

# Dear Subscriber's Plus, Full Service Light, and Full Service Subscribers

## 2019 Target Zone Charts and Summary Analysis Report – December 10, 2018

Our government may well be the greatest marketing factor in 2019. Whereas weather/El Nino/La Nina are nearly always a main player, it may well be trumped by tariff negotiations and headline news. That will make 2019 a very difficult year to forecast the potential price probabilities and price ranges for commodities. Last year, currency issues were of concern. As of this writing, the USD is giving topping signals at \$97.50. But the rising wedge suggests it will take out resistance and continue higher. If it does, that will create headwinds for grains. Last year we also focused on burdensome and growing carryover stocks, both in the U.S. and in world supplies. Our early forecast in 2018 for U.S. soybean carryover stocks to grow to 900 mb came to pass this fall, making early soybean sales a clear winner. We did not envision China doubling world corn stocks by finding error calculations in acres and production. While this will not affect prices this year, it will keep any major rallies away from the corn sector until China's expanding ethanol program can whittle down their massive stocks.

### Market Factor Summary for 2019

- (1) **Government** intrusion/manipulation of grain markets, with the focus on the trade war.
- (2) **Carryover Stocks** in the U.S., the world, and the growth or reduction thereof.
- (3) **World Weather Trends** (*El Nino and how weak or strong*).
- (4) **African Swine Fever** culling herds decreasing demand for soybeans.
- (5) **U.S. Dollar** and the Brazilian Real. A major move or significant trend change in either currency can create larger than normal selling or non-selling events with their producers, which in-turn, forces China to increase or decrease their soybean purchases from the U.S.
- (6) **Exports** of leading export nations and their export strategies to gain market share.
- (7) **Acreage & Production** expectations of the U.S. and other competing export nations.
- (8) **Genetics** causing concern of increasing trendline yields.
- (9) **Argentina**; past, present & future.

### Previewing 2019 Market Factors

The best marketing strategy for 2019 will be completely different for each grain: corn, soybeans and wheat. Each has different issues. Soybeans have issues that we fully expect to flow into corn and wheat that will inhibit them from reaching the maximum upside potential in 2019. It's unfortunate that we are going to claim the (1) **Government** as the main driver of price discovery this year. The government will be #1 for soybeans, and its problems will spill over into wheat and corn. The government's decision to use tariffs to force talks with trading partners in an attempt to renegotiate trade agreements has worked "okay" with some nations, but it's not going well with China. The desire of the U.S. is to get China to deal "somewhat" fairly on trade concerning forced technology transfer, intellectual property protection, non-tariff barriers, cyber intrusions, cyber theft, services and agriculture. The problem with these requests/demands is that it will take major structural changes within the bowels of the Chinese government to comply. To comply would force them to go against their very nature; how they have been conducting themselves for the last several decades.

The G-20 summit ended with a very ambiguous agreement that was not in writing. The proceedings of the summit were not recorded in any fashion. Therefore, both parties can claim a win and neither party can be proven to be misstating facts. It was a loss for the U.S. because the U.S. did exactly what all have done before. The U.S. agreed to an extension to keep talking and agreed not to raise tariffs during this 90 day Truce period. China gave up nothing at this time, except promises to move in the direction necessary to meet U.S. demands. The agreement as is, gives the market hope of something positive in the future, which keeps the soybean price elevated above a fundamentally fair, market value. The other grains will tend to gain or lose, as goes the soybean market. It is unfortunate that for 2019, we see the tariff issue continuing far past the new deadline of March 1<sup>st</sup>. If correct, this will keep soybean prices in a deflating mode, along with increased volatility.

(2) **Carryover Stocks** will play a central role in price discovery in 2019. Stocks are large for wheat and soybeans. U.S. corn stocks have been shrinking, but world corn stocks have exploded. Funds will be projecting whether grain stocks will rise or fall further on a number of complicated concerns. Some of those factors used to determine these fluctuations, but are not limited to, weather, ASF, acreage, acreage shifts caused by low prices of other commodities and anticipated production in key, exporting nations.

Concerning (3) **World Weather Trends**, talk this December is that the Pacific Ocean equator waters are warming to El Nino threshold levels and that an El Nino ocean event looks like a solid bet into spring of 2019. All eyes are on this because if it initiates quicker, it could have a decided effect on crops in South America. Models show that corn and soybean production are more vulnerable to the effects of an El Nino in the NE regions of Brazil, with productivity losses possible to 50%. Many would misread this thinking a 50% loss of Brazilian crop production. The NE regions are not the major producing areas. If all other areas produce at normal to above normal levels, total losses would be minimal at best. Still, it is something to track to ascertain potential production shortfalls. Where we believe one should be looking is SE Asia. Their palm oil production usually gets hit hard with a strong El Nino. It also reduces soybean production in India and wheat production in Australia.

