June 12, 2018 **#1678**

LOOKING FORWARD WITH A BACKWARD GLANCE

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Sales Recommendations: Price remaining old crop wheat off July18 KC futures when price rises above $5.60. See qualifying statements under the wheat section. See reco's for corn & soybeans under their sections. Weather droughts & tariffs are dictating price action and increasing volatility. Next MNU by June 17th.

Current Sales:	**2017** sales: **corn** 75%	**soybean**s 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 is lower; its longer term trend is higher. It's projected its lower trend will end within 2 weeks. If the option market rules, price will not turn higher until around June's summer solstice. The tariff issues will always cause price volatility until resolved. **Soybean's** price imploded to support levels, with July18 trading within 1 ¼ cent of the August 2017 low of $9.52. Major long term support in July18 beans arrives around $9.40. China not buying U.S. beans ***(old crop)*** and that will weigh on price until they do. **July18 K.C. wheat** continues printing higher lows & higher high. World weather worries driving Fund buying. Threats of rain and large stocks remain the Bears in this market.

June Changes: Since the USDA put together their numbers for this report the 1st week of June, the Rosario Board of Trade has reduced Argy's bean crop to 35 mts from 37 mts with harvest 92% complete. Conab has increased Brazil's bean crop to 118.3 mts from 117 mts last month. They also reduced Brazil's corn crop from their May estimate of 89.2 mts to 82.8 mts. The USDA's May number was 87.0 mts. In our May 25th MNU, we reported estimates to 79 mts for Brazil's winter corn crop. From then until now, most of their winter corn producing areas has remained dry. Continue to track declining world corn stocks.

USDA Report: This is definitely a friendly report, longer term. The U.S. still has plenty of old crop stocks to finish out this year. Being oversold, a positive response today is to be expected. We need to wait to see how price responds after the smoke clears. Look at the surprise drop in U.S. old crop **soybeans** and new crop stocks. For 2018/2019, they are down to 385 mb. They then raised Brazil's crop 1.5 mts more than expected, while lowering Argy's crop more than projected. Brazil's monster bean crop of 119 mts is why China does not have to buy from us for up to 5 months. Note that the USDA raised World Soybean Stocks a tad this month. In **corn**, they lowered old crop stocks by 80 mb and new crop stocks by 105 mb. Next year's number of 1,577 bb will take Dec19 futures to $4.50 for starters. That is with the U.S. producing a crop this year of 174 bpa. The USDA is still high on Brazil's corn crop. Keep watching World Corn Stocks for 2018/2019. They were lowered it this month by 4.5 mts, down to 154.7 mts.

U.S. 2017/2018 Ending Stocks:		**Average Guesses**		**2016/2017**
Corn –	2,102 bb	Corn –	2.163 bb	2,293 bb
Soybean –	505 mb	Soybean –	523 mb	302 mb
Wheat –	1,080 mb	Wheat –	1,079 bb	1,181 bb
Sorghum –	mb	Sorghum –	0 mb	33 mb*

U.S. Ending Stocks 2018/2019		**Average Guesses**	
Corn –	1,577 bb	Corn –	1,642 bb
Soybeans –	385 mb	Soybeans –	435 mb
Wheat –	946 mb	Wheat –	957 mb

U.S. Production 2018/2019		**Average Guesses**		**2017/2018**
Corn –	14,040 bb	Corn –	14,072 bb	14,604 bb
Soybeans –	4,280 bb	Soybeans –	4,293 bb	4,392 bb
All Wheat –	1,827 bb	Wheat –	1,820 bb	1,741 bb

U.S. Avg Yield/bpa 2018/2019		**Average Guess**		**2017/2018**
Corn –	174.0 bpa	Corn –	174.2 bpa	176.6 bpa
Beans –	48.5 bpa	Beans –	48.6 bpa	49.1 bpa

World Ending Stocks 2017/2018		**Average Guess**		**2016/2017**
Corn –	192.70 mmts	Corn –	193.40 mmts	227.50 mmts
Beans –	92.50 mmts	Beans –	91.20 mmts	96.40 mmts
Wheat –	272.40 mmts	Wheat –	270.30 mmts	255.90 mmts

World Ending Stocks 2018/2019		**Average Guess**	
Corn –	154.70 mmts	Corn –	157.30 mmts
Beans –	87.00 mmts	Beans –	86.30 mmts
Wheat –	266.20 mmts	Wheat –	263.70 mmts

World Production 2017/2018		**Average Guesses for World Production**		
		2017/2018		2016/2017
Brazil's corn –	85.00 mmts	Corn –	84.0 mmts	98.5 mmts
Argentina's corn –	33.00 mmts	Corn–	32.4 mmts	41.0 mmts
Brazil's soybeans –	119.00 mmts	Beans –	117.5 mmts	114.0 mmts
Argentina's soybeans -	37.0 mmts	Beans –	37.8 mmts	57.8 mmts
EU wheat –	149.40 mmts	Wheat – May18 Production –151.4 mmts		
FSU wheat –	123.74 mmts	Wheat – May18 Production –127.4 mmts		

Corn: When this flush is over, we'd say all weather premium will have been removed from the corn market. In fact, new shorts are entering. That does give more ammo for a rally when hot & dry returns. The one thing these rains haven't washed away is the above normal temperatures. We all know the odds of rains like this continuing through July & August. Remember June is the wettest month for most grain states. Those who don't receive much rainfall over these next 2 weeks have much production risk going forward. In our June 22nd MNU, we'll point out those areas who receive 50% less of normal rainfall over the last 60 days.

