October 11, 2018 **#1706**

LOOKING FORWARD WITH A BACKWARD GLANCE

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Sales Recommendations: No sales.

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

Quick View: Dec18 **Corn** got good news today; stocks lowered, production lowered & demand increased. Lows in corn is now confirmed. Dec18 corn price of $3.60 should hold as support going forward. Any producers needing to re-own any 2018 or 2019 sales should be working to scale in from $3.90 to $3.95 in July19 futures. Nov18 **Soybeans** didn't get any good news, except for the USDA not increasing yield as much as the trade thought. *All other numbers we saw as slightly negative beans*. Still, seasonals have a lot of strength. $8.50 needs to hold over the next week or price will do additional back & fill to find better support. **Dec18 K.C. wheat** is working to confirm its upward channel. No good or bad news today. MN wheat has the best/positive chart formation in the wheat complex. Corn is keeping beans from moving lower today and beans are keeping corn from moving higher.

USDA Supply/Demand Report: For **soybeans**, the USDA raised soybean production from September's report, from 52.8 bpa to 53.1 bpa. A surprise came from the USDA reducing harvest acres 600,000, now placing them at 88.3 m. Ending stocks came in at 885 mb, up 40 mb. The average trade guess was up just 25 mb from last month's estimate. In another surprise, the USDA stuck with their soybean exports projections for 2018-19 of 2.06 bb. This needs to be watched, as we see this number falling in future reports; increasing carryover stocks. World carryover stocks increased again this month, raised from 108.3 mmts to 110.0 mmts. Production estimates for Brazil (120.5 mmt) and Argentina (57 mmt) were left unchanged. The average farm-gate price for soybeans was unchanged at $8.60/bu, with the range set from $7.35 to $9.85.

Harvested **corn** acres fell to 81.8 ma, with yield placed at 180.7 bpa, down 0.6 bpa from September's estimate of 181.3 bpa and 1.1 bpa lower than the average trade guess. U.S. carryover for 2018/2019 was guessed higher, but the USDA lowered it to 1.813 bb, down 119 mb from the average trade guess. That number came from the USDA lowering feed and residual by 25 mb and increasing exports by 75 mb. The only real negative in this report was the USDA raising global corn stocks from 157 mmts to 159.3 mmts, though the 159.3 nearly matched the average trade guess. The average farm-gate price for corn was left unchanged, ranging from $3.00 to $4.00 per bushel.

Wheat stocks, both U.S. and World numbers, nearly matched the average trade guess, making this report just a tad negative. The average price for wheat was forecasted at $5.10/bu.

U.S. Avg Yield/bpa 2018/2019	**Average Guess**	**2017/2018**

Corn –	180.7 bpa	Corn –	181.8 bpa	176.6 bpa
Beans –	53.1 bpa	Beans –	53.4 bpa	49.1 bpa

U.S. Crop Production 2018/2019		**Average Guesses**		**2017/2018**
Corn –	14.778 bb	Corn –	14.851 bb	14.604 bb
Soybeans –	4.690 bb	Soybeans –	4.733 bb	4.392 bb

U.S. Harvested Acres – 2018/2019		**Average Guesses**		**2017/2018**
Corn –	81.8 ma	Corn –	81.7 ma	82.7 ma
Soybean –	88.3 ma	Soybean –	88.7 ma	89.5 ma

U.S. Ending Stocks 2018/2019		**Average Guesses**		**September**
Corn –	1.813 bb	Corn –	1.932 bb	1.774 bb
Soybeans –	885 mb	Soybeans –	860 mb	845 mb
Wheat –	956 mb	Wheat –	960 mb	935 mb

World Ending Stocks 2018/2019		**Average Guess**		**September**
Corn –	159.3 mmts	Corn –	159.2 mmts	157.0 mmts
Beans –	110.0 mmts	Beans –	109.4 mmts	108.3 mmts
Wheat –	260.2 mmts	Wheat –	261.1 mmts	261.3 mmts

Soybeans – Collateral Damage: Opinion Column

Few market analysts want to look at real world politics if it paints a "doom-and-gloom" scenario. They can't sell that to producers. They can only sell hope that prices will rises; a necessity to get producers to purchase their services. Ag Masters believes truth at all costs. It's better to get prepared for what is likely to occur than to do nothing, hoping that things will get better. This is how we read the tariff situation with China; the why's, wherefores and consequences.

