**May 10, 2018** **#1672**

# LOOKING FORWARD WITH A BACKWARD GLANCE

***A PRODUCT OF AG MASTERS MARKETING GROUP***

**Sales Recommendations:** None. Market needs a few days to digest USDA's numbers.

| | | | |
|---|---|---|---|
| **Current Sales:** | **2017** sales: **corn** 75% | **soybeans** 100% | **wheat** 87.5%. |
| | **2018** sales: **corn** 35% | **soybeans** 80 – 100% | **wheat** 50%. |
| | **2019** sales: **corn** 10% **($4.08)** | **soybeans** **0%** | **wheat** **0%.** |

**Quick View:** **Corn's** short term trend and long term trend is higher. On-going drought/production losses in Brazil are supporting price gains. Continue to watch the trend of declining world stocks. **Soybean's** short term trend lower, long term higher. China not buying any U.S. beans will weigh on price until they do or when weather fears grab the markets attention. **July18 K.C. wheat** failed against new highs this week. Some rains in the HRW wheat areas had Funds turning tail. Repeating, wheat generally prints its pre-harvest high in May. $5.12 is support and if it gives way, then it did.

**USDA Report:** The big number in this USDA Report was World Ending Stocks for ***CORN***. We've been saying this is what needs to be watched. The USDA actually reported this. Note the average trade guess was 182 mts for 2018/2019. The USDA dropped it down to 159 mts. This will be lowered again the next time they adjust this number. This drop came from China working to depose of their large corn reserves. Since China does not import much corn, it's not a "big deal", but it tightens World Stocks which peaks Funds interest. The "Big Deal" is the reduced production out of South America. Crop losses are on-going and for the most part, the USDA ignored it in this report.

U.S. ending stocks were about as guessed for this year and next. This year's stocks for ***SOYBEANS*** are about as expected. But the USDA increased exports by over 200 mb for 2018/19, which lowered 2018/2019 carryover 134 mb below the average guess. Know that no one knows what's going to happen with the tariff situation. If China produces trend yield on their increased acres this year, they will not have to import as much – from Brazil. Thus, one would conclude with good production, our total soybean exports would not necessarily increase as much as usual in 2018/2019. We do find it odd the USDA would increase World Soybean Stocks by 2 mts for 2017/2018 with the 15 mt loss in Argentina production this year. On the flip side, they did come back and lower World Soybean Stocks for 2018/2019 by nearly 5 mts.

U.S ***WHEAT*** Stocks were increased in every kind of wheat except white wheat. World ending stocks for 2017/2018 were nearly 1 mts less than the average guess. For 2018/2019, they were lowered about 2.5 mts. With such large stocks continuing for another 1.5 years, trading action in U.S. wheat will be dictated by Fund action dancing on weather concerns in the U.S. and possibly in other nations, if the issue becomes headline worthy. Remember that end users won't get concerned about supplies until World Stocks fall by at least 40 mmts, to about 220 mmts or less.

| **U.S. 2017/2018 Ending Stocks:** | | **Average Guesses** | | **2016/2017** |
|---|---|---|---|---|
| Corn – | 2,182 bb | Corn – | 2.178 bb | 2,293 bb |
| Soybean – | 530 mb | Soybean – | 541 mb | 302 mb |
| Wheat – | 1,070 mb | Wheat – | 1,067 bb | 1,181 bb |
| Sorghum – | 29 mb | Sorghum – | 30 mb | 33 mb |

| **U.S. Ending Stocks 2018/2019** | | **Average Guesses** | | **Outlook** |
|---|---|---|---|---|
| Corn – | 1,682 bb | Corn – | 1,631 bb | 2,272 bb |
| Soybeans – | 415 mb | Soybeans – | 549 mb | 460 mb |
| Wheat – | 955 bb | Wheat – | 923 mb | 931 mb |

| **U.S. Production 2018/2019** | | **Average Guesses** | | **2017/2018** |
|---|---|---|---|---|
| Corn – | 14,040 mb | Corn – | 14,091 mb | 14,604 bb |
| Soybeans – | 4,280 mb | Soybeans – | 4,311 mb | 4,392 bb |
| All Wheat – | 1,821 mb | Wheat – | 1,757 mb | 1,741 bb |