China's increasing problem of controlling (4) **African Swine Fever** (ASF) will affect soybean and corn prices in 2019. Less hogs to feed means less feed needed. One automatically thinks that refers to soybean meal. In reality, it's soybeans and corn. China buys U.S. grains, imports them, sends soybeans to their crush plants and then feeds a ration of meal & corn to their hogs. The meal is then added to corn to increase the feed's protein content. Their blend is a "hot" ration of 20% meal. Government standards have been changed since the tariffs went on. They have dropped that standard to the world's standard of a 12% blend of meal in the hog feed. This cut reduces their need for soybeans by at least 4 mts. Switching to other protein combinations in their rations has them forecasting a 10 mt drop in soybean needs. That represents a reduction of nearly 380 mb. We believe the reduced need will come directly from lost U.S. sales to China, increasing the U.S. 2018/2019 soybean carryover stocks by a like amount. Back to ASF, reduced numbers of hogs on feed cuts total feed demand, which goes to corn, too. After China found an additional 150 mb which the USDA added to world stocks last month, the intrusion of ASF effectively lengthens the time it will take China to burn through all these extra bushels before they become a net importer of corn. The thought that China's need for corn could arrive in 2019 and help raise U.S. corn prices next year is out the window.

The (5) **U.S. Dollar** and the Brazilian Real will play in price discovery again in 2019. As of this writing, the USD is slowly breaking out of its ascending wedge formation, below major resistance of \$97.50. This has us thinking that the USD will be moving sideways until China actions, or lack thereof, dictate whether or not they will be making some major changes in the next 90 days. Continued chatter of hope and expectations of good tidings continues to lift prices of many commodities. Anticipation of this coming event will eventually prove to be a major downer for many markets; pardon the pun (*buy rumors/sell facts*). We watch the Brazilian Real because a major move or significant trend change in their currency can create larger than normal selling or non-selling events with their producers, which in-turn, forces China to increase or decrease their soybean purchases from the U.S. The Real turned lower in October, after a sharp run-up that began in September. A falling Real gives the Brazilian producers a competitive advantage in the export markets and gives them reasons to increase acres every year.

(6) **Exports** & (7) **Acreage & Production** of other nations have had a great effect on U.S. grain stocks in 2017 and 2018. The more they produce, the more they export and affect the ability of the U.S. to gain market share in the world markets. Brazil's short **corn** crop in 2018 will boost U.S. exports the 1<sup>st</sup> half of 2019. A full corn crop in 2019 for Brazil will reduce the export market share for the U.S. the latter half of 2019 and into 2020. If Brazil has problems with their corn production in 2019, futures will have added strength in the 2<sup>nd</sup> quarter of 2019. Current weather trends forecast trendline yields for both their winter corn crop and summer corn crop. Ukraine had better than expected corn production in 2018, resulting in greater amounts to export into 2019. For this marketing year, Ukraine's corn exports are up 77% at 5.2 mts. U.S. corn acres will likely increase in 2019. Anticipating a continuation growing world & U.S. soybean stocks, the U.S. soybean price is likely to fall during the 1<sup>st</sup> half of 2019, causing producers to make the switch to other crops; corn, wheat, milo, sunflowers, etc.

Besides added acres producing more bushels, there's growing problems with (8) **Genetics**. We have written about geneticists reporting enhanced yield characteristics that will push yields these next 3 years by 10 bpyr. If 2018 was Year 1, what did we see in retrospect? We saw several states hit very hard with drought; KS, MO & MI. Those are not major

producing states, but enough to drag yields down. Then there was major flooding in portions of MN, IA, NE and SD. The USDA is still reporting U.S. yield to set a new record close to 180 bpa. Trend was closer to 175 bpa. In 2019, trendline yield will be nearer 176 bpa. El Nino, subsoil moisture and genetics are lining up in favor of record yields again in 2019, producers better play the odds and pre-sell as much of their 2019 corn as possible. It would be wise to pre-sell at least 25% of your 2020 crop, too. That price should be about \$0.10 to \$0.15 over the price you get for your 2019 crop. There's no reason not to start selling 2020 at a price higher than you sold 2019? If El Nino and genetics pan out like projected, there would be concern about how low corn prices go by late next summer. Extra acres, El Nino and genetics could easily push yield 8 bpa above trend. All those combined could easily add another 1.0 bb to carryover. Last projections had carryover for 2019/2020 at 1.8 bb. We could easily see that upped to 2.5 bb to 2.8 bb, depending on how large South America's crops are. That would take price down to at least \$3.00.

