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Attached are our Updated 2018 Target Zone Charts and Summary Analysis Report – December 06, 2017

Last year, the central themes within our markets were deflation, weather trends (El Nino, or lack thereof), U.S. dollar, Brazilian Real, and burdensome and growing carryover U.S. and World stocks.

Market Factor Summary for 2018

For 2018, we're taking deflation off the table. (1) Future **Price deflation**, will only be caused in 2018 by increasing stocks, both in U.S. and World supplies. (2) **Inflation** will be a market watch indicator in 2018. Growing wealth through raging stock markets and stronger economies worldwide increases demand for all products, pushing Funds into a buy-mode, justified or not, against ample supplies. That alone will not guarantee grain prices to rise with abundant that keep increasing. (3) **Weather trends** *(La Nina, or lack of thereof)* are always on the table. The question is if this forecasted LA Nina will amount to anything in 2018? The downtrend in the (4) **U.S. dollar** is supportive to all commodities. The argument will be if its trend can lift prices against the negativity of such large supplies. The trend of the **Brazilian Real** alters producer's selling habits in Brazil. A major move or significant trend change in their currency can create larger than normal selling or non-selling events with their producers, which in-turn, forces China to increase or decrease their soybean purchases from the U.S. Burdensome and growing (5) **carryover stocks** will continue to "pressure" prices, to the extent that the longer term lower trend in grains, not necessarily soybeans, continues to be sideways at best, year-to-year, with a slightly negative bias.

Reviewing 2018 Market Factors

The best marketing strategy when working within a (1) **deflationary** cycle is sell as far ahead as you can, grabbing the carry and the risk premium that is offered. Wheat carries the most risk premium of our 3 major crops. Corn is second, while the premium offered in soybeans is next to nothing in comparison. That forces producers to use an entirely different marketing approach for soybeans as you would with corn or wheat. Based on our market position, we still advise looking at selling the carry in corn and wheat into 2019, but not soybeans. They don't offer much if any carry. Funds are "playing" in the soybean market though, ready to move prices higher on any weather news out of South America only for the reason to make money. Corn and wheat will move higher at times, only because of money flow. You will notice that these higher moves in corn and wheat will be short lived and any gains will soon fade.

Where we will need to focus our attention in 2018 will not be on deflation, but on likely (2) **inflationary** events that will create more money flow into commodities. How much flows into any one commodity will depend on that commodities individual story. The more inflation is seen heating up here in the U.S. or around the world, will have the Fed either raising interest rates or placing that event on hold. Those changes will affect the trend of the (4) **U.S. dollar** and the decisions of end users; if they should buy now or defer until later. A global economic recovery in

2018 could see increased exports of soybeans, NG, crude oil, beef and pork. Optimism toward such an event has economists calling it the "Yellen Recovery" and they are further suggesting that growth is broadening out. As the consumer confidence index rises, spending increases, increasing demand for protein, which increases demand for feed needs; grains.

(3) **Weather fears** will also drive the flow of money now and through 2018. Funds will use the fear of weather related crop losses in South America to generate profits in the soybean pit. Producers must use these Fund created rallies to their benefit. Many producers tell us that they can make money in soybeans near today's price levels, but not in corn, or at least, not as much. Push the numbers because Funds are and will be pushing soybean prices higher on a greater percentage basis than they will corn. For the last 5 months, the trend in corn has been down, losing over $0.60, while the trend in soybeans has been up, gaining over $0.70. Look for this spread of profitability to continue to widen until soybeans top in 2018.

Weather will be **The #1 Driver** to price in 2018. The weather trend currently in place is La Nada; the name we coined for a weather pattern that isn't lock in to a longer term, wet or dry cycles. What we have experienced these last 2 years would fit the La Nada term, where a long term, detrimental pattern can't stay "locked" over any one area long enough to cause a significant reduction to *national yield averages*. Take that last statement with a grain of salt, as other variables must come into play to create a major disaster. **Subsoil** is a major component to this statement. Most all areas went into the 2017 growing season with subsoils fully recharged. That is what bailed production out in 2017. **Timing** is also a key factor. The stress that hit U.S. crops in 2016 and 2017 didn't hit during the most critical reproductive period. Conditions were so good during other times of the growing season that the crops regenerative capabilities were able to overcome earlier crop damage caused by extreme stress.

If the predicted "weak" La Nina fades away by this spring as currently forecasted, then our La Nada trend should continue here in the U.S. What our eyes need to be on is the expanding drought areas to our south and southwest. Don't expect the one to our north to expand with the one in the south emerging. If La Nada is controlling in 2018, then in the 11th hour for our wheat crop next spring, look for rains to come forth. That is exactly what occurred last spring, with Missouri being hit the hardest from that short term drought event.