President Trump understands how China has played the world over the last several decades. He understands China's long term goals for Global Domination. Simply put, their plans are to take over the United States as the #1 Super Power. We're not making this up. They have made their plans quite clear. We believe Trump will do everything in his power to prevent that from occurring under his watch. We believe China is willing to take on short term pain to obtain that goal. The people of the United States don't see the big picture, don't have any thoughts of long term goals for the U.S., and are not willing to suffer in the short term for longer term gains.

In this battle of wills, these 2 Big Dogs, it all comes down to who can outlast the other. For us, the producer, we have to be realistic about the consequences of the fallout from this battle. Trump's end game is to diminish China. He knows China has built itself up through theft of IP.

People in the high tech development have told us directly that they have found the Chinese the most corrupt and sleazy people they have to deal with; China's stealing the U.S. blind. Therefore, the soybean producer has to understand it's not about them. The soybean market is just collateral damage in a very serious "game" for global power/domination; we have it and I "Trump" will not let you take it. So what are the consequences for soybean producers?

Before we advised moving to 100% pre-sales for 2018 soybean production, we projected U.S. 2018/2019 soybean stocks to grow to 900 mb by this fall. All the facts we had pointed to that as being a serious possibility. Now that stocks are almost there, 885 mb, we only see them growing larger into 2019. As we have pointed out in past MNU's, China is working to change their animal feed formulation, dropping the meal component from 20% to 12%. That is not only for hogs, but also for poultry. This change would drop China's soybean needs by 10 to 12 mts. That's around 400 mb.

Now let's add that to what we wrote in our last MNU. ***Brazilian estimates for their 2018 crop started at 110 mts. We would assume that number was based on trendline projections. Their crop ended up at 119.5 mts, 9.5 mts above initial estimates. What if next year's yield also exceeds initial, trendline estimates? A current estimate for Brazil's 2019 crop places it at 123 mts. That's already 13 mts above their initial estimate for 2018. If production exceeds their initial estimate by 9.5 mts again, total yield would end up closer to 132 mts! Now add to that a normal Argentina yield near 54 mts, nearly 20 mts more than this year. That gives the market more than 30 mts to work with in 2019, all while China is working to cut their needs by 10 mts. If all this were to come to pass, this would produce 40 mts of additional soybeans the market did not have last year. Should we be worried? Converted to bushels, that's 1.469 bb. That's 1.469 bb they would not have to purchase from the U.S.***

Last year, China imported 60% of the soybeans traded worldwide. They purchased 50.93 mts from Brazil in 2017, accounting for 53.3% of their total purchases. U.S. sales to China in 2017 came to 32.9 mts, the exporter's lowest "share" since at least 2006. Brazilian soybeans normally have a price advantage. They also have a protein content advantage.

The sobering fact in these numbers is very concerning to us. If the world can actually come up with 40 mts more beans in 2019 than it produced in 2018, China would not have to purchase any soybeans from the U.S.! China bought 1.21 bb of soybeans from the U.S. in 2017. If we forget about over-production of soybeans in 2019 and ***<u>only look at a 10 mt demand loss from China's reformulation of their feed needs in 2019</u>***, that's a 367 mb loss in demand that gets added directly to U.S. carryover stocks; 900 mb + 367 mb = 1.267 bb carryover. The last question is, if we're right on the big picture, is how low do U.S. soybean prices have to fall to achieve market clearing levels? Your feedback is appreciated.

It is our hope we have this all wrong and prices rally to at least this year's highs. If we are only 25% correct, carryover stocks will continue to build, likely have price print lower lows in 2019.

<u>Beans</u>: Though we are very, long term negative on beans, we believe seasonals will have Funds buying in time, giving price the ability to rally into the 1st quarter of 2019. South American weather concerns should also help with the lifting. Like this year, we'll be looking to price 100% of the

2019 soybean production early in 2019. Timing will depend on weather concerns and trade issues with China.

Current weather trends are not looking to friendly, longer term, for Brazil's. El Nino is given a 70% of developing this winter, which generally lowers Brazil's yields, while Argentina does better. That's not what either country is experiencing today. We'll have to wait to see what specific trend develops for them. The waffling El Nino *has much of Argentina witnessing very dry conditions*. Planting begins in Argentina in just a few weeks. We'll have to wait until another month to see if weather normalizes before planting begins in earnest.