While Australia's **wheat** crop has been lowered again, it hasn't helped U.S. wheat prices or the U.S. gain additional export sales. Many countries had shortened wheat crops in 2018, but that didn't seem to move world stocks off record levels. Market chatter is all about Russia dominating the export market with an expedited export pace. This accelerated pace is expected to let the U.S. gain export share, as Russia's sales pace will begin falling as the calendar turns to 2019. This is expected to help lift U.S. wheat prices off contract lows, as they begin a seasonal rally. Many countries had problems getting their winter wheat planted to good conditions. This may lead to decreased yields in 2019. Though the U.S. saw less winter wheat acres planted this fall due to too much rain and too much cold too early, the U.S. will likely see increased acres in 2019 from lack of fall tillage in many areas, and from producers shifting bean acres to wheat and other crops.

For months we have been talking about (9) **Argentina**'s loss of 20 mts in 2018, but we have not heard anyone else bring this up as a very negative factor to 2019 prices. Why is it not in anyone else's headlights? We try not to repeat ourselves, but we believe that in a world whose markets are now fully globalized, one has to look at world stocks, world production, and the fact that Brazil was capable of filling China's needs because of their upgraded infrastructure and export loading facilities. Remember how that was a problem all the time? We never heard a word about it this year. Did anyone even notice?

Currently, Funds are still short soybeans and with every little "scare" that a China deal is going too happened, some will race in and cover. When the market gives up on hope, then the facts of reality will throw a cold bucket of ice water on the rally.

*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! One reporting agency just came out raising to 130 mts! Now add that additional 10 mts from Brazil to a normal Argentina yield of 55 mts, or 20 mts more than their 2018 production, and out of South America, world production will increase nearly 30 mts more over last years. That gives the market 30 mts more to work with in 2019 that it didn't have in 2018, all while China is working to cut their needs by 10 mts. If all this were to come to pass, this would leave the market with 40 mts of additional soybeans it did not have last year. Should we be worried? Converted to bushels, 40 mts is 1.469 bb. That's 1.469 bb they would not have to purchase from the U.S, even if they could use that additional 40 mts in the first place?! (Think about that!) We ask.....should we be worried? Even if we are only half right, world stocks would rise from 112 mmts to over 130 mmts. U.S. carryover stocks would surely rise to 1.3 bb or better.*

*December 1<sup>st</sup>, Canada arrested the CFO of Huawei arrested using a U.S. warrant. Does anyone think there is going to be any trade agreement after that? Here are the headlines:*

**Beijing Threatens "Severe" Retaliation Against Canada if Huawei CFO In Not Released" and "China Summon U.S. Ambassador Over Huawei Arrest, Threatens "Further Action".**

*Many Westerners don't understand Asian/Chinese culture. Xi Jinping must save face. The arrest of Huawei CFO Wanzhou Meng was an embarrassment to the Chinese leader, Xi Jinping. He was disgraced. This could very well have long term and lasting repercussions. As most have seen last week, the financial sector did not react at all well to this news.*

*We have stated for months that we believe China can manage with very few U.S. soybeans and have advised sales accordingly. This marketing year, China has purchased less than 5% of what they bought last year, as of this date in time. This seems to cement our analysis of the situation. If we are correct, the question is not how high soybean prices can rise, but how low will they go and how do we best protect ourselves today against this more-than-likely scenario?*

**Soybeans** will have their tentacles into corn and wheat acres in 2019. With China making soybeans their targeted crop in this trade war, this makes soybeans the most difficult market to forecast. We termed soybeans collateral damage when this trade war began. It's difficult to put in print that the soybean producer is just screwed in 2019. No producer wants to hear that, though it is something they must understand if they want to make well-informed marketing decisions and market with the facts and not on hope. The only Savoir soybeans "could" have is Mother Nature; it surely isn't going to be China! China buying or not buying will be the story through 2019. The next story will be the acreage shift away from soybeans in 2019, if China is only going to buy for their needs. If they do buy, we believe those purchases will be only what is necessary from the U.S. to cover any shortfall they can't secure from Brazil or elsewhere. To date, they have purchased less than 5% of what they purchased last year at this time. With October and November being the largest export months for the U.S. to China, one has to believe there's little reason for them to buy much from the U.S. now. They made it this far without U.S. beans; why help the U.S. out now? What's another 30 days or so of waiting for Brazil's crop to begin rolling into the shipping channels?? The continuing story for soybeans which will determine its highs and lows for price in 2019 are detailed below.

**NOV19 SOYBEANS: (\$7.00 – \$7.50) - \$8.35 / \$8.35 - \$9.20 / \$9.20 - 10.00**

We could reprint most all of last year's analysis for soybeans and be right on track. We would just have to increase the carryover numbers again! As these issues and concerns remain the same for 2019, we are going to reprint some of last year's writing and ask you to give some serious thought about these continuing trends!