Major technical support in corn is the old lows in July18 and Dec18 futures; around \$3.62 & \$3.80, respectively. The open downside gap in July18 corn at \$3.90 and at \$4.10 will act like a magnet for corn's next rally. For those who have priced any corn this year, look to re-own near these major support levels, with 1 caveat. A continued wet forecast will limit a price recovery. A multiple test of support would make for a safer re-ownership position. Good weather into next week should keep prices near their lows. We wouldn't even be surprised to hear some forecasting a 180 bpa. That talk would help put in a short term low. If you decide to re-own any past sales, we suggest re-owning in Dec18 futures; definitely not in July18 futures. When price starts to rally, run a stop below this month's low. See how the crop is doing when price moves to the gap area. As previously texted, market negatives are non-threatening U.S. weather, Canada/Mexico/China trade tensions and U.S./Korean Summit & how China participates. Continued high crop ratings and continued rain events over the U.S. grain belt will limit any rally off their lows. Timing for a low under these numerous, negative conditions would be around June 19 – June 22. July18 options would expire on Friday of that week.

Beans: July18 beans have major support at \$9.40. Some support will show up at \$9.50 and \$9.52. July18 meal must be watched to see if the gap from \$350.00 to \$351.60 holds. That gap area was probed yesterday when price dropped to \$351.00. If July18 meal closes below \$350, we'll be watching support in July18 beans to see if that holds. One can look to Nov18 futures for support. Its key support lies at \$9.70 and would align with July18 beans at \$9.50. Nov18 beans next support falls in the \$9.40 – \$9.50 area. As of June 5th, soybean meal still held over 100k of longs and is now holding just above its 200 day moving average at \$349.20. Margin call selling remains likely. If major support and the 200 day give way in meal, it will pull down beans even more. For those looking to re-own past bean sales, use Nov18 futures. Also, be patient to see how price acts and if meal can hold up. The soybean meal/soy oil spread looks maxed out, suggesting support levels should hold. We will text if and when the market gives a good indication of a solid, technical turn. As in corn, good weather for another week or 2, with high crop ratings, will have some talking record yields, with some maybe as high as 52 bpa. That talk tied to no resolution on tariffs with the Chinese, would help take soybeans below major support. A turn in weather would rally beans to at least challenge the \$10.00 mark again.

Soybean imports by China were 9.7 mts for May, the most since July 2017. Chinese soybean stocks are at record levels. Brazil will increase acres for 2018/2019 production, pushed along by the recent collapse of the Brazilian Real from over \$0.3100 in January to a low last week near \$0.2500, loss a of nearly 20% in value in about 4 months.

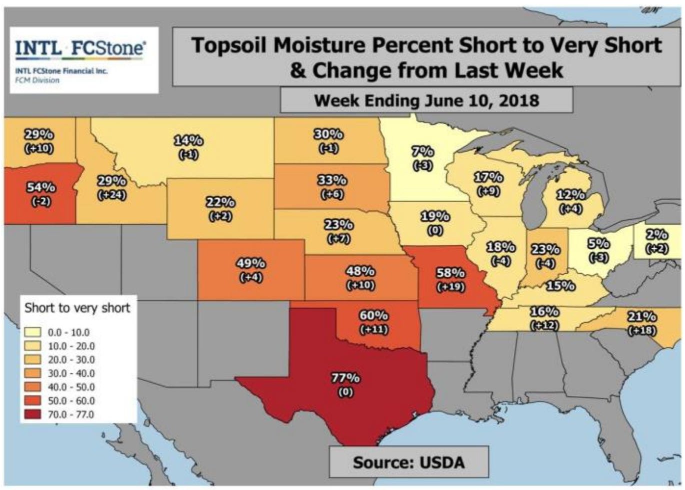
Wheat: Western Australia picked up some rains over the weekend; others, not so fortunate. Hot & dry continues in the Black Sea Regions, as it was for Russian & Ukraine, with forecasts looking for it to continue through their 8-14 day forecast. SovEcon reduced their 2018/2019 Russian wheat production from 77.0 mts in May to 73.1 mts now. IKAR's 2018/2019 Russian crop was cut from 73.5 mts to 71.5 mts. They also cut their 2018/2019 wheat exports to 33 mts. USDA has them at 36.5 mts. The RGU (Russian Grain Union) sees 2018/2019 wheat production around 69 mts, down 21% from last year's number of 85.0 mts. Ukraine's grain association cut their 2018 production 4% to 25.8 mts; most expect it is much lower production. Like other regions, less fertilizer, crop protection and adverse weather were cited for the production cuts.

