**April 09, 2019** **#1742**

# LOOKING FORWARD WITH A BACKWARD GLANCE

***A PRODUCT OF AG MASTERS MARKETING GROUP***

**Sales Recommendations:** See pricing recommendations for corn under **Corn**. This will be the MNU for this week, unless something out of the blue occurs. Next MNU by April 21.

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|---|---|---|---|---|---|---|
| **Current Sales:** | **2018** sales: **corn** | 35% | **soybeans** | 100% | **wheat** | 87.5% |
| | **2019** sales: **corn** | 10% | **soybeans** | 100% | **wheat** | 25% |
| | **2020** sales: **corn** | 0% | **soybeans** | 50% | **wheat** | 0% |

**Quick View:** May19 **corn** fell to new lows before the USDA report today, then bounced. March lows are holding for now. Funds need to add some weather premium and Dec19 needs to close back over $3.90. May19 **soybeans** keep working the $9.00 area, bouncing between support and resistance points. Short term direction will be decided when price takes one of them out, while treading water waiting on trade deal. July19 K.C. **wheat** is holding above March 12th lows around $4.30. Need July19 to close above $4.60 to change the trend back higher?

**USDA Report:** By the numbers, this report was negative all grains. But for how price has fallen, it all depends if the Funds feel they have this all priced in. Based on today's price action, we feel the $3.50 area will hold for now, waiting on potential weather issues and a possible trade deal with China. The USDA increased **corn** carryover stocks 22 mb over the average trade guess, but it is 105 mb below last year's stocks at this time. Last year May19 corn reached $4.12. Dec19 corn reached $4.29. Soybean stocks came in 18 mb lower than the average guess, but are more than double last year's carryover stocks. Wheat stocks were increased by 11 mb over the average trade guess and are 12 mb less than last year's stocks. World stocks for corn and wheat came in higher than the average trade guess, where soybeans stocks came in lower. South America's corn and soybean crops were all increased.

**USDA's April 2019 Supply/Demand Report:**

| **U.S. Ending Stocks 2018/2019** | | **Average Guesses** | | **2017/2018** |
|---|---|---|---|---|
| Corn – | 2.035 bb | Corn – | 2.013 bb | 2.140 bb |
| Soybeans – | 895 mb | Soybeans – | 913 mb | 438 mb |
| Wheat – 1.087 bb | | Wheat – | 1.076 mb | 1.099 bb |

| **World Ending Stocks 2018/2019** | | **Average Guess** | **2017/2018** |
|---|---|---|---|
| Corn – | 314.0 mmts | Corn – 312.4 mmts | 341.2 mmts |
| Beans – | 107.4 mmts | Beans – 108.4 mmts | 98.6 mmts |
| Wheat – | 275.6 mmts | Wheat – 271.1 mmts | 279.6 mmts |

**World Production in Million Metric Tons**

| **USDA April 09, 2019** | | **Average Guesses** | **2017/2018** |
|---|---|---|---|
| Brazil's corn production – | 96.0 mts | 94.7 mts | USDA: 82.0 mts |
| Argentina's corn – | 47.0 mts | 46.8 mts | USDA: 32.0 mts |
| Brazil's bean production – | 117.0 mts | 116.1 mts | USDA: 120.8 mts |
| Argentina's beans – | 55.0 mts | 55.5 mts | USDA: 37.8 mts |

**<u>Corn:</u>** USDA's quarterly report raising corn stocks 269 mb and projected U.S. corn plantings by 1.6 ma above the average trade guesses has set corn prices on its heels, severely capping any potential rallies and limiting its seasonal April/May/June price gains.

The adjusted numbers have U.S. corn stocks 105 mb lower than last year. Last year's high in Dec19 corn was $4.29. That has many advisers projecting highs this year similar to last year. We disagree. <u>Funds are not looking at the corn market the way they have in past years</u>. Historical norms are being ignored. The producer is having so many variables thrown at them that it is impossible to make a "wise" marketing decision. The most critical variable is one that can change the markets instantly, which he will never know until it becomes fact. Most advisors still want to talk bullish, comparing Fund positioning in corn to how it was in hogs, where Funds held record short positions just 2 months ago and since then, prices have gone crazy on **"factual"** data. Yes, Funds remain record short corn, but corn has no **"factual"** data to date that would cause Funds to cover their short positions.

<u>The only market factors can move corn to new highs yet this year; China buying corn and weather</u>.

For 2019, we are still forecasting trend to above trend yields in corn. The odds are against below trend yields. Some want to hold onto hope that we are defying odds having had 6 years in a row of trend or better production. We made that argument in 2012, when history showed we had not had more than 2 below trend years in a row. We called for a crop disaster, making it the 3rd year in a row of below trend yields. <u>Don't get hung up on history when the facts argue against it</u>. Let's say we have delayed plantings this year causing additional lost acres due to that and to flooding. The USDA gave the market a cushion by adding 1.6 ma, another reason for the Funds not to get excited about exiting their short positions.

Holding onto hope for any reason is not a wise marketing decision. We are the same as you. We want to hope and pray for higher prices. It's our "nature", too. But remember what we have been preaching since last 2013; He who loses least, wins. It won't feel like a win, but most of your neighbors have done a far worse job marketing. They were still building bins these last few years to hold crops because of what they believed were low prices. Odds are you have sold more bushels ahead than you ever have in the past, with the end results being very good vs what you would have netted had you not. Good yields in the U.S., which are likely, will produce lower lows this fall than last year. South America's trend yields this year will help see to that. Selling ahead in high carryover years is a wise marketing decision.