SOYBEANS: $10.20 - $11.00 / $9.40 - $10.20 / $8.60 - $9.40

While stupid is running lose, most will have forgotten about the (5) **growing and burdensome supplies in the U.S. and around the world**. We will look at soybeans first because that is where stupid resides most of the time. Last year in USDA's September Report, U.S. stocks for **2016/17** were stated at **197 mb.** September 2017 stocks were placed at **345 mb**. Stocks for **2017/18** were projected to come in at **475 mb**. Last fall's low in soybeans was just under **$8.50/bu**. This year's low came in July at **$9.07.** One has to ask if last year Funds were overly bearish and now are they overly bullish. ***(Or are end users short meal again like they were in 2016?)*** If this is the case, how much higher can Funds run price with bullish talk with U.S stocks increasing? The September 2017 USDA report placed current stocks at **475 mb.**

Now let's look at world soybean stocks. Again looking at last year's numbers in USDA's September Report, world ending stocks for **2015/16** were pegged at **77.1 mmts.** World stocks for 2016/17 were forecasted at **96 mmts**. Projections for 2017/18 were placed at **97.5 mmts**. As we are now 3 months into the reporting year for **2017/18**, this November the USDA's report placed world stocks for 2017/18 at **97.9 mmts**; still increasing.

If you follow fundamentals and work to tie price and/or value to supply/demand equivalencies, you're scratching your head and losing money because these numbers don't add up. There is significantly more chatter about insatiable demand from China than burdensome supplies, growing supplies or lack luster ***(U.S. export sales)*** demand. We keep asking the dumb question, **"If demand is so great, why do U.S. and world stocks keep growing?"** We advised re-owning past bean sales on September 05 because "stupid" happens in soybeans. We have argued that we have to add a dollar to the upside in our TZC for soybeans to account for "stupid"; Fund activity and money flow, pushing for profits. When you tie together all we have written so far, yield isn't being reduced yet in Argentina, but the La Nina potential tied to less than normal rainfall makes for great headlines and good profit for those who are the pushers of those headlines, if not their creators!

Back to supplies, 90 mmts are plenty of beans for world stocks; that's not a tight number. Argentina could lose 8 mmts of production, offset by a 4 mmt increase by Brazil, for a net loss of 4 mmts. The reality of the facts tells us that none of this really matters to price, fundamentally speaking. But the fear caused by headlines of potentially losing 8 mmts, while ignoring off-setting increases in Brazilian production, is easily used by Funds to push price; meeting technical objectives. The key resistance numbers to remember are $10.40 to $10.60, $10.80, then $11.40. Anything over $11.00 would be insanely "rich" when weighed against increasing stocks.

In 2016, it was an Argentine drought and end users caught short that drove price higher. In 2017, it was flooding. That event topped soybean prices on November 28th, 2016, but price managed to rally back in January, February and March of 2017 to challenge that high. Knowing Funds want to dance in soybeans during this 5 month time frame, there is no rush to make sales. Still, paying attention and understanding what potential crop losses can actually occur is vital.

We wrote last year at the time of the flooding in Argentina that we have that in the U.S. every spring; they can replant, not a problem. But still, Funds took price up nearly a $1.00, just on fear. Know fear is putting additional profits in your pocket now, if you make the sale.

Now it's drought talk. Once the crop is up, it can take a good amount of drought and still make a good crop, provided it gets better weather conditions later. What's the old saying, "Plant in dust, grain bins bust."? Sayings like these are based in scientific facts and supported by historical analysis. Also, weather patterns "generally" don't lock in for the entire growing season. That is true here, but is it true in South America. More often than not, yes. The difference there is the unique dividing ridge in South America. The more rain Brazil gets, the less Argentina generally gets. So yes, as long as it stays very wet in Brazil, it will stay dry or dryer in Argentina. While fear will drive up price because of potential crop losses in Argentina, we have to remember that Brazil's crops will be exceptional because of all the rains. Will the above average yields in one offset the yield losses in the other? Many will forget this when the price is racing higher all because of fear and greed. If you can keep yourself grounded in facts and get sales made when stupid is off and running, you will be farming next year!

Analyzing all we have detailed, sales are warranted from $10.30 to $10.40, basis the lead option Jan18 futures. Orders need to be in before this price level is reached. You will note that price maintained strength and challenged the highs for several months last season, November through March, from $10.35 to $10.38, with several spikes higher, the highest to $10.414. Ignore the summer spike to $10.542. Also, if you have access to Mar17 futures, you will see that month peaked at $10.80. If price works that high, we recommend pricing all remaining 2017 bushels.

