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LOOKING FORWARD WITH A BACKWARD GLANCE

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Post Report and ASF

When running through all the numbers and reading and/or listening to all the commentary's Post-Report, our thoughts ran to the plight of wheat and soybeans growers and how those producers are just screwed when it comes to profitability. We've had the soybean market pegged for some time now, pushing forward sales harder than anyone. We doubt that any firm is pushing for 50% or more pre-sales for 2020. We have also been very negative to wheat. But have we missed it on corn? It sure looks like it; six month off on timing. The numbers in this report have us thinking more like we have been discussing in our telephone calls with our Subscribers during the week. With profitability being little or next to none in soybeans and wheat, the only choice is to plant corn and pray for big yields. Cutting acres in soybeans and wheat won't help their prices because their carryover stocks are exceedingly burdensome. But flipping those acres to corn increases U.S. corn carryover stocks; driving prices lower. With good weather globally and decreasing demand for feed grains from **ANY** nation experiencing ASF, the world's grain glut only grows worse. Therefore, marketing has to be done knowing holding grain past harvest will likely **NET** the producer less profit; if there's any profits at all?

There are several factors that have come into play these last 6 months that have changed the fundamentals in the **corn** market. The EPA granting waivers has definitely reduced the number of bushels used for ethanol, though that started more than 6 months ago. China "found" 150 mmts of corn. We believe that is a lie, but it remains on the world's balance sheet. We forecasted South America to have trend to trend plus corn yields, but with the other negatives, this has come to bear on price now, where actual exports of their corn would still be a few months away. Then there is ASF. While we know this is a big negative for soybeans, should it be a big negative for corn? China is a big importer of soybeans, but not corn. The logical thinking is that if China's corn demand is down from ASF, they need less corn. Since they just found 150 mmts of corn, ASF only adds to an already burdensome internal supply. If that is true, why is China quietly starting to buy corn from some smaller nations, as well as the U.S.?

So where to from here for **corn** prices, after Friday's USDA Report found nearly 300 mb of old crop corn? **Some** still believe $4.50 Dec19 new crop corn futures are possible. Fundamentals, paired with historical evaluations, say yes. After this report, we say no way. **Most** still see Dec19 futures reaching $4.25 to $4.30. Fundamentals, paired with historical evaluations, say absolutely! We find ourselves fearful that even reaching this low price level is now a near impossibility. When

Dec19 futures rally back to $4.00, sales are now warranted, though we still want to evaluate the reasons that got price up there.

In past writings, we have said fundamentals rule when supply and demand are out of balance; a shortage of supply. That's when end-users begin questioning their "just-in-time" inventory management system. When supplies are adequate, or more than adequate, technicals rule. Based on technicals, corn's 1st target will be its downtrend line off recent highs. Other resistance points will stand as resistance once again, as price moves higher.

When May19 futures reach back up to $3.80, look to begin pricing 2018 old crop corn. If May19 futures have not reached from $3.75 - $3.80 when Dec19 futures reach $4.00 to $4.05, begin making old crop sales anyway. At the same time, sales for 2019 & 2020 need to begin.

In Dec19 futures, sell 15% of your 2019 production when Dec19 futures reach $4.00 to $4.05, taking you up to 25% sold. We will be tracking the spread between old crop and new crop. Off Friday's report, old crop was significantly weaker.

For your 1st sales of 2020 corn production, target $4.12 – $4.14 in Dec20 corn futures for 25% of your 2020 production.

For **soybeans**, just be as much sold ahead as you possibly can for your 2019 and 2020 production. For some, that will be 100+%. For others, we know it will be tough to get you up to 50% for 2019; but do your best!

For those still holding out for a China pop in soybean prices, we wish you the best. We have been right all this time, but it will only take one really big China purchase for us to be wrong! If you were China and an end-user like them, wouldn't you wait until this fall for U.S. soybeans when you can get them a whole, hell of a lot cheaper? Plus, South American beans are cheaper right now than U.S. beans and they can supply everything you need. Beans are cheaper at harvest and Brazil is past 50% complete on theirs. Also, it's very concerning to us that there has been little to no chatter from anyone lately about more soybean purchases by China. We hear of corn, ethanol, pork, NG and other commodities, but not soybeans. There must be a reason??