*"While stupid is running lose, most will have forgotten about the (5) **growing and burdensome supplies in the U.S. and around the world**. We will look at soybeans first because that is where stupid resides most of the time. Last year in USDA's September Report, U.S. stocks for 2016/17 were stated at 197 mb. September 2017 stocks were placed at 345 mb. Stocks for 2017/18 were projected to come in at 475 mb. Last fall's low in soybeans was just under \$8.50/bu. This year's low came in July at \$9.07. One has to ask if last year Funds were overly bearish and now are they overly bullish. (Or are end users short meal again like they were in 2016?) If this is the case, how much higher can Funds run price with bullish talk with U.S stocks increasing? The September 2017 USDA report placed current stocks at 475 mb.*

*Now let's look at world soybean stocks. Again looking at last year's numbers in USDA's September Report, world ending stocks for 2015/16 were pegged at 77.1 mmts. World stocks for 2016/17 were forecasted at 96 mmts. Projections for 2017/18 were placed at 97.5 mmts. As we are now 3 months into the reporting year for 2017/18, this November the USDA's report placed world stocks for 2017/18 at 97.9 mmts; still increasing.*

*If you follow fundamentals and work to tie price and/or value to supply/demand equivalencies, you're scratching your head and losing money because these numbers don't add up. There is significantly more chatter about insatiable demand from China than burdensome supplies, growing supplies or lack luster (U.S. export sales) demand. We keep asking the dumb question, "**If demand is so great, why do U.S. and world stocks keep growing?**"*

\*\*\* To project where soybean prices are headed, it's good to know where they have been. Did you focus on the key numbers and the very last comment above? Carryover in 15/16 was 77.1 mts, steadily increasing to 112 mts today. While demand has been increasing, demand has not been increasing fast enough to chew through increasing production. Price has remained too high encouraging too many acres. Why have so many ignored the facts? South America is increasing production even more because this trade war pushed their prices well above the cost of production. Their production increases will help bring about the necessary collapse in bean prices. This price collapse is a necessity. It's needed to reduce the world's ever increasing over-supply situation.

The change to this year is that China's insatiable demand has been cut; the 1<sup>st</sup> time in many years that China's overall demand for soybeans has declined. China now forecasts it demand for this year will fall from 94 mts to 84 mts, a 10 mt

reduction in demand or 367 mb. If added directly to today's U.S. carryover stocks of 955 mb, they would grow to 1.322 bb. That would be simple staggering and dismembering to price.

What we have to remember is what has transpired just this year. World stocks have grown in 10 months, from January to November, from 98.6 mts to 112.1 mts, an increase of 13.5 mts. World carryover stocks are beginning to move on a parabolic rise. It will be aided by other nation's increases in production; as well as China's reduction in demand (*part of a perfect storm*). Argentina's production was cut last spring from 57 mts to 37 mts, a loss of 20 mts. Now look at the reduction in demand from China of 10 mts. If Argentina actually had full production, China would not have had to purchase any beans from the U.S. World stocks would also have grown to 132 mts and U.S. stocks would be even larger than they are today.

To project price into 2019, you have to make a number of assumptions, while considering all the variables. It would be safe to assume that if Brazil produces at a level of 130 mts, which was projected this week and up from last month's estimate of 121 mts, Argentina could lose 20 mts again this year and world stocks would continue to rise. (*We're ignoring lost demand from the growing ASF problems in China and China's reduced demand.*) Since world stocks rose 13.5 mts without those lost 20 mts from Argentina, wouldn't be safe to conclude that if Argentina and Brazil met trend expectations, world stocks would increase to (13.5 mts + 20 mts) 145.6 mts? Even projecting this much growth in world stocks, we have not included the 10 mt cut in demand that China is forecasting, or potential demand losses from ASF, or over production from too many acres in the U.S. or other soybean producing nations.

The development of El Nino is on the rise. Its affect will 1<sup>st</sup> be felt in South America. Brazil should experience too much rain, which will slow harvest and cause quality concern in early harvested beans in northern Brazil. NE Brazil should then turn dryer, with drought conditions developing, and experience some yield losses. Central & Southern Brazil will experience normal to wetter than normal conditions. Net yield results should end up at trend; minimum. Argentina is wet now, but will dry. Later on, some areas will experience drought conditions, while other parts will be on the wetter side. This El Nino is not expected to be very strong or stay engaged the entire growing season. Also, much of Argentina's soils are quite deep, with very high moisture holding capacity. If this El Nino doesn't hold together for the full growing season, Argentina will escape with only minimal yield losses, possibly ending with near trendline yield. South America, as a whole, should come out with near to above, trendline yield in 2019. For the world as a whole, weather trends point to a very good year for soybean production. In fact, if weather trends develop as forecasted, global soybean production should be record breaking. As there is a better than 50/50 possibility, we opened the door for further downside possibilities for next fall's lows. We'll continue tracking to see how current, long term modeling develops, along with increasing weather volatility, due to greater temperature variances between the pools of warm and cold waters in the Pacific and Atlantic.