Because we know the Funds will dance in beans through Mar18 using weather concerns as their driver, we won't be real aggressive on pricing 2018 bushels. We are currently 75% priced on 2017 and 10% priced on 2018. When you begin pricing, your first sale is to take profit on your futures contacts. Take profits at $10.35. That should net you about $0.60 that you add back to last year's sales. That should give most of you a cash price over $10.00 to $10.40 for your 2017 production. Put an order in at $10.37 for selling half of your remaining ***(25% left to price)*** 2017 crop, leaving you 12.5% to price on a higher thrust by March18, or later this summer if you want to price on a potential U.S. weather rally. You then should price 25% of your 2018 production when price hits $10.37 in Jan18 futures. That will move your 2018 soybeans sales to 35%.

Remember the sequence for pricing when you have re-purchased previous sales. Your first sale is made by liquidating any futures contracts where you re-owned past sales. Your second sale is when you are pricing old crop bushels. And if you remember, if you are pricing old crop bushels, you need to be pricing some new crop production. That is your third sale. Your third sale should be at least half of your second sale.

CORN: $3.80 - $4.20 / $3.40 - $3.80 / $3.00 - $3.40

Corn sits with even greater supplies than soybeans. With total U.S. supplies over 17 bb **(14.578 bb new crop and 2.487 bb current stocks.)**, you can see why Funds want to dance in soybeans; far fewer bushels to push around. Total U.S. soybean supplies don't quite reach even 5 bb **(4.425 bb new crop and 425 mb carryover)**. Last year at this time, corn stocks on hand were **2.403 bb**. Both numbers reflect a burdensome supply, but one has to wonder why price did not fall as low this fall as it did last year. Last year it was $3.01 and this year $3.354 so far. That's a 10% increase in value in face of increasing U.S. supplies.

We need to throw world stocks into this analysis. World ending stocks for corn have fallen about 10%. Stocks for **2015/16** were 213.5 mmts. They rose to ***227.9 mmts for 2016/17***. Projections for ***2017/18 place them at 198.2 mmts***. These are still burdensome, but it shows a lower trend. Does a 10% decline in world stocks justify a 10% increase in U.S. values? We think not. But, in the Funds mind, it is something to trade. When you throw (4) **currencies** into this mix, then there is a greater argument that this is real value in today's market. When this fall's low is proven, we'll have our answer.

This decline in world stocks came from an adjustment in Chinese stocks. The rage is to talk about China building all these ethanol plants that will burn through all their worthless 2013 stocks. When they get that accomplished, maybe in 3 years, then they will start burning through all their 2014 supplies, supplies that will be even more worthless than their 2013 supplies were if it takes them 3 years to burn through their 2013 stocks. This is long term modeling for China. We believe one needs to be pushing this growing Chinese demand thought process into the range of 2020 through 2025 before we'll see some justifiable price improvement from this demand equation. In the meantime, watch sales. China is said to have stepped in and bought 10 cargos of corn. Is this a one-off transaction? One big purchase does not a trend make. With their well-known hog expansion continuing, good quality corn is needed. But we also know China buys value and $0.10 is a big thing on a volume purchase. $3.50 could very well shut down future purchases. Watch where price is when they announce Chinese purchases and also know that the sale to them was made earlier. ***(Many times you will see price fall after the announcement of a sale because that is "old" news/business.)*** That would show us where they find value and maybe help us see where the floor in price may come in. To verify current demand from China, export sales announcements need to be consistent; not a large, one-off purchase. Then to have any chance of raising corn prices in the U.S., total export sales reports reported each Thursday need to come in with weekly totals exceeding the average pace necessary to meet USDA's current total corn export projections. Expectations of this occurring are not blowing in the wind.

Funds are heavily short corn and will stay that way until forced out. Argentina weather will help provided price pops now and again, but with U.S. stocks now pushing the 2.5 bb level, there's no reason. U.S. corn price is controlled by U.S supplies. If Argentina drops 4 mmts in production, or about 150 mb, that's a gnat scratch to 2.5 bb. Worse than that, end users will cover their needs from other sellers, not just from the U.S. So the reality of a crop reducing weather event in South America affecting U.S. prices is slim to none. That weather event has to come to our shores, making any chance of a significant price rise a future event, 6.5 months away.

In the short term, look for the de-escalator affect to rule. That is where the market losses its carry. Here are the prices for this hour.

