time price moves to those lows, Funds will step in and buy more. If wheat is a good value buy, then corn has to be just as close to being a great value buy. If trend yields are met and stocks don't grow much from this coming fall's harvest, one should not be looking for new lows in corn or wheat. The same would be true in any grain. Supplies will need to grow significantly more for past lows to fall. Soybeans have that potential, but only time will disclose that possibility. Perception comes from outside sources. Trumps election pumped up expectations, creating money flow into and out of different markets. If President Trump can achieve and then build on these expectations, then a new perception flows into grains and commodities as a whole. If he doesn't, then the gains from irrational exuberance will fall by the wayside. Economic growth, inflation, money flow to the U.S., a rising dollar, and interest rate hikes are all part of this equation. The tide that would lift all ships would set a trend. Follow that trend and you add wealth. This trend would be one of longer term gains in hard assets/commodities. While countervailing forces can slow these gains, those forces would not be constant. When those forces, like overburdening supplies, changed, gains to those markets would come forth like a slingshot. These changes must be watched and understood to best position ourselves for the long term gains that do lie ahead. Time and patience will be your best assets until the value of your other assets join the new trend. Speaking of time and patience, our marketing stance has not changed. All must market to break even and grab a profit when offered. One must still market not to lose money. Don't worry about profit, worry about break even over your entire operation. Those days where profits are for sure, do lie ahead. Better than trend production will push prices will below breakeven for many this fall. El Nino conditions improve the odds of this occurring in 2017.

Energies: Seasonals show crude oil and RBOB prices falling for another few weeks. EIA numbers had crude oils stocks rising week over week by 2.35 m barrels, gasoline stocks up by nearly 6 m barrels, with distillates and HO down less than 1 m barrels. While farm prices have pushed a bit higher, there will be little upward pressure the rest of this month. Stay in touch with your fuel source. They will start pushing your price at your buy point in the next 4 weeks. Let's see if we can get at least a 10 cent price break from now until then to put in your pocket. As the Trump train should be a push to more U.S. production, we'll stand aside on recommending buying the second half of your fuel needs. Start shopping for your fertilizer needs, too. Not much went on last fall. Strong short term demand will drive your prices higher. There early bird is the catcher.

Weather: https://twitter.com/NOAANCEIclimate/status/818507094248849408 Rain makes grain in most all cases. Rain plus more heat adds more production for northern states, setting record high yields. The February forecast shows the hot and cold spots. This could keep rains/snows hitting California. https://twitter.com/QTweather/status/818515961355653120 We note that the rains in Argentina lasted less than a month, about the time frame our June heat and dryness lasted here last summer. As we watch these trends, we recognize those patterns that are repeated elsewhere. The rains along our western coast are indicative of an El Nino pattern, exactly what was pointed to in our October 21, 2016 issue. Now 3 months later, those who crunch numbers are saying weather patterns are shifting to an El Nino and they expect it to grow to a point to affecting our weather sooner than later. Seeing what this El Nino trend is currently doing and has been doing to our west coast for months, has to make one wonder if facts matter? Watching the rainfall trends in South America and in the U.S. has us wondering / comparing where a comparable 3 to 4 week flooding event will take place in the U.S. Midwest this year. We continue to forecast trend to trend plus yields in South America in 2017, with any production issues continuing to come from too much rain than from the lack of it. History shows the greatest reduction in world stocks comes from the lack of rain, not because of it.

Dollar/Interest Rates: While the short term trend is lower, the longer term trend remains higher. The next few months of this new administration will likely be thee determining factor behind what the dollar does. Have future interest rate hikes been factored into the dollar? They have been announced by the Fed that they would occur. New facts will need to come into the market to break its short term downtrend. This down trend turns higher when March 17 futures climb and closes above $101.80. This number for a break up comes in lower each week. Commodities will come under additional pressure when this occurs, a countervailing force.