Trump is good at hopeful, China chatter. One has to wonder how much price is being held up from it all. The Funds are looking at the longer term and have reached record shorts in corn. Many talk about the corn market being set up for an explosive rally. While this is true, they need China or weather to be the spark to ignite the rally. Since we already said no to weather, it's all up to China. **<u>That's the bet guys</u>.** Will China buy or not buy corn in the next 5 months or **<u>BEFORE</u>** you need to price your corn and move it? Sell or hold? If this is a 6 year deal and the numbers are as estimated, the corn market might see this as a big nothing, seeing how short they currently are.

We look at how Trump is handling ethanol. We judge his actions detrimental for the producer. We look at how he is handling the agreements "supposedly" made with Mexico and Canada; good at first, but now questionable. A deal with the EU is not looking to be in the offering anytime soon. We look at how he has "portrayed" a potential trade deal with China and found him far short of honest. And "we" as producers are supposed to trust him? From what we have witnessed firsthand, one would be hard pressed believing there would be a deal done that would add $0.50 to corn prices before one is forced to clean out their grain bins. That forces one to take the best price offered in the next 3 months vs waiting on a trade deal. Because we live on hope, one then becomes hesitant to be aggressive on making additional 2019 new crop sales.

Talk these last 2 weeks of potential corn purchases from China has been of up to 20 mmts of U.S. corn. The time frame is the issue. It's thought that its 20 mts over 6 years. If correct, that's not a big deal. How much DDG China may buy is a bigger deal, but one just has to wait and see. ***<u>The best deal under this scenario "could"</u>*** push Dec19 corn back to $4.29, but we're not going to hold our breath for it to effect pricing ***<u>old crop corn</u>***. A rally this high still depends on U.S. acres, U.S. weather, when the announcement is made, how much will be purchased and what marketing year the corn is to be purchased. Again, the problem lies in the timing of all components. If it's all shoved into the 2019/2020 marketing year, it would not have as much of an effect on ***<u>old crop prices</u>***. The effect of higher ***<u>new crop prices</u>*** would be dampened in 2020 by expanded corn acres, which would occur because of low soybean and wheat prices. Any sales of 2019 & 2020 corn would need to be done early in the calendar year.

For now, one has to wait to let the seasonals work on corn, if they can! Not being an optimist in the short term and needing to move corn soon, **we recommend pricing another 25% of 2018 corn off May19 futures at $3.80 or off July19 futures at $3.88. For 2019 corn, price another 20% off Dec19 futures at $4.01.** When/if these values can be reached, we will weigh what new information is in the market and *if one needs to increase sales at these price levels or set additional price targets at higher levels*. We know we are negative to a significant price rally, though the "facts" say this analysis is likely correct. Still, ***we hope and pray we totally missed this one and corn does add $0.50***. Many need this gain to break even this year. ***That said, PNW vessels lineups are really improving. In fact, the number of vessels is the highest seen since 2015! Is something really going to happen? We know China has been throwing some pretty big numbers around for what they would buy if an agreement was reached.***

Monday's export inspections were 40.8 mb, a bit short of the 42.5 mb needed to meet USDA's projections. Total inspections are running at 51% vs USDA's 5 year average of 47.7%.

**Beans:** When compared to wheat and corn, the soybean market is perplexing. World demand is falling due to ASF and world supplies are rising. Do we blame seasonals for soybean prices holding strong? It's not the right time for soybean prices to collapse. Seasonals can keep prices from an accelerating price fall for a while. But eventually, increasing supplies will come to bare. It doesn't help when China lies about demand. China claims soybean meal demand will be down 5% this year, which would be the first decline in over a decade. Yet last week, they raised soybean imports for 2019/2020 to 91.5 mts. Both those numbers has one scratching their head when hog feeding is reportedly down 30 to 50% and ASF continues to infect more hog herds. It makes one wonder where the Fund's brains are when it comes to market facts. They don't care. Their heads are focused on their algorithms and the data put out by governments. That's why markets can remain irrational longer than fundamental traders can remain solvent.

The USDA has hung onto their high export number for 2018/2019 longer than we thought they would, helping to support soybean prices. When they finally start reducing their projections, their reduction will be steep, shocking soybean prices lower. That's the likely way this plays out without a China surprise, while a slow erosion in price would soften the shock. Yesterday's export inspections were 32.6 mb, slightly below the 36.6 mb needed to meet USDA's export estimate total of 1.875 bb. As of today inspections total 1.109 bb, down 28% from last year. The overall pace of inspections remains bearish.

The switching of wheat acres to soybeans is already a given on some farms in northern states. This week's rain/snow event will force additional acres moving from small grains to soybeans. If another decent rain event hits the Dakota's and Minnesota 7 to 10 days after that, we would anticipate total U.S. soybean acres will increase by at least 1 ma.

**Wheat:** Crop condition ratings for wheat continue improving, placing more price pressure. G/EX ratings for winter wheat improved another 4%. Grass likes wet conditions! If wet conditions continue, disease pressure will eventually increase as temperatures do.

Wheat's export inspections were 19.8 mb yesterday, well short of the 30.4 mb needed to meet USDA's estimate of 965 mb. Total inspections are down 5% from last year and remain a bearish force for wheat.

It seems like every year we talk about the 9 lives wheat has, as we count the times it gets killed by numerous weather events during its growing season. The U.S. wheat crop has not had one so far. Moisture conditions were good last fall; some of the best in years. The winter was fine and now coming out of dormancy, crop ratings keep improving. When is the last time you remember perfect? Could this year be the year? The odds are against it, while the Funds are betting on it. For now, we sit, wait and watch.