September 20, 2018 **#1702**

LOOKING FORWARD WITH A BACKWARD GLANCE

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<u>Out of Office</u>: Will be out-of-office next week and the 1st part of the following week. Next week's MNU will be published as normal. Important news updates will be texted when availability allows. Technical/program issues & server issues hit us this week for texting. We believe they are resolved.

<u>Sales Recommendations</u>: Re-ownership of wheat was recommended last Friday. Price of July19 K.C. wheat this last Monday traded from $5.47 to $5.58.

<u>Current Sales</u>: 2018 sales: **corn** 35% **soybeans** 80 – 100% **wheat** 87.5%
2019 sales: **corn** 10% **soybeans** 20% **wheat** 25%

<u>Quick View</u>: $3.50 Dec18 **<u>Corn</u>** failed to hold this week. Technical buying, short covering and running stops are taking place at this current hour. Resistance sits from $3.55 to $3.56 and price is right there at this hour. **<u>Soybeans</u>** are jumping on sales to Argy that have been resold to China. Funds buying, now running stops. Resistance sits at $8.50, which price has reached at this time. Early yields are reported extremely high; rated 6 out of 5 by some! Rains also support short term. **<u>Dec18 K.C. Wheat</u>** turned higher last Friday, off support at $5.00. Price has since rallied to $5.27, but remains in a downtrend. A move above and then close over $5.30 turns this market higher, confirming a low is in place. Wheat is failing against the rally in corn and beans.

<u>Corn</u>: While the after effects of the USDA Report lingers, what really hammered corn on Tuesday was the announcement that Green Plains is shutting down 2 ethanol plants in IA (Superior, Lakota) & is cutting output at another in MN (Fairmont), due to low profit margins. We'll blame part of this on Trump, for not following through on his commitment for E15. Ethanol prices have held $1.30 for many years. Price broke that support level last month, trading down to $1.233 the last week of August. Then you have DDG tanking, along with meal and soy oil. China has auctioned 3.1 bb of corn from its reserve since last April. Average price received was $5.99/bu. If they maintain this pace, it will make their reserves tighten significantly later in 2019; *(a bright light at the end of this tunnel?)* China also hit back with $60B in tariffs against Trump's $200B. They followed that with "downgrading" the representatives that they would be sending to the U.S./China trade talks next week. The tariffs are hitting China. The Shanghai Composite has fallen nearly 20% for the year. Some fear China will make a currency move to support, though China says that's not long term beneficial for their economy. It is rumored China plans on lifting tariffs on some other nations to offset the tariff issues with the U.S.! It would not be out of character for

China to institute other new stimulus measures to prevent even further drops in the economic fortunes.

Yields to date in the U.S. have been reported very good to exceptional. Reports from the drought/flood hit areas are not coming in or being ignored. Too few acres have been harvested to get a good idea if the USDA might be too high or too low on their projection. Ukraine's corn production is seen rising from last year's 24.7 mts to 29.5 mts this year. Exports are expected to rise by that amount, about 4.5 mts. Exports are expected to go to the EU due to the European drought. Informa projects U.S. corn acres for 2019 at 93.04 ma, up 3.94 ma from this year. The loss of acres between corn and beans is due to increased wheat acres, guessed somewhere up from 4 to 8 ma.

The market believes producers will be marketing more corn this fall, in favor of storing soybeans. That would create greater harvest pressure and for a longer period of time than usual. The bullish factor of demand is lying behind the scenes. Exports have been running higher than last year for the last 4 months. This week's exports sales report showed corn exports at 1384 mts. Last week was 774 mts. That was exceptional! Though it's early, export sales have reached 27.2% of USDA's projection for 2018/2019 vs 25.1% last year. Export sales will be the **#1** driving force behind corn's price rise for the next 7 months. How Funds get behind this will be the determining factor of how high price can rise. Planting too many acres next year will have a dampening effect on prices. How China grows its ethanol mandate and how soon the U.S. gets to E15 can do a lot for prices in 2019.

The trend in corn remains lower, with upside resistance $3.56 & $3.60. Initial downside objective would be around $3.40. Many are picking different lows. One well known market analyst is forecasting $3.00 in Dec18 futures. That is not at all possible. We believe the $3.36 area could be tested, especially if the USDA raises yield in the October report. The market will be "dialing in" higher yield estimates for the October report, based on historical odds. When pricing 2018 crop in 2019, look to be much more aggressive with 2019 pre-sales when selling old crop, 2018 corn. There are a number of factors that could create quite a drop in price next fall. There are also some growing factors that could be very beneficial to price. The question will be if demand can overcome increasing acres and production in 2019. That would not be known until next spring. Consider how aggressive you can be on your 2019 sales – <u>if need be</u>; similar to how aggressive we were on bean sales last spring.

