January 18, 2018 **#1724**

LOOKING FORWARD WITH A BACKWARD GLANCE

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Sales Recommendations: No Sales. Repeating from last week, for those needing to catch up on soybean sales, target sales in Mar19 futures above $9.15 and $9.55 for Nov19 futures and scale up. Watch for a price spike next week. This week's high was $9.59 for Nov19 futures & $9.202 in Mar19 futures. If you believe a trade deal will be secured and that announcement will give a massive 1 or 2 day spike, wait. But be aggressive when/if that comes our way. A $0.50 to $1.00 pop on a positive trade resolution would be a blessing to those who would be able to take advantage of the gift; specs & hedgers alike. Call with questions! Next MNU by January 27, 2019.

Current Sales:	**2018** sales: **corn** 35%	**soybeans** 100%	**wheat** 87.5%
	2019 sales: **corn** 10%	**soybeans** 75% - 100%	**wheat** 25%
	2020 sales: **corn** 0%	**soybeans** 50.00%	**wheat** 0%

Quick View: After testing support zones, rumors turned grains higher late on Thursday. Continued dry & hot in Brazil and rains in Argentina added support. The trade ran stops below $3.724 in Mar19 **Corn** this week, but price closed back above the next day. A close above $3.83 opens the door to $3.90. Today's high in Mar19 corn was $3.83. Corn's trend remains choppy/sideways/higher. We remain positive to corn longer term. After Mar19 **Soybeans** tested support at $8.90, its 100 day moving average, another rumor had Bears covering, taking beans sharply higher. Trendline R is $9.20, then $9.25, then its old high of $9.41. We remain longer term negative to beans. **July19 K.C. wheat** found support at the old lows of $5.10 last week before turning back higher. Price is now wedging; lower highs and higher lows. We look for price to break out of this wedge to the upside.

USDA's January 2019 Supply/Demand Report: Someday………likely in February. It's a shame they couldn't get this out on time. We believe it would have been friendly to both corn and beans, though soybeans, longer term bearish situation, would have limited the upside push following release of the numbers. A decent number of acres of both crops remain standing. Inclement weather lowered harvestable crops last fall.

Trade Deal: Don't expect any finalized trade agreement until the 11th hour, if even that. Capitulation never occurs until zero hour or 1 side decides it has zero chance of winning. Concerning the government shut down, it will come to an end when 1 side decides its beginning to lose votes. Right now, polls favor the democrat/socialist party. If that's true, that should mean the shift goes against those who currently have the most favor of U.S. voters.

Helping lift prices today, **Bloomberg** reported today that China has offered to go on a 6 year buying spree of U.S. goods in order to reconfigure the trade relationship between the 2 countries. This would be China's way of seeking to reduce trade surplus, $323B last year, to 0 by 2024. Or more likely, it would be China's way to divert negotiations away from IT & IP. We won't look for much to come from this.

Beans – The Question: Why are soybean prices as high as they are when soybean stocks for 2018/2019 are more than double what they were at the start of 2018? Many have asked us that question. Darin Newsom attempted to tackle that question last weekend, stating the price is right for what soybean stocks in the U.S. really has. Really? His computations put them around 580 mb. We can question his computations because they are not based on the "facts". But the way he arrived at them has merit; to a decent degree. Using historical averages over a specific time frame, he calculates the USDA has consistently overestimated U.S. soybean stocks by 41%. Essentially, Darin's conclusion relies on his statement that the USDA is always wrong. We have a hard time arguing that point, except for believing one should never say always!

The USDA seeks to control prices; few will argue that point. If they error, we believe they error with intent. If price gets too high, they will report higher stocks; like they did for months in 2013 before releasing "closer to real numbers". The timing of the release of a much lower carryover stocks number was planned for when harvest had begun; when it wouldn't influence price due to new crop supplies coming available to major end users. ***(They screwed the corn producer in the flood year of 1993, by not admitting to 2 b in crop losses – until harvest. We had the final number the USDA reported in September, in June.)***

Our government wants cheap food. Thus, higher stocks will be reported, when necessary, if the market runs prices too high. If one were to argue the opposite, like with soybean prices moving close to $8.13 in Nov18 futures this fall, the USDA should have given lower stocks numbers to keep the price higher to avoid payments to producers, but they didn't.