Dec17 – $3.42
Mar18 – $3.56
May18 – $3.64
July18 – $3.71

Based on our analysis of 4 decades of history, this is the price action you will see if nothing steps in to disrupt the supply side of this equation for the next 6 months. For this analysis, we will make just one assumption, other than the one just stated above. We'll assume Dec17 futures will go off the board this month at $3.36. The price it goes off the board is critical in determining the real value of corn. That closing price we'll consider to be the true value of U.S. corn for the next 6 months; <u>if there is no significant change to the supply side of this equation</u>.

When Dec17 goes off the board at $3.36, Mar18 corn will be trading at $3.50. In recent MNU's, we have placed a cap on lead month corn at $3.50. When Dec17 goes off the board, Mar18 corn becomes lead month. Price will now fall below $3.50 and stay under this cap. Also, it will almost immediately fall to value, or $3.36, which is where Dec17 showed us value. Price will then trade between support and resistance until Mar18 futures go off the board, around $3.36. When that occurs, this scenario will be repeated again for May18 and then again for July18.

Knowing this, you can put that price fall in July18 futures in your pocket by doing 1 of 2 things, or a combination of the 2. Using a basis contract, you can sell 2017 corn in July18 futures at $3.72 and set the basis when you think that is the best you can get. Or you can hold your cash corn on the farm and sell July futures. When a weather problem begins to develop next June or July, you can take profits by buying back your long July18 futures contracts and then price your cash on the rally. Of course, you will need to use a basis contract to lock in the basis before the rally begins or you will lose money because the basis will widen as futures rise.

Using last year's summer rally, supply & demand, weather trend probabilities for 2018, resistance points and Fund activity, we have to project a lower high than what was scored last year. Last year's high was $4.17 in Dec17 futures. **<u>Our worry is of this fall's failed recovery</u>.** Last year, the corn price bottomed the last day in September at $3.01. Price rallied back to the $3.60 area in several months, capped by $3.80 in the spring. That level in lead month futures was not breached until the weather scare in June, when July17 old crop futures peaked in a sharp, 3-day price push at $3.97 and in Dec17 futures at $4.17. Our concern is under the current scenario, Dec18 futures will not even be able to reach $4.00 in 2018 without sustaining drought conditions more severe than what was seen in our northern grain belt last summer. The drought can't be limited to our southern growing regions, either. It will have to focus on the heart of the U.S. grain belt, or the eastern half. That's another reason to use risk management to get a percentage of your bushels pre-priced before all the carry erodes.

Dec18 futures will likely be trading in the $3.60's by or before June of 18. If so, price will need a $0.40 cent price push just to make it back to $4.00. **<u>Considering this year's big weather stress only got us $0.17, one has to be concerned</u>.** We'll know by April of next year if it's La Nada or La Nina; if the spring rains have arrived and washed away the drought that is emerging over our southern states. If it's a La Nada year with drought ending rains arriving by April, then the odds of seeing $4.00 in Dec18 futures have gone La Nada, also.

With the issues facing corn prices this coming year, marketing opportunities will be limited. We may be the only advisory firm saying corn has near zero chance of any significant rally event for the next 6 months. And <u>if no major weather event hits anywhere in the next 6 months on corn production, lead month corn will remain under $3.50 until such time as a weather event occurs in the U.S</u>. In corn, where price is in a de-escalating cascade event, your only option is to sell ahead and capture the carry. Your next timing sell will come this summer in June or July. When that time comes, if the supply/demand picture has not changed much, you will need to look at capturing the carry offered in 2019 futures for another percentage sell of your 2018 production. It will also be wise to be setting a price floor on some 2020 production at the same time. July19 corn is currently trading over $4.05.

<u>WHEAT</u>: $<u>4.90 - $5.50</u> / $<u>4.20 - $4.90</u> / $<u>3.50 - $4.20</u>

Wheat has the greatest burden with supplies. We wrote this over a year ago and with wheat's ever growing supplies, it's even truer today. Australia can lose its entire production of over 20 mmts and it wouldn't matter to price. And the greatest rally wheat will ever see between now and the end of April18 would be about a $1.00. That would come from a significant weather scare that scares Funds enough that they take profits from their massive short position. Once that ball starts rolling, it feeds on itself. They will see their profits start slipping away, so more and more cover, creating more and more buying. When the market gets balanced, then the Funds can start selling again and drive prices back down to where they were. When such a rally occurs, not only do you sell all of your 2017 production, you look ahead and sell a lion's share of 2018 production. If the supply and demand picture is still burdensome when this event occurs, the wise move would be to sell a good portion of your 2019 production, capturing the insane carry the wheat market holds. We say insane because all you can get 18 months out in corn is $0.65 and in soybeans, $0.26. Wheat offers you a $1.15 carry! July19's bid stands at $5.30.