U.S. soybean exports hit 3.67 mts in Aug, some 9% more than last year and 2nd most for the month behind August 2016 (4.16 mts). Q4 exports totaled a massive 10 mts. U.S. Census Bureau implies 2017/18 exports at 2.129 bb, exactly in line with USDA's last estimate. One month into the 2018/2019 export year, cumulative sales sit at just 36% vs the 5 year average of nearly 50%. Export inspections have reached 6.3% vs the 5 year at 6.1%. If these numbers seem a bit confusing, focus on sales. Sales are behind simply because China isn't buying. The worst part is they are working hard; doing what they can to not purchase U.S. soybeans. Changing their feed formulation is going to up-end the apple "soybean" cart. Other nations are seeing the demand for their soybeans and replacement products increasing, which will have them increasing production in their next crop year. In the big picture, this has to change *fast or the U.S. soybean producer is screwed big time*! Since the China/U.S. tariff flap isn't about hogs or soybeans, we will be surprised to see the U.S./China trade war end anytime soon. If it does, we still see China's "changes" to avoid purchasing U.S. beans being a ***game changer*** for the U.S. soybean producer. Soybeans will not see the highs we saw last year. ***Highs for this marketing year will likely be at least 10% lower*.** This will be confirmed next year with a good Brazilian crop. If drought hits Argentina or Brazil next year, we'll have to use that price scare to get 100% pre-sold again. Most who were aggressive with early sales in 2018 found they were again wishing they had pre-priced more bushels. If we advise moving to 100% pre-sold again this coming year, consider the facts as presented and work to get a greater percentage sold ahead. Please call to discuss options of how best to move to a higher sales level vs the risk in doing so. On a bit of a side note, harvest is computed to be 32% complete vs the 10 year average of 39%.

The chart below shows U.S. export sales were running ahead, until it came time for China to begin picking up their soybean needs from the U.S. When shipments to China went to zero at the NW ports, total export sales began falling below trend. This will continue to be the trend……….until the trade issues are resolved.

https://www.bloomberg.com/news/articles/2018-10-09/fat-pigs-fed-less-is-china-s-latest-strategy-as-trade-war-rages

Corn: The early maturity of this year's crop doesn't appear to translate into the earlier completion of harvest as most had likely planned for. Corn harvest is near 34% complete, with the 10 year average at 30%. Coming weather looks good for harvest. It will have to be dry for a long time to get the normal maturing crops in the northern Midwest harvested in a timely fashion. Weather that is clear, cool, dry and a bit breezy would be a producers dream. The coming frost/freeze is normally followed by a stretch of warm and wonderful days which is usually called Indian Summer. The 8-14 day forecast goes below normal precipitation for much of the U.S. That forecast needs to hold for 2 weeks before flipping back, allowing for 4 weeks of good harvest. E15 was announced this week for 2019 and beyond. We'll just say every little bit helps and it's a shame it had to be used as a political tool into the Midterms.

Exports were not the reason U.S. corn stocks came in heavier than expected last month. August 2018 shipments totaled 5.84 mts, hitting 6 straight months of records. Export sales last week were 56.3 mb. Cumulative sales are running at 32.3% of USDA's projected, total compared to the 5 year average of 28.1%. Sales at the end of August were at 18.8%, compared to the 5 year average of 22.7%. Brazil has shipped most of their corn and now buyers are coming to the U.S. The USDA sees Brazilian 2018/2019 corn production rebounding to 95 mts, from 81.5 mts this last year. Brazilian corn exports for this coming year are projected to increase to 30 mts vs 21 mts this year. The U.S. window for increased corn export activity will run until Brazil get enough 2019 corn harvested to fill its pipeline. As we wrote several times and repeat again, ***"Export sales will be the #1 driving force behind corn's price rise for the next 7 months.*** As this will end sometime next spring, pricing remaining old crop and getting new crop 2019 bushels will need to be completed early in 2019.

Wheat: The Russian Ministry of Ag just raised their 2018/2019 wheat production estimate from 64.4 mts to 68.5 mts. This year's crop is guessed at 71.0 mts. Ukraine's 2018/2019 wheat exports are projected to be down 8.5% from last year. Brazil's 2018/2019 wheat production is forecasted to be up from 4.264 mts to 5.2 mts. The French cut this year's wheat production from 36.6 mts to 34.2 mts. U.S. winter wheat plantings are put at 57% compared to 43% last week. U.S. had its largest wheat sale in 3 years to Bangladesh this week. And why did Mexico purchase 750kts of Russian wheat last year? Rains are slowing U.S. plantings and causing issues. Thoughts of increased plantings for the 2018/2019 harvest were to be increase from 10 to 20%. That may be washed away, with many areas now looking at having to replant.