Our concern for U.S. production is over-production from too many acres, taking U.S. carryover stocks even higher. In our opinion, U.S. acres have to fall at least 8 m, if not 10 m. Nov19 futures above \$9.50 will not get this done. The soybean/corn ratio is hanging around 2.37. This is considered neutral, leaving soybean acres for 2019 to end up from 87 m to 89 m if this ratio doesn't change in favor of corn. If Dec19 corn makes \$4.20, Nov19 beans will have to move down to \$8.40, a price fall of over \$1.00. Of course, if the corn price moves to \$4.45, the soybean price will not have to fall as far. This ratio adjustment will need to occur before early April. Fear of crop losses in South America will support prices for a couple of months, but not if China doesn't purchase any soybeans from the U.S. before January 1, 2019. Little if any soybean purchases by China before that date will mean they will need very few soybeans from the U.S. through most of 2019.

Analyzing last year's marketings by our Subscribers, we want to say thanks for the increase in pre-sales. Most everyone we have spoken with upped their pre-sales to the highest levels ever and to the highest levels for which they felt comfortable. One Subscriber pre-sold most all of his 2019 production when he pre-sold all of his 2018 back in March and April. When asked why, he said he reads every MNU in its entirety and that's what it said to do. I told him we didn't specifically make that recommendation. He agreed that was true, but he said we did write that one should consider it. And after reading all the facts we put forth supporting the need to make 2019 sales, he agreed and acted. Of course, now we're unhappy we didn't make that recommendation; specifically!

Considering his comments, we have specifically recommended selling 50% of your 2020 production. The price was \$9.70 or better. November 2020 soybeans have traded to a high of \$9.80 this week. We do ask that you begin making sales for 2020; if not now, at least get some priced should the market pop higher. With each passing day with no announcement of a deal, the chances of any news helping price rise further dims.

To us, 2019 looks worse for soybeans than it did for 2018, when we forecasted fall carryover stocks to reach 900 mb. Knowing Funds are short and China can do anything and any time, positive “actions” from China could pop soybean prices higher at any time. Be ready to add to sales with any price pop. Price has nearly all possible positive news already priced in. Hope is what has been supporting this last rally. Our belief is that China won at the G-20. They won by getting Trump to postpone new tariffs by 120 days; Dec/March. China won on IT and IP theft with the delay. They steal over \$100 b of IT and IP each year. A 120 day delay allows them to steal another \$30 - \$40 b. They keep doing what North Korea, Iran and China always do; delay, delay, delay, promising to work toward an agreement but never quite getting there. In the case with China, we hope we’re wrong. But we’re betting on their nature and not expecting change. If we’re wrong, our fall back is history. Once a trading partner is burned, it takes years and years to build back that trust. Figure 2019 is definitely shot for any real substantial business from China. And if production comes in at trend for the world, U.S. soybean producers will feel like more than just collateral damage. Those who didn’t make pre-sales will feel even worse.

If you make sales at \$9.50 or better for 2019 and \$9.70 or better for 2020, don’t worry about missing the high be \$0.50. If price beats this sale by over \$0.70, then you can put more sales on at better prices. At that time, more information will be available to determine if more sales should be considered. Remember that most all producers come back saying they wished they had sold more come fall. Was that you anytime in the last 5 years????

**DEC19 CORN:      \$2.90 - \$3.40   /   \$3.40 - \$3.95   /   \$3.95 - \$4.45**

Corn is sitting in a great position when compared to last year. Last January, U.S. carryover stocks were placed at 2.477 bb. Today they sit at 1.736 bb, a decline of over 26%. We project that number to fall closer to 1.6 bb in USDA’s January report next month. History tells us that with this amount of carryover, Dec19 corn futures will rise to \$4.50 to \$4.75. Unfortunately, the corn market will have an albatross (*soybeans*) around its neck in 2019. Technicals point to a minimum high of \$4.45 in Dec19 futures. You will notice our TZC’s project price to rise no further than \$4.45. The soybean commentary says it all. If U.S. soybean stocks grow only half as large as they could, the U.S. will still be forced to cut acres. Our current estimate suggests that cut will need to be from 6 to 10 ma. If half those acres go to corn, that’s 640 mb more corn. The trade will be looking at those additional bushels and backing off running Dec19 corn prices any higher than the technical objective of \$4.45.

