February 02, 2018 **#1652**

LOOKING FORWARD WITH A BACKWARD GLANCE

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Sales Recommendations: This text was sent out this week: Hold off making New Crop 18 corn sales at $3.95 & $4.00. We'll key off K.C. July18 wheat. As stated in last week's MNU, waiting on these levels for old crop and new crop soybeans: Mar18 - $10.18, July18 - $10.40 & Nov18 - $10.24. Next MNU before Feb. 11, 2018.

For 2017 corn sales, continue working to move sales up to 75%. Next resistance area in Mar18 futures runs from $3.64 to $3.65.

Current Sales:
2017 sales: **corn** 75%, **soybeans** 85%, **wheat** 75%.
2018 sales: **corn** 35%, **soybeans** 20%, **wheat** 35%.
2019 sales: **corn** 10%

USDA Report: February 8th, Thursday at 11:00 am.

Quick View: **Mar18 corn** working to $3.64 to $3.65. **Mar18 soybeans** broke lower off $10.00 resistance. Trendline R in Mar18 is $10.18, July18 @ $10.40 and Nov18 @ $10.24. R in Mar18 meal is $350.00. **July 18 K.C. wheat's** broke out, clearing $4.70 R. Reached next target zone of $4.90 to $5.00; high trade of $5.01. Higher prices lie ahead; no sales.

Risks to Trendline Yield in 2018: Are above trendline yields these last 4 years due to better genetics, better cultural practices, or weather? Weather by far, has been the main contributing factor to our unprecedented yields. This is evident by the price collapse in coffee, cocoa, corn, wheat and sugar. Timely rains have increased production of many different crops worldwide. We all know this trend will not last and this beneficial weather trend is getting long in the tooth. Sure, we have large supplies to get rid of and increasing demand won't do it alone. Many times, traders are lulled to sleep while demand builds, slowly eating through supplies. While supplies remain comfortable, our weather trends have begun shifting, becoming dryer with yields taking a small hit in 2018 with this change in trend. The 2nd year yields get slapped back, coming in below trend. Increasing demand requires trendline yields at a minimum, just to maintain ample carryover stocks. Price shock hits when increasing demand meets a "surprise" production shortfall. Just in time inventory control caused by multiple years of abundance, along with Funds sitting on the short end of the stick, forces a massive buying spree driving prices sharply higher. Do you see the beginnings of this coming event on the horizon? Following 4 years of above trend yields increases the odds that the next year won't be. Odds of below trend yields in 2018 & 2019 are now with the producer. An aggressive pre-sell marketing program needs to be tempered moving forward. The ability to re-own / hedge past sales needs to be in place in 2018.

<u>Corn</u>: Did you read "Risks to Trendline Yield in 2018" above. If not, please do. Weather trends are changing. We see it in both hemispheres. The changes we see now are what we believe are precursors of what is yet to come. We will not be as aggressive this year with pre-sales until we see if spring rains can "totally" vanquish the drought in the South. That won't happen! The past 2 seasons there were also droughts; 1 in the SE centered in Georgia and last year's drought area centered over Missouri. For both events, we forecasted the coming rains and the elimination of these droughts, which would allow for trend to trend plus yields. That is what occurred in both years. This year we see a difference. We're sending up a warning flag of what is to come and from this, higher prices are the expected result. We're not looking for that much higher in 2018, but a much better chance of higher to much higher in 2019. Three events must take place before the end of 2018 to verify this analysis. The first is here, the drought hitting the entire breath of our Southern states. The 2nd event will conclude this summer. When the 2nd event concludes, we will then update this analysis.

You may have noticed how corn struggles against its resistance points, then ever so slowly, breaking through. While there are many little things that can be argued as positives for corn, the big negative of 2.5 bb will still cap rallies in 2018. The bullish arguments include Argentine weather is looking to reduce their crop from 42 mts to 39 mts. South Africa's corn crop is forecasted to fall from 17.5 mts last year to 12 mts. Last year's crop was a record crop for them. That should cut their exports by at least 2 mts. Heavy rains in Brazil are delaying planting of their second crop corn, which could cause that acreage to fall by as much as 40%. The falling U.S. Dollar and its solid downtrend are very supportive to corn's price not falling out of bed. South Africa corn plantings forecast to fall from 2.63 m hectares to 2.31 m. Informa lowered their U.S. corn acreage to 89.18 ma, down 490k from their last one. Rabobank lowered their estimate to 89.5 ma. With trend yield at 173.5 bpa along with current demand, that would lower U.S. carryover to about 2.25 bb. Export inspections on Monday showed about a 40% improvement over the last 2 weeks. We expect this trend better of sales & exports to continue. Inspections are still running behind; currently 56.8% of USDA's projections vs the 5 year average of 67%. On the bearish side, China's yearly total of corn imports is down 10.7% on the year. There remains concern with trade talks with China and NAFTA. Ukraine still has 70% of their exportable corn to ship out; competition for U.S. exports. The biggest Bear is still farmer held supplies that are sold on every little push higher. Radio talking heads that are heard setting price objectives have producer's making sales accordingly. With the long term changes in the wind, we slowing sales and adding more patience to our marketing plan for corn.