Australia's drought looks to get worse in the months ahead. A warmer and dryer spring will lead to late plantings. Forecasts are for precipitation patterns to be significantly lower and what rains do come, will arrive quickly and with fury, raising the risk of flash flooding. Dry conditions are also allowing for significantly cooler weather, with new record lows being set in some locations. These frost and freezing conditions are hard on early planted crops. These El Nino like conditions tend to be global in nature. Watch how it works in South America. Argentina is experiencing dry conditions, which is currently affecting their wheat crop. If Argentina stays dry, look for Brazil to be wet and vice-versa. Under this trend, which so far is the same as last year's weather trend, crops grown in Brazil in 2018 over-produced, whereas Argentina's crops fell way short of trend. True El Nino conditions would shift the risk of drought to Brazil. It could will be another interesting 2019 weather year for South America if the current weather trend does not change and/or if El Nino comes in hot and heavy. A photo of a Central Kansas field:

Weather Trends: Recent rains and current weather trends have placed yield potential for 2019 crops in the U.S. at above trend. With genetics raising yield potential sharply, where does one place trend yield for corn in 2019? Going off this year's yield expectations and tying in significant yield losses in KS, MO and MI, we will place trend at 181 bpa!! If 2019 doesn't have the drought to the south and west and the U.S. has no significant flooding events next spring, shouldn't we anticipate such a potential for yield? Then it just comes down to acres planted, demand, and hopefully, production losses in other countries, to determine how high prices for corn can rise. Extremely high corn yields this year have clipped the top out of our projections of 6 months ago. El Nino conditions are not good for certain crops in other nations. El Nino and La Nina events have winners and losers. Where some nations benefit from a specific weather trend, other nations suffer. Under today's trends, Australia and Argentina see their crops suffer, while Brazil and the U.S. see net production gains. A growing El Nino can flip the weather equation for South America.

Did China Blink 1st: The trade war with China has already had a dramatic, financial impact on most all Ag producers. We don't want to over-burden our Subscribers with too much data, but as important information comes to us, we'll include that information in our MNU's.

U.S. sanctions are hitting manufacturing and the overall economy in China. China showed their hand on Sunday when they cut their reserve requirement ratio for most banks by 100 basis points, which will result in an injection of 750 billion yuan ($109.2 billion) in cash into China's banking system. This would be like QE for the U.S. after the stock market crash in 2008. This move provides easier lending and more liquidity to China's economy. The bank move also could be a preemptive step to avoid massive outflows of investor money from its financial system if the trade war continues. An independent analyst and China watcher stated, ***"China is probably facing its worst period since the global financial crisis."***

Energy powers China and higher energy costs just before winter is an issue for them. On that front, did China blink; once, twice, or maybe even 3 times??

- **First, it conceded in August by removing U.S. oil imports from a list of possible duties.** Two months earlier, China - perhaps trying to either intimate U.S. oil producers ***(who have been largely supportive of Trump's policies thus far)*** who would in turn pressure President Trump, or either by pressuring Trump directly, indicated it would levy a 25 percent duty on U.S. oil imports.

- **Second, since <u>China is the largest buyer of American crude</u>, Beijing likely discarded one of its strongest bargaining chips in the trade war so far.** Some reports claim that U.S. oil imports to China are worth $8 billion all by themselves. By erasing oil from the tariff list, they reduced the value of sanctioned goods by roughly one-third.
- **As far as Beijing's LNG tariff threats are concerned, the reduction from an earlier 25 percent duty to 10 percent could also be considered another blink on China's part.** Even though Beijing does have a host of other gas and LNG suppliers, at the end of the day, they still need, American LNG as the country continues to pivot away from dirtier burning coal needed for power production in favor of cleaning burning natural gas. By 2020, <u>per government mandate</u>, gas is earmarked to make up at least 10 percent of China's energy mix, with further earmarks by 2030.

Moreover, Beijing's 10 percent duty on U.S.-sourced LNG will merely see that cost passed onto China's state-run oil majors, while also increasing revenue for LNG sellers, including American LNG exporters.

Tariffs will also increase the price of LNG in Asia, ***<u>as producers and traders in the region will likely increase LNG on the spot market</u>*** (which China needs to fill gaps in winter supply) to prices just under U.S. LNG prices with the tariff cost added in. Complicating the matter further, the 10% LNG retaliatory tariff comes just before winter when LNG demand is set to increase, when customers are already vulnerable to price hikes for the cleaner burning fuel. **As other LNG producers take advantage of China's 10 percent tariff increase and hike LNG prices, the markup could add another $4 million to $5 million on LNG cargoes for Chinese buyers.**