We’re not saying that is how high Dec19 corn will rise. Because of increased acres, we are concerned its rise may halt at \$4.30 resistance. It all depends on what news is coming to the market when price works toward this price later in the 1<sup>st</sup> half of 2019. With China increasing world corn stocks to over 300 mts, China will not be coming to corn’s rescue in 2019. Crop stress in Brazil or Argentina on their corn crops would support higher prices in the early months of 2019. Good weather would dampen any strong rallies due to anticipated competing exports from Brazil that would hit in the May/June time frame. With forecasted yields at trend or better due to decent weather in 2019, any weather worries should be short lived or localized in nature.

On the Bull side, let’s make this argument. Have you noticed corn piles are not what they were last year? U.S. corn production may not be as high as the USDA has been forecasting. We’ve argued that history shows that U.S. 2018 corn production could not exceed 181 bpa. Forecasted yield has dropped from a September high estimate of 181.3 bpa, to USDA’s November reduced estimate of 178.9 bpa. Ag Masters’ late August’s estimate was 176 bpa. We won’t be surprised if USDA’s January estimate comes close to our August estimate. If they do, that’s 240 mb lopped off 2018/2019 carryover stocks, taking that number down near 1.6 bb. That would give corn prices a shot in the arm. If this occurs, it will help Dec19 corn reach \$4.30. Whether it’s enough to move it to \$4.45, we don’t know yet. That will depend on what has or does transpire with China on soybeans. Pricing 2019 corn production will be a moving target due to so many uncertainties. Don’t get hung up marketing at a specific price; remain flexible.

El Nino influences in the U.S. during 2019 will tend to promote more spring time flooding concerns than summer drought worries. Subsoil profiles are already full in most areas, making flooding conditions likely, even with normal spring time rains. Localized flooding in the Midwest generally doesn’t offer prices much support, let alone any upward mobility. If they do give some lift, prices will normally collapse after the trade determines it really doesn’t matter and they really don’t care. If acres are increased by 4 m, that will be even more reason for the trade to ignore very wet and delayed plantings next spring. History shows we should plan on wet conditions. Lack of fall field work and little fertilizer going on will make for a very interesting spring in 2019. Will corn acres be lost to beans for a host of reasons??

For 2019, we are forecasting trendline or higher yields. Due to increased production from better genetics, we question if current trendline assumptions are too low? We will raise our forecasted trend yield to 178 bpa for 2019, with most others falling in nearer 176 bpa. With a number of states having very harsh conditions reducing yield, it was astonishing to us that total yield for 2018 could come so close to 180 bpa. If spring conditions are just a little better than we've seen for the last several years, getting the 2019 crop off to just a little better than average start, final yield could very easily top 180 bpa. Limiting factors for another record production year would be if we're wrong about better genetics, higher acreage that's planted in marginal soils, and very wet springtime planting conditions. Genetics are an unknown variable. If 2019 yields come in at 183 to 188 bpa, trendline yields will have to be adjusted, unless weather came in near perfect for the year. Remember to fear how far prices can fall in a perfect storm, which 2019 looks to be setting us up for.

A yield of 178 bpa for the U.S. would place total yield near 15 bb, if acres cap at 90 m. Take total acres to 94 m and total yield would jump to 15.6 bb. Current demand projections based on about 90 ma start 2019/2020 carryover stocks around 1.8 bb. That's little changed from this year's current stocks. Add 4 ma of production and that number jumps back to 2.4 bb, which is where carryover stocks started in 2018. Add the genetics push and El Nino and that number could easily rise to 2.8 bb. When we reached 2.4 bb in 2017, price fell to a fall low of \$3.01. Please keep that price in mind when you're pricing your 2019 & 2020 corn production, especially if 2019 acres are generally confirmed to be increasing a significant amount.

We placed the 2019 fall low from \$2.90 to \$3.40. If carryover should jump to 2.4 bb, price would then target \$3.00 again. As the perfect storm is setting up, we had to open the door to the downside as a possibility. When markets took off in 2006, the old highs hung around \$2.70 to \$2.80. If carryover for 2019/2020 starts out over 2.5 bb, that \$3.00 handle will very likely give way. History shows what was resistance on the way up becomes support on the way down.

ASF has to be figured into this equation, as China will have less need for corn for their hogs. ASF is being reported to be thinning their herds nearly every day. Most all agree we don't have the whole story of the culling that is taking place in China's hog herd of 700 m. Very large pork purchases last week tell the story better than anything. If China is willing to buy U.S. pork at prices that include 62% in added tariffs, one knows there's a greater problem than China is letting on. That information has to be pulled back to the corn market. If many more head are being culled then China wants the world to know, then their corn needs are also falling. Those saying China would be buying corn if a trade agreement is reached must be drinking something other than coffee. Those who have reported China will be buying 20 mts of U.S. soybeans must have some other agenda than the truth.