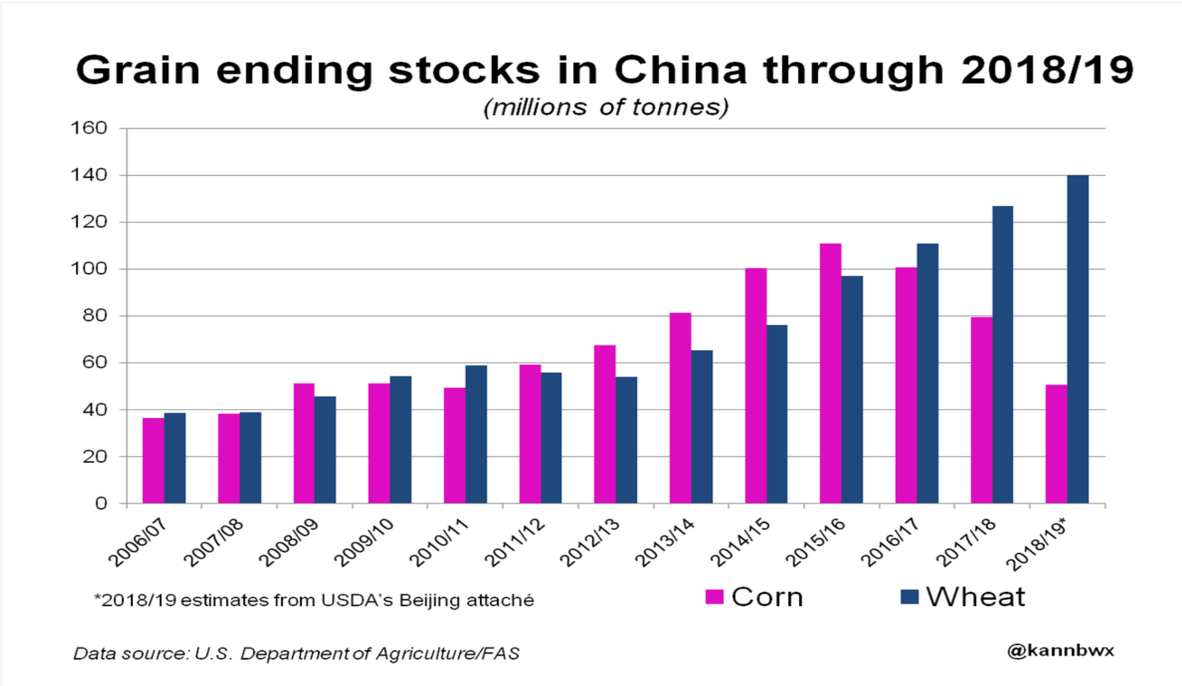
| **World Ending Stocks 2017/2018** | | **Average Guess** | | **2016/2017** |
|---|---|---|---|---|
| Corn – | 194.85 mmts | Corn – | 195.20 mmts | 230.90 mmts |
| Beans – | 92.16 mmts | Beans – | 90.00 mmts | 96.72 mmts |
| Wheat – | 271.46 mmts | Wheat – | 271.3 mmts | 254.60 mmts |

| **World Ending Stocks 2018/2019** | | **Average Guess** | |
|---|---|---|---|
| Corn – | 159.15 mmts | Corn – | 182.0 mmts |
| Beans – | 87.70 mmts | Beans – | 91.0 mmts |
| Wheat – | 264.33 mmts | Wheat – | 27.70 mmts |

| **World Production 2017/2018** | | **Average Guesses for World Production** | | |
|---|---|---|---|---|
| | | 2017/2018 | | 2016/2017 |
| Brazil's corn – | 87.0 mmts | Corn – | 88.2 mmts | 98.5 mmts |
| Argentina's corn – | 33.0 mmts | Corn– | 32.1 mmts | 41.0 mmts |
| Brazil's soybeans – | 117.0 mmts | Beans – | 116.6 mmts | 114.0 mmts |
| Argentina's soybeans - | 39.0 mmts | Beans – | 40.0 mmts | 57.8 mmts |
| EU wheat – | 151.58 mmts | Wheat – | 151.60 mmts | |
| FSU wheat – | 42.20 mmts | Wheat – | 142.77 mmts | |