<u>Beans</u>: Soybeans have a different picture than corn. The longer term forecasts leans toward hotter and dryer for Argentina. That has been the trend and projected rainfall has consistently been less than expected. Note the GFS Model as of 02/01/18 printed below.

This trend dryer should be respected until such time that it changes. The unfortunate part is that futures prices price in possible yield reductions before the worst is over. You can no doubt relate when reliving how bad your corn crop looked right after last year's high in corn had been placed. It still took several weeks after that high was in place before you knew what your crop could yield. Based on price action, this winter's highs are likely in. Weather in Argentina will have to come in hot and dry next Monday with little hope for any reprieve in the 8 to 14 day forecast for soybeans recent highs just to be retested ***($10.046 in Mar18 futures).*** That's not what is showing up in the long term today. They are looking at a decent rain event starting next weekend that covers the central and northern parts of Argentina. Southern and parts of central Argentina should be missed again. Of course, what matters is if the trade cares. The market looks tired; like it really doesn't care. The only way one will know is how far the next rally can run if this forecast of rain does not materialize. The big negative this week was how poor export sales were on Thursday. They really sucked, down nearly 40% from the week before and over 60% lower from 2 weeks ago. As you're aware, we have been forecasting how poor our export sales would be since late fall of 2016. So this can't be unexpected, though they have sustained this slow rate longer than anticipated. Production shortfalls in Argentina are projected at 4 to 5 mts. Brazilian production has been rising, with estimates up 2 to 3 mts. Estimates for Brazil are all over the place due to extreme and constant rain events. Soybean rust becomes more common. Farmers will then use chemicals to hasten maturity with these 5 to 10 inch rains forecasted. USDA estimated Brazil's production at 110 mts last month. FC Stone just reported 111.1 mts. MD Commodities came out at 115.4 mts. That's crazy at this time, as beans don't produce well with wet feet. They're basing their number on early harvest results. That is short sighted. The bottom line is still all that matters. As we have stated before, a total reduction out of South America from 2 to 4 mts doesn't matter in the big picture. Having 470 mb carryover in the U.S. is what really matters. Looking ahead……U.S. acres at 91 m+, with trendline yields at 50.5 bpa, would lift carryover over 600 mb. That is what traders will focus on until July. That won't add to any price rally. We'll be tracking the southern drought and how much reduction in yield it could cause soybeans in August. Total yield falling to 48 bpa, fear of it falling to 46 bpa, would rally price back to our winter high. It will take a 48 bpa yield to lower our 2017/18 carryover below 470 mb. 47 bpa takes it under 400 bpa. That's what we need to see to get prices to put in higher highs after our 2018 harvest.

Don't ignore the lower trending U.S. Dollar. It helps all grains and meats. **<u>It lifts the floor price/the fall low over last fall's low</u>**. If the Dollar falls another 5% from here by the end of this year, one could argue a 2018 fall low, with the same carryover stocks as this last year, to come in at $9.50. We're very curious how correct this statement is. It appears to be the correct assessment when comparing the lows in 2016 to the lows in 2017; larger carryover stocks that netted lows the same % higher as the Dollar was lower on the year.

<u>Wheat</u>: ***<u>Why price wheat in February if it won't rain much until April, at the earliest</u>??*** We really believe this is all one needs to know about wheat. If you are looking to make more sales, don't. Technicals will rule and with the gap open higher, we'll be able to give you some great price points; if this rally unfolds as expected. July18 K.C. wheat created an open chart gap from $4.844 to $4.88. As long as that gap remains open, it projects price to $5.30 to $5.40. $5.00 showed up as resistance this week. Price has not challenged $5.00 again after its test on Wednesday. $5.00 will need to be tested again, with that test coming no later than next Monday in night trade after wheat's crop condition report is released. This anticipated wheat rally should run for 6 to 12 weeks. Remember, we still have ample supplies. Wheat can rally $1.00 just on Funds getting out of all their short positions. Follow along with us on this ride.

Western Australia's 2017/18 wheat harvest has grown from an anticipated 10 mts to 13.23 mts. Heavy rains in France's wheat-growing areas over the next 2 weeks are forecasted, which could lead to drown outs and disease. Weekly export sales in wheat were weak this week. Going back to the drought, drought conditions expanded last week in the winter wheat areas. D1 to D4 (moderate to exceptional) drought conditions in winter wheat areas rose to 47% from 44% last week. Spring wheat areas expanded to 44% from 41%. Oklahoma is taking the worst of this, where their D1 to D4 rose to 99.7%! Texas jumped to 56.5% from 49.4% last week. Kansas moved up from 52.9% to 65.2%. Colorado remained unchanged. Spring wheat in North Dakota increased from 58.2% to 60.9%, with South Dakota unchanged.