It's no doubt difficult to remember our writings concerning USDA's consistent errors on stocks over the last 10 years. During those times, demand from China was consistently increasing. The USDA was consistently behind the curve. The USDA forecasted greater demand in their soybean export numbers for 2018/2019, but demand turned lower after the 2018/2019 marketing year began. Now they are behind the curve the other way, failing to anticipate the results of the trade war which wasn't in the picture before they released their numbers. When was the last time they had to plug trade wars into their calculations? Their numbers included increased demand when we know for a fact China has already reduced demand by changing the protein formulation in their feed mix and they're using less feed due to death losses from African swine fever.

From the unexpected outbreak of ASF, feed usage in China is down 15%. Soybean imports into China were down 40% in December. For all of 2018, imports fell for the 1st time since 2011 because of the higher tariffs China levied on U.S. supplies as part of the trade war. Soybean imports last year fell 7.9 percent to 88.03 mts. China usually sources the bulk of its oilseed imports from the U.S. in the final quarter of the year, when the U.S. harvest comes to market. In a shocking number to all, soybean imports from the U.S. to China plunged to zero in November.

We remain convinced the U.S. price for soybeans is over-valued. Price remains high for numerous reasons: from money flow, Funds like to invest/buy beans for various reasons, including as a hedge against inflation, seasonals, the propensity for soybeans to trade sideways for several months after their fall rally, the on-going drought fears in South America, flooding in Argentina, the lower trend of the USD, and the miss-placed hope that China will come to the aid of Trump and/or the U.S. farmer. ***(Tongue & Cheek on those last two!)***

We still believe it comes back to simple math. The world is swimming in soybeans. Brazil again planted more acres to soybeans this year. Argentina lost 20 mts in production in their last production cycle and world stocks grew by 15 mts. That's 35 mts the world didn't need last year. South America better lose 20 mts again…….and still, the soybean price will be in trouble from excess supplies! *<u>We will pencil in a 10 mt decrease in production for Brazil right now</u>*; final total from Brazil 110 mts. Get that and price still has no reason to make new highs. Where does one got to peel off another 25 mts???? And though many don't report it, most of the heavy rains in Argentina are not in their main soybean growing regions. This week, one general comment about South American production said it now appear certain that South America will likely not produce another record crop of soybean. Another said the crop is going to be big, just not as big as we 1st thought.

Weather in South America doesn't really matter just yet. February is our August in Brazil. If the extended forecasts verify for a change of the current weather trend to wetter for Brazil, by the end of next week, price pressure will come back into the soybean pit. If it doesn't and the current weather trend runs for another 3 weeks, price would rally back to recent highs. If the longer term forecasts come in Sunday night showing no significant rain event for those areas currently under stress, price will spike again early next week.

<u>Corn</u>: Sideways is boring, but the longer price trends sideways, the greater the price move when it breaks out to the upside! Lack of news has traders cautious. Rumors of China buying U.S. corn persists. That would make no sense, unless China lied about the extra 150 mts they recently "found". The USDA has little corn going to China in their demand equation. If they were to buy U.S. corn, which is currently the lowest priced corn in the world, it would matter to price. Between production and usage this year, China is reported to run a 26.5 mt deficit. That's with trend production. That also represents a billion bushel short fall in 2019.