**Corn:** From our sources, Brazil's crop losses to their 2nd crop corn production are much greater than what the reporting firms are acknowledging. All know how slow the USDA raises or lowers production numbers. We have it at 84 mts and possibly as low as 80 mts. Rains in Argentina are expected to finally end next week, which would open the door for some rains to come to Brazil. This will be watched closely by the trade, especially since this time of the year is when Brazil's

2nd crop corn regions enter into their dry period, when it doesn't rain. China's corn output is projected to be down 1% from last year. Based on deficit projections in China and the U.S. this year, World Ending Stocks could fall by 40 mts. The USDA currently has it at 11.2 mts. Add in changes in ethanol demand in China and the U.S. over the next 2 years, the U.S. price trend in corn becomes inflationary. *Higher highs and higher lows are to be expected within its seasonal trend, with volatility increasing to outside factors as price rises*. Viewing the chart below, it makes one wonder why China doesn't convert some wheat to ethanol?




**Beans:** The U.S. soybean market has more bearish and bullish arguments than we can ever recall. This tariff issue keeps end users in China out of the U.S. market. If they keep this up for as long as they can, how low can beans go? That's a great question, because without this Big Issue of "No Buy Beans", the balance of the issues is friendly to bullish beans longer term. Still, when one digs through all the numbers, soybeans don't have as bullish, long term outlook as corn. The logistical issues in the meal market will continue to support the meal prices. U.S. supplies remain adequate, which will limit rallies. Expansion of drought in the Canadian Prairies canola regions, along with the potential RFS agreement, will lend support to the soy oil sector.

The on-going political issues are causing China to make changes that are negative to U.S. soybean prices. A headline yesterday reported that China will be canceling some purchases. It was reported yesterday that top economic advisors from China will visit Washington DC next week for follow-up talks on trade issues. China's National Grains and Oils Information Center (CNGOIC) see's their 2018 soybean acreage **up 8.8%**. When the U.S. started pushing tariffs to force compliance on other issues, China started pushing their farmers to grow more soybeans. Based on this year's acreage, their production will be 15.8 mts, the highest since 2006. Based on all the changes that China is making NOW, projections are that for 2018/2019, their imports of soybeans ***will fall for the 1st time in 15 years!*** That was not what was projected just 3 months ago. Another negative has been the falling Real; now at its lowest price since June of 2016. This is no doubt increasing producer sales. Rabobank is projecting Brazil's soybean acres to be up 4% next year. That stands to reason, with the soybean price in Brazil getting jacked up at harvest time from the drought losses in Argentina. Profit drives acreage.

We see soybeans trading steady to weak until the tariff issue is resolved. When weather concerns hit this summer, the trade issues will be ignored until the weather risks to production ends. If China has still not bought any significant amounts by then, that will add to the seasonal price drop into fall lows. From then forward, expect a good rebound in price.

**Wheat:** A few showers turned K.C. July18 wheat lower from its new high that it posted at the end of last week. Forecasts call for some rains over this weekend and another chance mid-week next week. The long term forecast calls for above normal precipitation. With as hard hit as this crop has been and also for it being behind on maturity, these projected rains would do more good than they normally would at this date. ***If they come, the highs set last week will be this year's pre-harvest highs.*** These forecasted rains are critical. Abandonment is high in parts of OK, TX and KS. If these rains don't come, abandonment will reach record levels. While K.C. wheat has a technical objective to $5.90 - $6.00, it's difficult to imagine price moving that high in face of such large supplies. We've had the $1.00+ rally which is what was expected/projected. With price failing to get up and run when it topped the last high, that showed no buying interest and if price tries that again, sales need to be made. Rains or lack of rains will determine price direction next week. If July K.C. wheat closes below $5.12, it confirms that pre-harvest highs have been printed.