Brazil and Argentina play into this pricing equation over the next 7 months. Brazil produces a winter crop of corn and a summer crop. Due to last year's short crop, Brazil will not be exporting much of their early corn production. Those bushels will be kept to help build their diminished supplies. That will keep U.S. corn exports running strong for a much longer period than usual. Brazil's 2<sup>nd</sup> corn crop is planted after their beans are harvested. Early planting of soybeans allows their 2<sup>nd</sup> corn crop to get planted on time; on time to miss their normal, late summer heat and drought period. Their early planting bodes well for a good crop in 2019. Northern and NE Brazil will continue to struggle with droughts and floods, which is normal for them. The current El Nino pattern suggests crops in Brazil and Argentina should yield at trend or better, with the struggles in northern portions of Brazil keeping Brazil from reaching record production again.

When Brazil's 2<sup>nd</sup> corn crop is confirmed, 2019 U.S. corn futures should have peaked. While seasonals generally point to corn reaching its peak in May or June, don't hold fast to that idea. Think profit and price. Traders will be looking at increased acres, limiting how high price will rise. Spreads need to be watched. We texted that on Tuesday this week, ***"Anticipated problems of increased production, 2018/2019 stocks, was very evident today. Near options gained decidedly over deferred in corn/wheat."*** If you watch, you will see nearly every day in the 1<sup>st</sup> week in December, Mar19 corn gained over Dec19. On Friday last week, March gained a full cent. If Dec19 corn rallies to \$4.30, that's about \$0.30 higher. Mar19 corn will have to rally from \$3.85 to \$4.25, assuming price maintains gaining over Dec19. While we will be tracking lead futures, our focus will be on new crop Dec19. All indications are that one needs to pre-sell most all your 2019 corn in the next 7 months. Most have told us they can earn profit at \$4.30 board when tagged with a \$0.25 to \$0.30 basis. Watch this price level closely. While price could still rally to \$4.45 in Dec19 futures for unknown reasons, everything points to a precipitous price fall once price has peaked.

We did a quick review of history to see how long corn takes for price to fall to the years low after it hits its peak. The average price fall is 2 months, or about 8 weeks. File this away if you look to re-own past sales. We will bring it up later,

after the high is reached. When getting ready to re-own, use July20 futures. Subscribers generally think they should be re-owning in Dec20 futures. If you have any questions as to why, consider the text we sent out this week on the spreads; old to new. Like what is being seen with the spreads now, large carryover stocks generally dampen the rise of new crop futures, while good, near term demand bolsters lead month futures.

**JULY19 KC WHEAT:      \$4.70 - \$5.30   /   \$5.30 - \$5.90   /   \$5.90 - \$6.50**

Last year we wrote wheat has the greatest burden with supplies. We wrote this in 2016 also and it keeps getting worse. Only this year, wheat has soybeans trying to compete. In fact, soybeans could well take this title from wheat, though soybeans burdensome supplies will come back to haunt wheat, forcing more wheat acres to get planted in 2019. Still, little has changed for wheat from last year till now. Australia could still lose its entire production of over 20 mmts and it wouldn't matter to price. The greatest rally wheat is likely to see between now and the end of May19 would be from \$1.00 to \$1.50. That makes it simple to compute price probabilities. K.C. July19 wheat closed at \$5.32, after a sharp, one day rally last Friday. Its contract low was \$5.094, set 2 weeks ago. Mar19 set a contract low of \$4.822. A \$1.00 up from \$5.10 is \$6.10. As usual, Funds are super short wheat. A good weather scare would jump wheat prices a \$1.00, so \$6.00 is a good 1<sup>st</sup> target to wrap up 2018 wheat sales and beginning 2019 sales.

This \$1.00 rally will likely come this year from news that Russia's wheat exports are slowing. The rally will also be supported from higher weekly export sales reports. Last week's export sales report was better than expected and got the ball rolling for wheat. July19 K.C. wheat futures jumped \$0.15 after the last USDA export sales report. With Funds so short wheat, any decent and prolong news that would support higher prices will start forcing Funds out of their shorts, accelerating the rally. When the market gets balanced, then the Funds can start selling again and drive prices back down to where they are now. When such a rally occurs, not only do you sell all of your remaining 2018 production, we'll look ahead and consider whether selling a lion's share of 2019 production is advisable. If the supply and demand picture is still burdensome when this event occurs, the wise move would be to sell a good portion of your 2019 production, capturing the carry in the wheat market and avoiding to costs of carry. Not paying storage cost is just another method of adding profits to your bottom line.