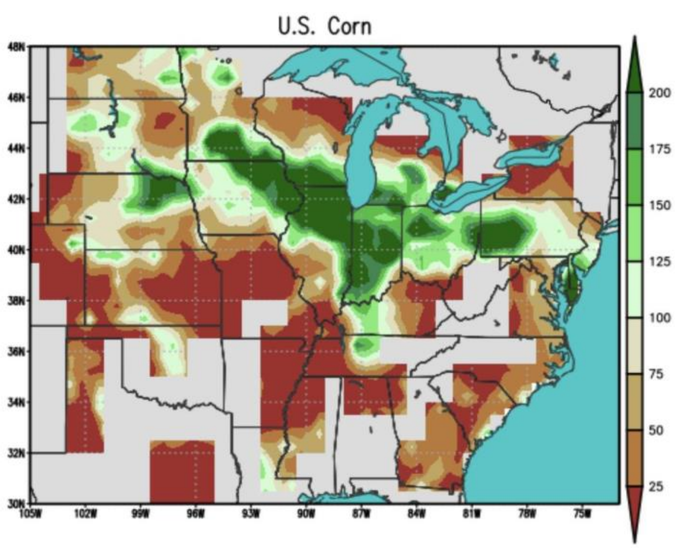
U.S. wheat prices continue in uptrends. Now that harvest has started, limited production in the southern half of the U.S. wheat belt will have buyers anxious to get their hands on product before it is binned. Look for good basis bids in places and bidding for higher protein wheat. Rice County, Kansas cut 25-35 bu wheat on Sunday, 61.5# test weight, 13.4% protein. Drought stress at the right time raises protein content. That's a blessing – if it doesn't cut yield much! We'll be watching for an update on abandoned acres, which has pushed average yields higher, as they won't add zeroed-out acres into that calculation. That failure gives a false representation of actual yield. With other countries having production issues, look for U.S. prices make a try for another high. That push would need the support of weather, when heat would pour back into the Midwest's grain belt; late June/July timeframe. Have your orders in for the sales you want/need to make. Higher lows keep the trend higher, but large stocks will limit rallies.

China, Ethanol & Corn: Next to the U.S., China is the #2 corn producer in the world and they are also the 2nd largest domestic corn consumer in the world! In 2020, China is going to introduce an ethanol mandate that will require a 10% ethanol blend in the countries entire gasoline supply. That should help them quadruple their ethanol demand in the next 3 years. The USDA projects China's domestic corn supplies will fall 45% from its peak in 2016. This drop in stocks and their increased demand for corn is expected to create a drastic tightening of their domestic corn supplies. Many believe this will turn China into a corn importer in the coming years. Likely beneficiaries would be South America and the U.S. That's the expectations of most in the U.S. Ag Sector. We'll have to wait and see if the best laid plans of.... The spectacular drop in world corn stocks has been derived from falling world production caused by fewer acres, less fertilizer and chemicals used this year, as well as weather related losses. Additional reductions likely stem from increased usage of corn in China. China sold 3.42 mts of corn out of 8.0 mts offered at auction last week. Since April 12, China has sold 43.0 mts at auction. Purchasers are needy end users in China. Eating through all this old corn is Step #1 in China becoming a net importer of corn.

Weather: Storms continued the 1st two days of this new week, as fronts rise up and run over the top of this heat ridge in the Midwest. Now the heat gets to slide back in, heating us, possibly hotter than Memorial Day weekend. We're concerned about this amazing, early heat coming at us in June. Remember last year's June heatwave? The question is if this will give way to cooler in July and August – like it did last year? Most forecast this heat to continue all summer, which will cut yield (hot nights during ear fill, if not drought at the same time). We all know how those predictions normally go! The Euro model totally blew it this weekend. The GFS model got it right. It was a total flip from where the Euro model had been consistently right and the GFS model consistently wrong. The Euro model's 6-10 day forecast makes no sense now, seeing how this June trend is setting up for rains. But again, our concern is on this heat. Why? If these forecasters are wrong, the highs are in corn and beans for this summer. If they are not, recent highs can be revisited. It's all about the weather now. This summer may become all about the heat and if this flip to wet is just an anomaly within a longer term of below average precipitation for a good portion of the Midwest this summer. And then we still have the tariff issues; if they manifest themselves into an outright trade war. Oh, and don't forget NAFTA and the trade issues with Canada and Mexico. That would definitely help cap a weather rally. And it's not all good. Heavy rains in NC & NE Iowa flooded late planted crops; much to be replanted or prevent plant. SC & SE Iowa are rated 70% short to very short moisture, with many areas missing these rains. Large areas in SD, NE, KS, MO and MI also missed out on these rains, too.

Indian Monsoons are starting to make headlines. Expectations for normal monsoonal rains are fading fast and that may lead to much less rain from their July monsoons. If so, this would be devastating for their soybean crop. This is also tied to how La Nina and El Nina are manifesting themselves; weather trends. Failing monsoonal rains in India are usually tied to El Nino.





Rains as % of normal for Corn Belt past 7 days. SOURCE: Commodity Weather Group