For **wheat**, price needs to get back up above $4.60 in K.C. July19 futures. If it can to that, we'll look for a rally to the $5.20 area for sales. At the same time, look ahead to 2020 for pricing your next crop. July19 is $4.38, July20 is $5.04 and July 21 is $5.51. Check what you can do on pricing 2021 production. There's nothing wrong with trying to lock in a price 20% over today's price. Maybe one can get July21 over $6.00 on a $0.70 rally in July19 futures?

ASF will be a game changer for many things, now and into the future. We don't believe anyone will be able to calculate how ASF will affect so many aspects of other nation's agriculture; especially in the protein sectors; hogs, cattle, chicken, etc. It will even affect U.S. cattle and chicken prices, as ASF is not going to be a short lived event.

Sources report that China is not telling the world the full story. China has about 410,000,000 hogs. China produces about 710,000,000 hogs per year for slaughter. Reports are 30%, or over 200,000,000 hogs, are not going to be produced. That is a lot of lost protein; a lot of lost feed demand.

Going straight to soybean demand, take it down 30%. China's demand for soybeans last year was 96 mts. This year they are at 88 mts. Take that down to 70 mts!! Let's round up and just count 15 mts lost from U.S sales in 2019/2020, or 550 mb. At 900 mb carryover, 2019/2020 U.S. carryover stocks jump to 1.4 bb. For U.S. soybean producers not to increase U.S. carryover stocks for 2019/2020, U.S. plantings would have to be cut by 10 ma. To get U.S. carryover down to where it would lift prices, U.S. 2019 acres would have to fall to 65 m, not 84 m. This market is royally screwed for the next 2 to 3 years. Remember, once you get on the wrong side of a major grain importer, they will find every way possible not to let that happen again. The U.S. has lost China. Trump would have to defy history and logic to get them back!

Corn is in trouble, too. As wheat and soybean prices fall even more, more acres will move into to corn & cotton ***(2019 & 2020).*** This will build corn stocks. Thus, one has to pre-sale as much ahead as possible on the next rally. Weather for 2019 will be normal to above normal rainfall, producing trend to above trend yields. The only way to come in below trend in corn yield is if it stays too wet for too long, reducing planted acres. Then, *we would need it to stay too wet this summer*, where yields get reduced. That would create a realizing market. The market would only be guessing at yield until harvest. With sufficient supplies, the market wouldn't need rally until harvest, forcing producers to sell old crop at lower prices. The odds of a summer too wet that cuts yield below trendline is less than 5%. Some are comparing this year to 1993, where too wet of a summer cut yield by some 18%. That wet summer was caused by volcanic eruptions in 1992, which dropped the world's temperature by about 1.1 degrees in 1993. That is something that is not in this year's weather mix.

For those looking at **potential bullish factors** that could raise prices, besides weather which we just detailed, they come back to a China trade deal. We have heard as many as 10 mmts of corn could be on the table for immediate purchase if a trade deal is signed. Could China come forth with a "good faith" purchase of 3 mmts of corn? Sure, if they want to delay a final agreement. If a deal was signed in the next 2 months where they would take 10 mmts of corn this marketing year, 2018/2019, before September, 2019, that would take U.S. carryover down to under 1.5 bb. In a normal year, that would lift Dec19 corn futures to $4.76. With only 3 months left in the marketing year, we don't believe that would matter to price; maybe just short term pop, helping prices lift above $4.20. The longer term issues detailed above would still be in play.

We have to ask why is China is looking for corn right now? One finds it easy to believe they lied about finding 150 mmts of corn last year. If the world finds out China did lie, it will give corn a good, short term bounce. But then it comes back to real demand. Does China need to buy – from the U.S. – at least 10 mmts of corn each year; or more for their ethanol needs? What about all the demand being lost for ASF? Don't forget that ASF is the big "new" negative to U.S. grain prices this year. **Beans were headed south early in 2018**, long before ASF came on the scene. Had ASF not hit China ***(and Trumps trade war),*** corn prices would have tracked normally the 1st half of 2019, but rolling over into the last half of 2019 and continuing in 2020.

For wheat, what is there to say? Supplies remain burdensome. Look for U.S. wheat stocks to grow over 1.2 bb, soybean stocks to grow over 1.2 to 1.5 bb, and corn stocks to grow to over 2 bb for 2019/2020. Wheat & beans can't be saved, but weather & China could bail out corn. For corn, if Dec19 corn can't move over $4.12 this summer, lower lows than in 2018 should be seen.