Growing El Nino conditions will place even more weather stress on Russia's and the EU's fall planted wheat. Many acres were planted late and in dry conditions. After the 1<sup>st</sup> of the year, their weather is projected to change, with more normal temperatures and better rainfall. If this unfolds as forecasted, their 2018 plantings should recover in 2019 and be okay. Australia really took it in the shorts in 2018, after having insanely record high yields in 2017. The heat and drought conditions should continue for them this summer, which is right now for us. This will give some support to the beginning wheat rally in U.S. futures. Northern and Western Australia should begin seeing increased rainfall, while the rest of the country should remain dry. New South Wales and Victoria could see record minimums for rainfall, as trade winds continue to stay neutral, decreasing the already low number of storms. These on-going and worsening drought conditions will increase the amount of dust, especially in the drying lake beds of northwestern and southeastern Australia. The impact of El Nino is anticipated to end by March or April. This would allow increased rain activity late summer and into fall, greatly benefiting the agricultural regions in Western Australia, New South Wales and Victoria. Even so, Ag yields will still be significantly lower than average. Western Australia, New South Wales and Victoria won't be able to fully recover from their dry conditions. The timing of these conditions would be supportive to U.S. wheat prices the 1<sup>st</sup> quarter of 2019 and possibly into the 2<sup>nd</sup> quarter.

World ending stocks are sitting at 266 mts, higher than they were at this time last year. World stocks need to move under **240 mmts** before the market will really care about crop losses. Otherwise, these price moves are just technical in nature. Like in corn, when stocks become too large, technicals rule more than ever. Any more, technicals control price over 90% of the time anyway. The big boys don't even think. They plug all the variables into an algorithm program and the computer calls the shots. Unfortunately, we see little in 2019 that will remove technicals, and Funds, from controlling wheat's prices.

Let's put U.S. wheat stocks in this equation. They are only 20 mb larger than last year, sitting at 955 mb. That converts to nearly **26 mmts**. That makes the U.S. wheat stocks about 20% greater than Australia's wheat crop this year. It also means we could lose all our production and it wouldn't matter one dime to the world, just to U.S. wheat producers. We have watched wheat prices wallow near long term lows back in the 1990's when U.S. wheat stocks sat at 25 year, a record low level. It just didn't matter because world ending stocks were more than ample. To survive times like these, the best



opportunity is in capturing the carry. Grabbing that extra dollar a year out is safer than giving hope and prayer a chance. Therefore, this coming year looks to be a repeat of last year. One needs to pre-sell the majority of your 2019 wheat production. Look for the highs to arrive in April or May.

## Summary

Fear is what comes to mind with **Soybeans**. Even if the trade issues with China were settled today, U.S. trade relations have been destroyed. They will continue to shun the U.S., now and into the future whenever they can. The U.S. has become the supplier of last resort. If they come in to buy something, we would think it would only be hand-to-mouth. They can run the numbers as easily as we can. If they wait and give the U.S. no hope of settling in the next 90 days, the weight of supplies will take prices lower. Why pay more if they don't have too? The numbers say it all. If carryover moves to 1.3 bb this next fall, you will see a 7 handle on beans. If China is not buying come harvest time in the U.S. next fall, one could even argue for a 6 handle. Add a \$1.00+ basis and those who didn't pre-sell could be seeing a 5 handle. If this trade war isn't settled in a manner that benefits the U.S. soybean producer, all grain markets will suffer from an acre shift out of soybeans.

Six months ago we were very friendly to the **Corn** market. While a good price will still be possible in the next 7 months, the jury is out on what could happen in 2020. If corn acres increase as expected, prices are likely to stumble into 2020 and maybe into 2021. If that is to be the case, looking ahead to 2020 and making pre-sales for 2020 production in 2019 would be very prudent. The U.S., even with a trade agreement with China, can't make China buy grain. We have China saying last week they will buy from the U.S. what they need. That certainly is a limiting statement to us. No matter what anyone says, no one knows when or how this mess with China will get settled. What we do know is that soybean stocks are too high and growing. By all reasons, those numbers will grow to even higher levels in 2019. If we are factually correct on soybeans, the corn market will take a hit on the upside because of them. If you agree, market accordingly; and if you can, market to secure a profit!

**Wheat** prices are on the edge of turning the corner finally! After basing and then popping higher, price got slapped down to new contract lows at the end of November. Wheat then received 2 good reports in 2 weeks, lifting prices to a new high close last Friday. A close over last Friday's high of \$5.326 in July19 K.C. wheat sets the wheat market on its seasonal uptrend. Remember for wheat it's all technical. That price point gets negated on a close under \$5.08. Don't get excited about whatever news comes out about crop losses anywhere in the world because it really doesn't matter at this time. Funds will just use it to run prices higher. Then if all trends normally, Funds will collapse price down before harvest, as usual. Our price targets are technical objectives, with the high end price being the highest price a technical push can reach without real fundamental issues coming to light.