Beans: The soybean market took some pretty big hits of negative news this week, driving price down to a low of $8.122 in Nov18 futures. Most came from tariffs and China, who is working hard not to need U.S. soybeans. They look to downgrade their "hot" hog rations from 20% soybean meal to 12%. The 12% rate is what the U.S. and the EU use. This would cut their soybean meal usage by 27 mts. China imported 36 mts last year. Such a cut would reduce U.S. exports to China by 82%. Brazil's 2018 exportable supplies are nearly depleted. Argentina crushers continue to buy U.S. beans for processing and also selling soybeans to China, earning a sizeable premium. China crushers will need supplies from October through January and will eventually have to source from the U.S. ASF continues to grow in China and the EU, which will/could, in time, reduce feed needs. Another possible cut in usage would come from a reduction in China's hog herd, which was reported falling in August by 4.8% from a year earlier. Argentina appears to be China's major conduit to obtain soybeans without tariffs. This is one of the reasons cited for today mid-session price jump. Rumors came out saying up to 15 shiploads have been purchased by Argy, while the same amount has been bought from Argy by China. The EU is keeping their word for importing increasing amount of U.S. soy. Their 2018/2019 season began July 1. From then until now, they have imported 2.8 mts, up 11% from last year.

India's 2019 soybean production would increase from 8.8 mts this year to 11.5 mts next year, if with normal weather returns. Brazil's soybean planting for 2018/2019 began this week. The usual delays have occurred, as not all areas have enough moisture yet. U.S. soybean harvest is just getting started. Leaf drop is at 53% compared to the 5 year average of 36%. Like corn, there's not enough harvest done to get a good handle on yield. Reports to date seem to suggest U.S. yield could easily reach 54 bpa, up from USDA's number of 52.8 bpa. That would take U.S. carryover up 100 mb in USDA's next report, surpassing 900 mb. Price will need several more weeks to work through this increase and balance against perceived demand. We look for price to continue to trade below sideways, with odds favoring a test of recent lows. Funds are heavily short soybeans, so expect volatility. Meal continues to be the weak link. Soy oil has been making new lows, also. The trend remains lower, with upside resistance in Nov18 resting at $8.50. Today's close will be important. We will update via text tomorrow AM.

Wheat: Australian cash wheat prices continue to rise on declining wheat prospects. This has yet to translate into increased export sales for the U.S. Australian wheat prices are up 11% for the month and 74% for the year. We'd look for Australia to tighten its export curbs this year. The freeze worsened crop prospects, as it was followed by another. Drought conditions enhance freeze possibilities, with little rain in near-term forecasts either. This week, Australia's ABARES reduced their 2018/2019 wheat export estimate to 13 mts vs 15.2 mts previously. Canada dropped their wheat production from 30.3 mts to 28.98 mts. Cocereal placed 2018/2019 wheat output at 130 mts vs their June estimate of 138.8 mts. Total grain output is seen at 283.5 mts vs 299 mts in June. USDA had estimated EU soft wheat crop at 137.5 mts, while the EU now places it at 123.2 mts. Their barley estimate came in at 56.5 mts, down 6.3% from last year. You can see by the numbers that world wheat stocks will come down in USDA's October Report. The trade was shocked when the USDA increased world wheat stocks in their September report, which put Funds on the defensive. U.S. wheat plantings will get planted this fall in very moist conditions, likely giving early crop ratings a very high start. As of this writing, Chicago wheat is unchanged and working lower, unable to get through technical resistance. Corn currently rests just below resistance at $3.544. Corn's sharp up move couldn't lift wheat.

<u>Fuel/Fert</u>: Did you get fuel needs locked in several weeks ago as recommended? World issues/tariffs/Iran has crude oil prices rising. Saudi Arabia said they would not resist crude oil to $80.00. Short-term that should not happen, with refineries shutting down for seasonal maintenance, lowering demand for crude oil. Producers are stuck between the worst for both worlds; higher crude **o**il prices translate into higher fertilizer prices. That's not good with falling grain prices. Fertilizer prices will find strength through harvest, as suppliers push price for profit. Increased corn acres increase demand for product, giving suppliers a marketing/pricing advantage.