The wheat market is a worse performing market than corn. Whereas the corn market may have or will put in a low this month, K.C. wheat has not. Dec17 K.C. wheat has printed new contract lows in October, November and December. Not only are new lows being scored, future months are losing the carry. So if corn finds its low this month and only continues to lose its carry going forward, wheat prices will be falling twice as fast as corn prices are at this time in history.

If wheat's lower trend continues, it will tend to pull corn prices lower. Thus, corn will have difficulty holding a "floor" if wheat can't find one.   This lower trend in wheat is supported by 1 major fact which feeds the growing supply issue. Since 2006, over 150 ma have been brought into production worldwide. As we know, the good acres, for the most part, are already in production. So if we're talking poorer acres, a good percentage of the 150 ma would be wheat. So even in a poor production year, global wheat stocks would have a difficult time shrinking.

Let's look back at global stocks. World ending stocks for wheat:

2013/14:	**185.6 mmts.**
2014/15:	**212.1 mmts.**
2015/16:	**241.0 mmts.**
2016/17:	**256.6 mmts.**
2017/18: Projected –	**267.5 mmts.**

It's always easier to understand the big picture when you can see it in print. World ending stocks need to move under **240 mmts** before the market we care about crop losses. Like in corn, when stocks become too large, technicals rule more than ever. Any more, technicals control price over 90% of the time anyway. The big boys don't even think. They plug all the variables into an algorithm program and the computer calls the shots. That's where the advantage lies; for those who can see changing trends that will upset their ***(the Funds)*** apple cart. Unfortunately, there's nothing on the horizon – yet.

Let's put U.S. wheat stocks in this equation, some 935 mb. That converts to **25.446 mmts**. That makes the U.S. wheat crop about 10% greater than the Australia's wheat crop this year. It also means we could lose all our production and it wouldn't matter one dime to the world, just to U.S. wheat producers. We have watched wheat prices wallow near long term lows back in the 1990's when U.S. wheat stocks sat at 25 year, record low levels. It just didn't matter because world ending stocks were more than ample. To survive times like these, the best opportunity is in capturing the carry. Grabbing that extra dollar a year out is safer than giving a hope and a prayer a chance. Remember this writing the next time a short covering rally comes our way and pops price about a $1.00. A $2.00 gain from today's price is offered if you look a year to 18 months into the future. With $3.00 cash wheat today, a $2.00 gain is a whopper!

Summary

Funds dancing in **soybeans** give this market good and somewhat undeserved, upside price potential. Don't get caught up in what price could do. Don't get caught up in the fluff. It is better to miss some upside then capture most of the downside! Understanding the big picture will do that. Getting caught up in the daily and weekly price moves will just wear you out. Remember your goal is the Upper Third. Trust that large supplies will subdue rally attempts. Notice how soybean prices have failed to close on or near their highs on every rally attempt this, the first full week in December. Reality pulls back price gains. Knowing this, then you know you have to have your orders in to catch sales on these spikes. The higher the price spikes, the harder it will be to maintain the gain.

Corn is a follower; and bad at that right now. It can't even hold any early gains brought to it by over excited Fund buyers in the bean pit. Understand the de-escalator affect that is in control of corn prices today. Use it to your advantage. When the weather rally comes this next summer, don't just think of selling 2018 production, capture that "free" carry and add to 2019 sales. While deflation might not be a factor once long term lows are set in corn ***(some say they were set last year at $3.01),*** be aware that wheat's bulging supplies and price woes filter into the corn price (***a competitive feed grain).*** World wheat stocks could grow next year, forcing wheat prices even lower. Corn remains in a long term downtrend. Corn has a good chance of printing a lower high **AGAIN** this year! Trend yield in corn in 2018 currently projects U.S. stocks to grow to **2.7 bb**. Why would you suspect this year's low to hold next year if wheat and corn stocks keep growing? Continue to market defensively until we see have some factual reasons not to!!

Wheat has not only been a struggle for producers, it has been a struggle for us to find a golden nugget amongst all the chaff. Look at world stocks; ever growing. Know that there is little chance for any quick recovery, except that caused by short covering. Those 150 ma added over 10 plus years is a burden that will keep on giving until those with those acres go broke trying to keep those acres in production while producing at a loss. Lastly, pull up the futures prices for K.C. wheat through 2020 and structure a marketing plan that will allow you to put as much of that carry into our pocket that you can. Until world carryover falls below 240 mmts, that will be the least risky and the best "guaranteed" way to add dollars to your operation.