The world's 2019 corn crop is taking a few dings. South Africa's early, dry weather delayed its plantings. Now an early frost may be hurting their crop. By Jan. 11, 60% of the intended area for the North West was planted and the figure was 70% for the Free State. That suggests that the intended area of 2.44 m hectares, or 6 ma for corn in the season, could probably fall by about 19%. This would almost be in line with the area planted during the drought period of the 2015-2016. At that time, South African maize production amounted to 7.8 mts, turning the country into a net importer, as annual maize consumption is roughly 10.8 mts. The dry weather condition raises the specter of a drought that could be worse than the one the nation experienced in 2016. It's likely that South Africa will end up being a net importer of corn this year instead of being an exporter.

The on-going drought in parts of Brazil is now affecting their 1st crop corn production. Celeres has already reduced that crop's production from 29 mts to 28 mts. Brazil's 2nd crop corn, or their winter corn, could soon be affected too. Their winter corn gets planted right after their bean crop gets harvested. If it stays dry through their soybean harvest, there may not be enough soil moisture for germination, which would delay plantings. If delayed planting occurs, their winter corn crop risks the chance suffering yield reduction from their normal, late drought period.

<u>Wheat</u>: Recent rumors of China buying wheat, and the subsequent report that CHS Coop out of Minneapolis reportedly sold 1 cargo of wheat out of the PNW to a private Chinese buyer, helped wheat prices put in a higher low this week. Two weeks of subzero across the Great Lakes will be supportive to price the rest of January, helping keep wheat from making new contract lows. Estimates places upwards of 30% of the soft red wheat crop at risk. This cold is so intense that it is also expected to put at risk the wheat crop clear down to the Mississippi Delta region.

Russia continues to confuse traders with mixed signals on their export plans for the 2nd half of the season. The drought Russia experienced last year has speculators surmising that the world's #1 exporter of wheat will have to curb exports. While that has yet to occur, they are now thinking Russia will use "soft limits" to control supplies. Russia has exported 40.2 mts of wheat for the January to November 2018 time frame. That's up from 28.7 mts from the previous year. Wheat offers by Russia are at 4 year highs, after last week's large sale to Egypt. Rumors that Ukraine has halted payments on VAT taxes to exporters could slow Ukraine's exports. Also supporting U.S. wheat prices is the continued drought in North Africa, stressing germination and early growth in Algeria. Algeria is one of the largest wheat importers in the world, with North African imports estimated at 25.7 mts in 2018/2019. With global wheat prices on the rise, though not in the U.S. yet, Black Sea exports should soon dry up, forcing more importers to the U.S. for product.

The Buenos Aires Exchange has reported Argentina is now 100% planted on their 2019 wheat crop, matching last year's acreage of 19.0 m/hectares.

<u>Soybean/Corn Ratio Watch</u>: This must change or the U.S. soybean carryover stocks will balloon well over 1 bb for 2019/2020. The soybean/corn ratio continues to languish at 2.36. We believe it must fall to at least 2.1 to get producers to cut acres to help slow or halt the growth in U.S. carryover stocks. That would represent a price cut of just over $1.00 from current levels, with Dec19 corn staying the same. The ONLY thing that could totally change this need of adjusting acres to reduce supplies in the U.S. is if Brazil suffers a MAJOR crop loss. If that were to occur, flooding would also reduce production in Argentina. The answer to this possibility will come to us over the next 6 weeks.

<u>Fuel</u>: Some have forecasted the possibility of crude reaching $60 in 2019. That should be simple for crude to do, unless OPEC decides to gain back market share again. Its market share has been falling sharply lately. The last time it reached levels this low, it decided to flood the market with cheap oil, gaining back its lost share and maybe gaining back some ability to control/raise prices later. If they do this again, sit back and enjoy! Their success would be short lived, with the U.S. having become the world's largest producer and its barrels/day on a steady climb. Did you pre-price any fuel yet? If not, why not? Checking on fertilizer prices? Yes, we know they jacked up N prices after so few got any on last fall. Fertilizer prices have been trending higher ever since. It's to a point now of not knowing if it's best to wait or buy now. If you have no coverage to date, it's best to average your purchases with scale up buying.