**Ethanol:** The White House is ready to allow year-round E15 fuel sales and plans to reallocate ethanol gallons lost as a result of small refinery waivers granted by EPA in recent years. The full implementation of E15 will not happen overnight as it still faces a number of roadblocks to full market expansion. It appears any proposal to cap the price for Renewable Identification Numbers (RINs) is no longer on the table. In addition, the EPA and USDA are expected to consider a proposal to attach RINs to ethanol exported out of the United States. That's could pose a major issue to the Ag Sector. Attaching a RIN to ethanol exports would have a crippling impact on American agriculture, significantly reducing demand for ethanol and corn. It would also have major trade implications, as export RINs would be considered a subsidy by our global trading partners, who will likely challenge this as unnecessary advantage to U.S. ethanol. Renewable Fuels Association President and Chief Executive Officer Bob Dinneen stated that the notion of allowing exported ethanol to count toward an oil company's RFS obligation is extremely problematic. Depending on potential implementation, allowing exports to qualify for RFS compliance could dramatically reduce domestic ethanol demand, while most certainly resulting in retaliatory trade barriers from the countries importing U.S. ethanol. Our trade partners in the international market certainly would not understand why the lowest-priced ethanol in the world requires an export subsidy. He went on to say the "real disgrace" would be that "ethanol producers and farmers would bear the brunt of any retaliatory tariffs." As always, the devil is in the details and it will take some time to work through the issues. For benefit this year, they have to get E15 out for this summer's driving season, or they lose the whole year.

**Weather:** We sent out a text early this week about a new Euro Model that foretells of a hot, dry summer for the U.S. Midwest. This forecast stems from some rapid cooling that has taken place in the Pacific Ocean the last few weeks, strengthening what had been a weak and fading La Nina. Remember that La Nina conditions tend to give the U.S. Midwest warmer and dryer conditions. A weak La Nina is what was enforce when Argy got hit with one of its worst crop reducing droughts in decades. A weak La Nina is what is in affect right now and giving Brazil's 2nd crop corn additional fits. It's pollinating now and they have had limited to zero rainfall for over 30 days in their key, corn growing regions. This is a developing story that we are tracking.

The drought monitor map showed the drought areas to the SW encroached more into NE & IA last week. Significant rainfall has not yet been seen in many Midwest areas. Monthly rainfall has been 1 to 4 inches below normal along a band that stretches across NE, KS, MO, IA, IL, IN & OH. Another strip runs through MT, SD, ND and northern MN. Not good. Some inch plus rains did fall early last weekend in limited areas of the HRW wheat areas. Heavy rains occurred in the small tri-corners of SE MN, NE, IA & the adjoining area of WI. SD, ND, MN, IL, IN & OH saw limited rainfall. Scattered rains are forecasted to be continuous and often over the next 14 days with above normal temperatures. This is greenhouse conditions – if forecasts materialize. *<u>We need to see above normal precipitation over the next 6 weeks to make it through a below normal rainfall summer</u>*. The 6-10 & 8-14 day forecasts call for above normal rainfall over much of the parched areas. It called for that a week ago, too. We're still waiting. Did anyone notice freezing temperatures hit parts of ND & MN yesterday?

**<u>Energy/Dollar</u>:** We have been talking about inflation and higher energy prices for over a month now. Did you get a % of your fall fuel needs covered? With the U.S. getting out of the Iran Agreement that Obama made, an economic squeeze is getting put on in its place. Part of that is not buying any oil from Iran; about 1 mb. That, and a friendly EIA report that showed a weekly draw on stocks of oil and oil products of over 2 mb, is what help push crude oil, RBOB and diesel prices to new highs. Only 5 times in history have energy prices and the U.S. Dollar moved higher at the same time. Each time it meant higher energy prices. A rising U.S. Dollar is generally negative commodities. Sometimes it's not. Higher energy prices are inflationary in nature and generally lift grains, too.